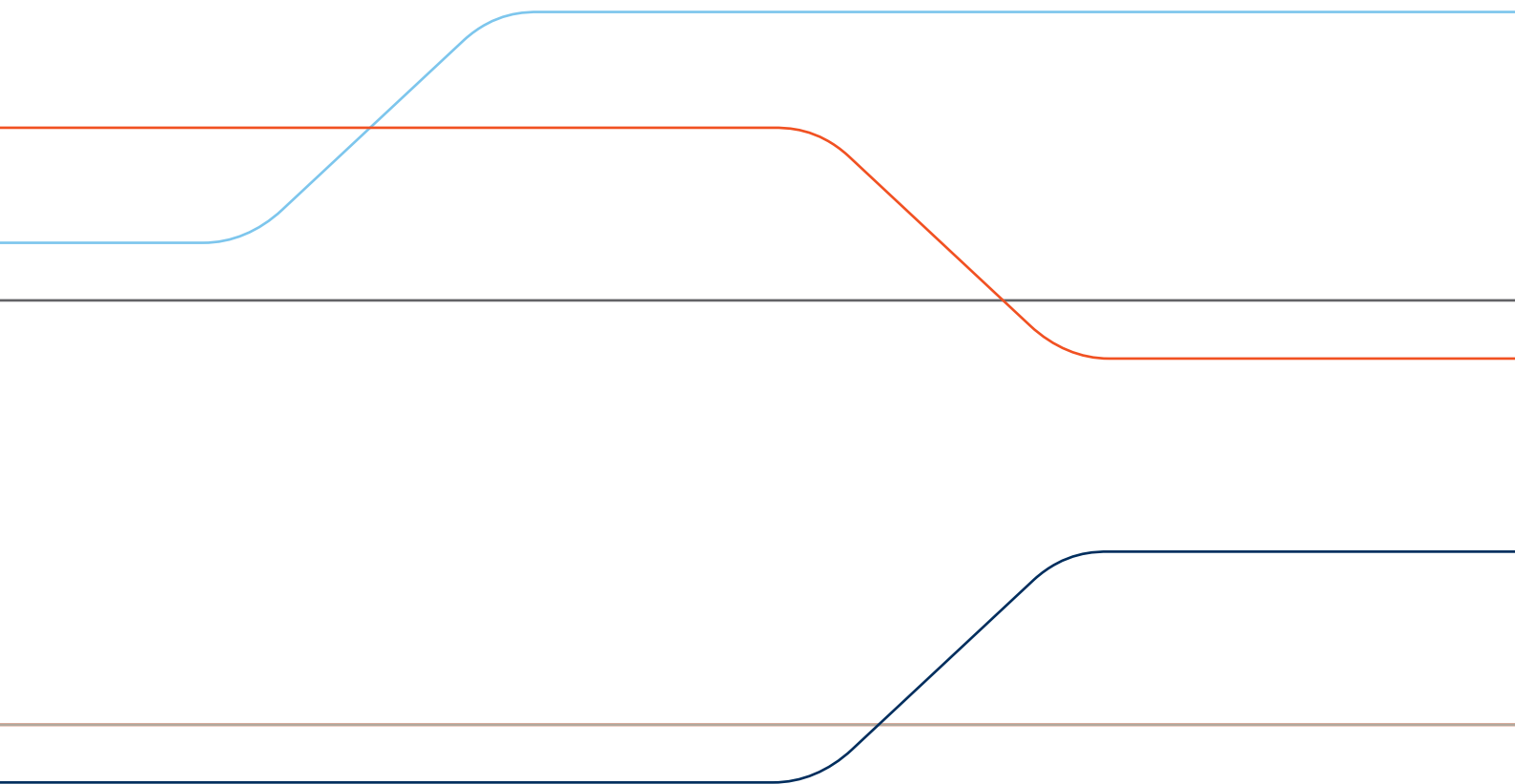




Financial Statements 2017

SIX Securities Services Ltd



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Key figures

SIX Securities Services Ltd is a part of SIX. The division Securities Services includes SIX SIS Ltd, SIX x-clear Ltd, SIX Terravis Ltd, SIX Interbank Clearing Ltd, SIX Repo Ltd, SIX Paynet Ltd and SIX Trade Repository Ltd. From a legal point of view, SIX Securities Services Ltd as a holding company only includes SIX SIS Ltd, SIX x-clear Ltd and SIX SIS Nominee U.K. Ltd. As a result, only those entities are consolidated in the financial statements.

SIX operates Switzerland's financial market infrastructure and offers comprehensive services around the world in the areas of securities trading, securities services, financial information and payment transactions. As a globally active infrastructure provider, the company is a key pillar of the Swiss financial center.

SIX Securities Services is a leading, internationally active full service provider of clearing, settlement, risk management, securities custody and administration services. It provides the Swiss financial center and international markets with an efficient and largely automated infrastructure.

The management of all systemically important services of SIX is pooled together under the SIX Securities Services brand.

This brand encompasses a number of business units focusing on areas such as clearing, settlement, custody, securities finance and payments.

Through these business units, SIX Securities Services covers the entire post-trade transactions lifecycle.

CHF 1,000	2017	2016
Total assets	6,423,687	6,976,865
Total liabilities	5,990,547	6,501,578
Total equity	433,139	475,286
Operating income	243,729	227,651
Operating expenses	-191,709	-180,587
Consolidated profit	37,846	59,654
Cash flow from operating activities	-27,738	79,371
Cash flow from shareholder's equity transactions	-	-
Cash flow from investing activities	-	7,362
Cash flow from banking operations	-430,713	804,922
Eligible capital ¹	391,112	409,820
Required capital ¹	154,464	111,076
Capital fulfillment ratio ¹	253.2%	369.0%
Workforce (full-time equivalents)	378	393
Number of settlement transactions (in 1,000)	38,077	37,561
Number of clearing transactions (in 1,000)	324,207	423,935
Deposit volume (in CHF million) ²	3,315,113	3,070,889

¹ The prior-year figure has been calculated using the same method as for 2017.

² The prior-year figure has been restated for comparison reasons as the yearly average is shown as of 2017.

Consolidated Financial Statements 2017

Management report

SIX Securities Services once again proves a strong partner in times of uncertainty

In light of the increasing challenges faced by the Swiss financial center, demand for a stable but flexible financial market infrastructure continues to grow. In this context, SIX Securities Services once again proved itself to be a reliable partner for banks and their clients in 2017, reporting continued strong operational performance as in recent years.

SIX Securities Services increased its operating income by 8.9% year-on-year in 2017. Main drivers behind this positive result included the improved market environment brought about by the global economic recovery and continued low interest rates on the capital markets. The Swiss equities market ended the year up almost 20% compared with 2016, which had a positive impact on asset holdings and indirectly on the number of settlement transactions executed. The negative difference in EBIT compared with the previous year is largely attributable to the sale of a large property in 2016.

In addition to various infrastructure initiatives, one of the key features of 2017 was that SIX Securities Services invested heavily in new applications and services with the launch of two new services, the first of their kind in the market.

New market infrastructure paves the way for banks to tackle the future

The Swiss banking sector was once again faced with regulatory changes and new standards in 2017. To make it as easy as possible for all stakeholders to adopt the new guidelines, SIX Securities Services ensured the relevant financial infrastructure was put into place. In October 2017, SIX Securities Services launched the SIX Trade Repository, the only FINMA-approved Swiss trade repository. This was done in accordance with the Financial Market Infrastructure Act (FMIA), which requires counterparties such as banks, securities dealers and asset managers, and companies with registered offices in Switzerland, to report their derivative transactions. Although there are EU-based alternatives, over 90% of major financial counterparties in Switzerland reported their transactions via the SIX Trade Repository.

The Advanced Settlement Services announced in 2016 were successfully launched over the course of 2017. With Advanced Settlement, SIX Securities Services took on the ownership of Bank Vontobel's securities settlement processing directly from the trading system, and incorporated some of the bank's middle- and back-office functions as well. With its new end-to-end Advanced Tax Services – Reclaim solution, SIX Securities Services created a service that helps Swiss banks and investors manage the complex, country-specific processes involved in reclaiming withholding taxes.

Best ICSD and CSD provider for the third year in a row

For the third year in a row, industry magazine Global Custodian named SIX Securities Services the best International Central Securities Depository (ICSD). In the annual Agent Banks in Major Markets survey, it received the highest rating in all categories. SIX Securities Services was also named the best provider in the custody business in Switzerland. It is the undisputed market leader, achieving top ratings in 80% of the survey categories.

Outlook

In November 2017, almost ten years after SIX was founded, the Board of Directors has endorsed strategic and organizational changes to ensure the business is well-positioned for the rapidly changing market in which it operates. This strategic realignment focuses on the needs of SIX clients and shareholders and the requirements of the Swiss financial center. SIX is to focus consistently on infrastructure services for the securities business, payment transactions and financial information. The realignment has also seen SIX Securities Services bundle its services in the securities business to ensure it can continue to offer all services related to the trading, settlement and safekeeping of securities from a single source.

Consolidated balance sheet

CHF 1,000	Notes	31/12/2017	31/12/2016
Assets			
Liquid assets		3,698,201	4,156,645
Amounts due from banks		948,904	987,785
<i>thereof custodians</i>		535,012	617,007
Amounts due from securities financing transactions	1	1,406,165	1,550,149
Amounts due from customers	2	21,692	21,093
Positive replacement values of derivative financial instruments	3	59,135	55,314
Financial investments	4	229,595	149,300
Accrued income and prepaid expenses		1,366	2,595
Non-consolidated participations	6	1,457	1,457
Tangible fixed assets	7	26,634	27,570
Other assets	8	30,538	24,958
Total assets		6,423,687	6,976,865
Liabilities and equity			
Amounts due to banks		5,124,965	5,834,919
<i>thereof collaterals</i>		3,272,925	3,258,101
Liabilities from securities financing transactions	1	360,752	182,964
Amounts due to customers		375,770	351,422
Negative replacement values of derivative financial instruments	3	58,866	56,161
Accrued expenses and deferred income		31,056	26,385
Other liabilities	8	31,062	39,701
Provisions	11	8,077	10,027
Share capital	12	26,000	26,000
Retained earnings reserve		374,261	394,607
Currency translation reserve		(4,967)	(4,974)
Consolidated profit for the year		37,846	59,654
Total liabilities and equity		6,423,687	6,976,865
Off-balance-sheet transactions			
Irrevocable commitments	2	34	30

Consolidated income statement

CHF 1,000	Notes	2017	2016
Interest and discount income		-3,224	-655
Interest and dividend income from financial investments		1,262	1,802
Interest expenses		28,107	14,986
Gross income/result from interest operations		26,145	16,133
Changes in value adjustments for default risks		-	-
Result from interest operations	23	26,145	16,133
Commission income from clearing & settlement		257,969	245,308
Commission expenses from clearing & settlement		-68,518	-67,692
Commission income from other services		16,175	24,887
Commission expenses from other services		-	-205
Result from commission business and services		205,626	202,297
Result from trading activities	18	152	107
Other ordinary income		11,823	9,115
Other ordinary expenses		-18	-0
Result from other ordinary activities		11,805	9,114
Personnel expenses	19	-67,294	-64,862
General and administrative expenses	20	-124,415	-115,725
Operating expenses		-191,709	-180,587
Changes in value adjustments on non-consolidated participations and depreciation of tangible fixed assets		-936	-1,372
Changes to provisions and other value adjustments, and losses	11	-201	1,004
Operating result		50,883	46,696
Extraordinary income	21	14	29,983
Taxes	22	-13,051	-17,026
Consolidated profit for the year		37,846	59,654

Consolidated cash flow statement

CHF 1,000	Notes	2017	2016
Cash flow from operating activities			
Consolidated profit for the year		37,846	59,654
Depreciation of tangible fixed assets	7	936	1,372
Changes to provisions and other value adjustments, and losses	11	200	-2,712
Changes in value adjustments for default risk and losses		-	-
Deferred taxes	11	-2,150	-2,116
Amounts due from customers	2	-599	4,614
Amounts due to customers		24,349	90,071
Accrued income and prepaid expenses		1,229	-1,616
Accrued expenses and deferred income		4,671	-10,930
Other assets	8	-5,580	-15,586
Other liabilities	8	-8,640	-8,379
Dividends paid		-80,000	-35,000
Total cash flow from operating activities		-27,738	79,371
Cash flow from shareholder's equity transactions			
Other transfers to reserves		-	-
Total cash flow from shareholder's equity transactions		-	-
Cash flow from investing activities			
Disposals (investments) of non-consolidated participations	6	-	-
Tangible fixed assets		-	7,362
Total cash flow from investing activities		-	7,362
Cash flow from banking operations (short-term)			
Amounts due from banks		38,880	252,448
Amounts due to banks		-709,954	1,314,117
Amounts due from securities financing transactions	1	143,984	-521,037
Liabilities from securities financing transactions	1	177,788	-225,474
Positive replacement values of derivative financial instruments	3	-3,822	8,992
Negative replacement values of derivative financial instruments	3	2,706	-9,233
Financial investments	4	-80,296	-14,891
Total cash flow from banking operations (short-term)		-430,713	804,922
Foreign currency translation effect		7	-1
Change in liquid assets		-458,444	891,655
Liquid assets as at 1 January		4,156,645	3,264,990
Liquid assets as at 31 December		3,698,201	4,156,645

Consolidated statement of changes in equity

CHF 1,000	Share capital	Retained earnings reserve	Currency translation reserve	Consolidated profit	Total
1 January 2017	26,000	394,607	-4,974	59,654	475,286
Appropriation of profit		59,654		-59,654	-
Dividends		-80,000			-80,000
Currency translation differences			7		7
Consolidated profit				37,846	37,846
31 December 2017	26,000	374,261	-4,967	37,846	433,139
1 January 2016	26,000	386,193	-4,974	43,414	450,633
Appropriation of profit		43,414		-43,414	-
Dividends		-35,000			-35,000
Currency translation differences			-1		-1
Consolidated profit				59,654	59,654
31 December 2016	26,000	394,607	-4,974	59,654	475,286

Notes to the consolidated financial statements

General information

SIX Securities Services Ltd is the parent company of SIX x-clear Ltd, SIX SIS Ltd and SIX SIS Nominee U.K. Ltd. Projektgesellschaft Softwareentwicklung Oktober 2011 Ltd was liquidated on 4 September 2017, and SIX Systems Ltd was merged into SIX Securities Services Ltd on 1 January 2017. As a wholly-owned subsidiary of SIX, SIX Securities Services Ltd and its subsidiaries cover the entire post-trade securities services business. SIX Securities Services Ltd itself carries out no direct securities processing or operational activities of any kind.

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, SIX SIS Ltd is a key element of the Swiss Value Chain. As a licensed CSD under Swiss law, SIX SIS Ltd is supervised by the Swiss Financial Market Supervisory Authority (FINMA). Pursuant to the National Bank Act, it is also supervised by the Swiss National Bank (SNB) to monitor systemic risk.

SIX x-clear Ltd is recognized as a central counterparty (CCP) under the European Market Infrastructure Regulation (EMIR) by the European Securities and Markets

Authority (ESMA), meaning it is officially authorized to provide cross-border clearing services in the EU. SIX x-clear Ltd is the preferred clearing partner for various trading venues in Europe, with more than 90% of its transactions coming from outside Switzerland. SIX x-clear Ltd is licensed as a bank under Swiss law and supervised by FINMA. Pursuant to the National Bank Act, it is also supervised by the SNB with respect to systemic risks. In 2016, SIX x-clear Ltd applied to be licensed as a CCP under the Swiss Financial Market Infrastructure Act (FMIA). The licensing process is still in progress.

At year-end 2017, SIX Securities Services had 378.2 employees on a full-time equivalent basis (year-end 2016: 392.7).

SIX Securities Services Ltd has outsourced the operation and maintenance of its data 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 required to maintain banking secrecy.

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Risk management

Risk governance

As a part of SIX, SIX Securities Services 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. Overall responsibility for risk management within SIX Securities Services 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 and by the Finance and Services division.

The Group Executive Board of SIX enacts the Group's risk policies and appoints the Chief Risk Officer. The Board of Directors (BoD) of SIX Group decides on the risk appetite and the risk policy. The Risk Committee of the BoD of SIX Group is responsible for internal controls with respect to risk. The Board of Directors of SIX Securities Services defines and approves the specific risk policies and delegates appropriate risk management tasks.

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 Securities Services, 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.

Risk control measures at SIX are executed by the Chief Risk Officer and the dedicated SIX Securities Services Risk Management Team, who are independent of the line management structure and form the "second line of defense". 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 Financial Market Infrastructure Act, SIX Securities Services 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 Securities Services 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 Securities Services' 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 Group Executive Board and of the Executive Boards 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 Securities Services or one of its subsidiaries 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 Securities Services and its subsidiaries, 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 Securities Services, 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 group 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 Securities Services applies a conservative risk and credit policy. New clients of SIX Securities Services 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 the 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 Securities Services risk appetite and policy.

SIX Securities Services applies a risk-based approach for defining the periodicity of counterparty reviews. Every counterparty has been assigned to a risk group. The profundity and periodicity 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 Securities Services (and hence the allocation of counterparties to risk groups) are determined by the following two dimensions:

- Creditworthiness: The credit exposure borne by SIX Securities Services 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 Securities Services 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 Securities Services 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 are in any case managed through counterparty ratings and limits.

Since mid-2017, SIX Securities Services has been applying the international standard approach (SA-BIZ) 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 Securities Services primarily relates to central counterparty clearing of matched but unsettled trades (SIX x-clear Ltd) or to the pre-financing of cross-border settlements (SIX SIS Ltd).

To minimize the exposure of SIX Securities Services to market risk due to unsettled transactions, a margin model has been established. SIX Securities Services demands collateral from its clients in the form of margins. The margin requirement basically comprises an initial margin for possible future price fluctuations and a variation margin for actual changes in value. If the collateral provided falls below the collateral required (e.g. due to an increase in margin requirements), a margin call for additional contributions will be issued to cover the remaining market risk.

In addition to initial and variation margins, all clearing members have to provide collateral for default fund contributions to cover the potential market risk that is not covered by the margin model (confidence level of 99%) in the event of a member’s default, notably in times of stressed market conditions.

Market risk exposure of SIX Securities Services due to cross-border settlements 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 Securities Services is not exposed to any significant liquidity risk. In stressed market conditions, however – e.g. in the event of a participant default – SIX Securities Services 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 Securities Services as the parent of SIX x-clear Ltd and therefore give rise to liquidity risk. In such cases SIX x-clear Ltd would be obliged to pre-finance receipt versus payment (RVP) transactions towards the non-defaulting counterparties, while at the same time no cash would be received from corresponding DVP transactions from the defaulting counterparties. The liquidity demand would remain high until the defaulted clearing portfolio is closed out and the respective DVP transactions can be settled.

The main liquidity risk for SIX SIS Ltd, another subsidiary of SIX Securities Services Ltd, results from its cross-border settlement activities. In the event of the default of an SIX SIS Ltd participant, SIX SIS Ltd has an obligation to fulfil matched 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.

Due to the interconnectedness of SIX x-clear Ltd and SIX SIS Ltd, the liquidity risk is basically managed at the level of SIX Securities Services through the following actions:

- 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 Securities Services 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 Securities Services does not hold any relevant foreign currency positions for its own account. Foreign exchange risks arising from open clearing and collateral positions are covered through the margin model and the automated revaluation of collateral positions. 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. In particular, software is fully depreciated in the year of production or purchase.

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 Securities Services 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 Securities Services 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 Securities Services. 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 Securities Services’ 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. Corre-

sponding 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 Securities Services. 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 Securities Services 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 the individual companies 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). The ARB FINMA is applied pursuant to an individual FINMA ruling. SIX Securities Services applies the true and fair view principle in the consolidated financial statements. In general, business transactions are recorded using the trade date accounting principle. Non-fulfilled transactions from clearing and settlement business are an exception to this and recorded for using the settlement date accounting principle.

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

Scope and method of consolidation

The consolidated financial statements comprise all transactions of SIX Securities Services Ltd and its directly and indirectly held subsidiaries (more than 50% share of voting capital). Consolidation is carried out in accordance with the purchase method. In principle, participations of between 20% and 50% are recognized in line with the equity method. Participations under 20% are held at the lower of cost or market value. The effects of intragroup transactions and profits are eliminated when preparing the consolidated financial statements.

Foreign currency conversion

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. Financial statements in foreign currencies are translated at the exchange rates applicable on the balance sheet date.

	EUR	USD	GBP	JPY	NOK	CAD
Unit	1	1	1	100	100	1
Exchange rate as at current year-end	1.17	0.98	1.32	0.87	11.87	0.78
Exchange rate as at previous year-end	1.07	1.02	1.25	0.87	11.82	0.76

Liquid assets

These balance sheet items are shown 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 clearing and settlement activities by SIX x-clear Ltd and SIX SIS Ltd with banks and financial organizations in Switzerland and abroad.

Receivables from and liabilities towards banks mainly arise from clearing and settlement business. 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 cash collateral received from clearing and settlement business 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. Non-monetary values are therefore shown in the balance sheet of the party delivering these values.

Securities lending and borrowing

SIX Securities Services lends and borrows non-monetary instruments such as money market papers and 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 Securities Services does not engage in trading activities for its own account. The replacement values mainly represent the market value of all open positions of all clearing members of SIX x-clear Ltd on the balance sheet date (after end-of-day netting). From an accounting perspective, the open positions are to be classified as "trading instruments" because of subsidiaries' principal status. Although further netting would be possible, this position is voluntarily presented gross on the balance sheet for transparency reasons.

The unrecognized netting potential is disclosed in note 3. Replacement values also arise from the market valuation of liabilities of SIX SIS Ltd from borrowed securities.

In addition to forward contracts from clearing and settlement business, this category also includes in particular foreign currency forwards to mitigate SIX Securities Services' exposure to foreign exchange risks arising from operational activities.

Non-consolidated participations

Participations that are not fully consolidated are valued according to the principles set out in the section "Scope and method of consolidation". Non-consolidated participations are valued according to their acquisition cost.

Financial investments

Financial investments are stated at the lower of cost or market value. Bonds pledged as collateral (see note 9) are valued on the basis of the accrual principle, with the premium arising on purchase being amortized over the term to maturity. In the case of premature sales, realized gains and losses are deferred according to the original maturity of the instruments. Value adjustments resulting from changes in the issuer's credit standing are immediately recognized by offsetting against the respective asset.

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.

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%

SIX Securities Services does not report any intangible assets. In accordance with the ARB, software is included in the balance sheet item "Tangible fixed assets" but disclosed separately in note 7.

Provisions

Flat-rate provisions are created to cover latent defaults on amounts due from banks. These provisions depend on the balances as at the balance sheet date.

Operational risks are covered by appropriate provisions. The calculation is made on the basis of the effective operational risks. Further provisions are created on the basis of the expected resource outflow. Changes since the previous year are recognized in the income statement.

Pension benefit obligations

Pension benefit obligations are treated according to Swiss GAAP FER 16.

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.

The tax implications resulting from time differences between the balance sheet items recorded in the consolidated financial statements and their taxable values in the individual financial statements are recorded as provisions for deferred taxes.

Changes in provisions for deferred taxes are included in tax expenses, but disclosed separately in note 22.

Subsequent events

No subsequent events requiring disclosure occurred.

Information on the consolidated balance sheet

1. Securities financing transactions

CHF 1,000	31/12/2017	31/12/2016
Book value of receivables from cash collateral delivered in connection with securities borrowing and reverse repurchase transactions ¹	1,406,165	1,550,149
Book value of obligations from cash collateral received in connection with securities lending and repurchase transactions ¹	–	–
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	38,008	4,656
<i>with unrestricted right to resell or pledge</i>	<i>38,008</i>	<i>4,656</i>
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	1,843,228	1,739,572
<i>of which repledged securities</i>	<i>358,079</i>	<i>365,851</i>
<i>of which resold securities</i>	<i>353,592</i>	<i>182,964</i>

¹ Before netting agreements

Breakdown of book value by transaction type

CHF 1,000	31/12/2017	31/12/2016
Reverse repurchase agreements	1,406,165	1,550,149
Total amounts due from securities financing transactions	1,406,165	1,550,149
Repurchase agreements	–	–
Obligation to return resold securities received in connection with securities borrowing transactions	360,752	182,964
Total liabilities from securities financing transactions	360,752	182,964

2. Collateral for loans, receivables and off-balance-sheet transactions, as well as impaired loans and receivables

CHF 1,000	31/12/2017	31/12/2016
Amounts due from customers		
Amounts due from customers (unsecured, before netting with value adjustments)	21,696	21,097
<i>of which impaired</i>	4	4
Total before offsetting with value adjustments	21,696	21,097
Total after offsetting with value adjustments	21,692	21,093
Off-balance-sheet transactions		
Irrevocable commitments (unsecured)	34	30

SIX Securities Services 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 the 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. Nevertheless, it was decided to disclose the irrevocable commitment as of 31 December 2017 in accordance with the principle of prudence.

3. Derivative financial instruments

CHF 1,000	31/12/2017 Trading instruments		
	Positive replacement values	Negative replacement values	Contract volumes
Interest rate instruments			
Forward contracts	800	974	189,824
Foreign exchange products			
Forward contracts	2	3	2,281
Equity securities and indices			
Forward contracts	52,262	51,818	10,989,085
Futures	–	–	269,869
Options (exchange-traded)	17,944	17,944	1,519,156
Total before netting agreements	71,008	70,739	12,970,215
<i>Previous year</i>	<i>71,476</i>	<i>72,323</i>	<i>10,423,485</i>
Recognized netting agreements	–11,873	–11,873	
Total after recognized netting agreements	59,135	58,866	12,970,215
<i>Previous year</i>	<i>55,314</i>	<i>56,161</i>	<i>10,423,485</i>
Unrecognized netting agreements	–49,427	–49,427	
Total after netting agreements	9,708	9,439	12,970,215
<i>Previous year</i>	<i>7,451</i>	<i>8,298</i>	<i>10,423,485</i>

SIX Securities Services does not engage in trading activities for its own account. The derivative instruments shown are unsettled spot transactions arising from clearing and settlement business with bonds, equities and options that are recognized according to the settlement date accounting principle. The derivative instruments also arise from liabilities from borrowed securities and foreign currency forwards to mitigate SIX Securities Services' 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)	845	8,863	9,708

4. Financial investments

CHF 1,000	31/12/2017		31/12/2016	
	Book value	Fair value	Book value	Fair value
Debt securities	29,631	29,643	47,183	47,184
<i>of which intended to be held to maturity</i>	<i>29,631</i>	<i>29,643</i>	<i>47,183</i>	<i>47,184</i>
Breakdown by counterparty rating				
<i>AAA to AA-</i>	<i>29,631</i>	<i>29,643</i>	<i>47,183</i>	<i>47,184</i>
Equity securities	199,964	199,964	102,117	102,117
<i>of which qualified participations</i>	<i>–</i>	<i>–</i>	<i>–</i>	<i>–</i>
Total financial investments	229,595	229,608	149,300	149,302
<i>of which eligible for repurchase transactions in accordance with liquidity requirements</i>	<i>29,631</i>	<i>29,643</i>	<i>47,183</i>	<i>47,184</i>

5. Fully consolidated participations

in CHF million	Business activity	Company capital	Share of capital	Share of vote	Ownership type
SIX x-clear Ltd, Zurich	Clearing	CHF 30	100%	100%	direct
SIX SIS Ltd, Olten	Settlement/custody	CHF 26	100%	100%	direct
SIX SIS Nominee U.K. Ltd, Olten	Inactive	CHF 0.1	100%	100%	indirect

SIX Systems Ltd was merged into SIX Securities Services Ltd in January 2017, while Projektgesellschaft Softwareentwicklung Oktober 2011 Ltd was liquidated in September 2017.

6. Non-consolidated participations

CHF 1,000	31/12/2017	31/12/2016
Acquisition cost	1,457	1,457
Accumulated value adjustments	–	–
Book value as at previous year-end	1,457	1,457
Additions	–	–
Disposals	–	–
Book value as at current year-end	1,457	1,457

The non-consolidated participations are insignificant shares. These investments have no market value and the shares are not listed.

7. Tangible fixed assets

CHF 1,000	Acquisition cost	Accumulated depreciation	Book value 31/12/2016	2017				Total as at 31/12/2017
				Change in group of consolidation	Additions	Disposals	Depreciation	
Other real estate ¹	97,814	–70,290	27,524	–	–	–	–890	26,634
Installations and furnishings	3,706	–3,706	–	–	–	–	–	–
Software	1,147	–1,102	45	–	–	–	–45	–
Other assets	9	–9	–	–	–	–	–	–
Total tangible fixed assets	102,676	–75,106	27,570	–	–	–	–936	26,634

¹ With the re-licensing of SIX SIS Ltd the building is not used as a bank building anymore.

CHF 1,000	31/12/2017	31/12/2016
Operating leases		
Due within 12 months	116	113
Due between 12 months and 5 years	19	–
Due after more than 5 years	–	–
Total leasing commitments not shown in the balance sheet	135	113
<i>of which callable within 1 year</i>	<i>107</i>	<i>113</i>

8. Other assets and liabilities

CHF 1,000	Other assets		Other liabilities	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SECOM settlement accounts	2,241	636	6,104	10,834
Indirect taxes	26,549	16,657	23,251	25,664
Compensation account	–	–	420	491
Sundry assets and liabilities	1,748	7,664	1,286	2,712
Total	30,538	24,958	31,062	39,701

9. Assets pledged or assigned to secure own commitments

CHF 1,000	31/12/2017		31/12/2016	
	Book value	Eff. committed	Book value	Eff. committed
Financial investments	29,631	21,004	47,183	36,572

The assets were pledged by SIX x-clear Ltd to cover inter-CCP risks. The balance sheet item “Amounts due from securities financing transactions” contains reverse repurchase agreements (see section “Amounts due from and liabilities from securities financing trans-

actions” in the accounting and valuation policies). Some securities received through these transactions were repledged, but are excluded from the above table. Details are disclosed in note 1.

10. Pension funds

Employer contribution reserves

CHF 1,000	Notes	31/12/2017	31/12/2016
Nominal value as at previous year–end		5,632	11,299
– creation		–	–
– transfer to/from other group entities		–	–
– withdrawal		–	–
– utilization		–	–5,667
Nominal value as at current year–end		5,632	5,632
<i>of which with waiver of use</i>		<i>5,632</i>	<i>5,632</i>
Value adjustments offset	11	–5,632	–5,632
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 Securities Services is connected to the pension fund of SIX Group. The coverage ratio of the Occupational Benefits Foundation of SIX was 115.4% as at the last audited financial statements (2016). SIX Securities Services does not gain any economic

benefits in the event of surplus cover. SIX Securities Services offers defined contribution plans. As at the balance sheet date, SIX Securities Services had no liabilities in excess of the regulatory contributions. The Occupational Benefits Foundation of SIX does not hold any equity instruments of SIX Securities Services.

Pension fund expenses amounted to CHF 5,967 thousand in the current year (previous year: CHF 6,165 thousand).

11. Value adjustments and provisions

CHF 1,000	Balance at 31/12/2016	Change in scope of consolidation	Use in conf. with designated purpose	Foreign currency translation differences	New creations charged to income	Releases to income	Balance at 31/12/2017
Provisions for default risks	2,261	–	–	–	355	–	2,616
Provisions for operational risks	138	–	–	–1	–	–4	133
Provisions for deferred taxes ¹	6,484	–	–	–	–	–2,150	4,334
Provisions for legal risks	–	–	–	–	–	–	–
Other provisions	1,144	–	–	–	–	–150	994
Total provisions	10,027	–	–	–1	355	–2,304	8,077
Value adjustments offset	5,632	–	–	–	–	–	5,632

¹ New creations and releases are charged to tax expenses

Provisions for default risks depend on the balances as at the balance sheet date according to the following rates:

Account type	31/12/2017	31/12/2016
Nostro accounts	0.25%	0.25%
Placements (investments/receivables from third-party banks)	0.15%	0.15%
Short-term interim financing granted to clients on an unsecured basis	1.00%	1.00%
Short-term interim financing granted to clients on a secured basis	0.20%	0.20%

Provisions for operational risks are calculated on the basis of actual operational risks.

Value adjustments are created for defaulting debtors (see note 2) and employer contribution reserves with waiver of use (see note 10).

12. 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 Securities Services Ltd are held by its parent company, SIX Group Ltd. The share capital is fully paid in. As there is no capital increase planned, no authorized or conditional capital exists.

127 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. The single–entity financial statements of SIX Securities Services Ltd according to commercial law can be found at the end of this document.

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

CHF 1,000/in %	31/12/2017		31/12/2016	
	Nominal value	% of equity	Nominal value	% of equity
UBS AG consolidated	3,380	17.3	3,380	17.3
Credit Suisse Group consolidated	2,500	12.8	2,500	12.8
Raiffeisen Group consolidated	1,344	6.9	1,344	6.9

13. Amounts due from/to related parties

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

CHF 1,000	Assets		Liabilities	
	31/12/2017	31/12/2016	31/12/2017	31/12/2016
SIX Group Ltd	18,644	18,643	405,111	382,045
Other entities of SIX Group	1,988	1,736	26,398	20,528
Qualified indirect shareholders	18,762	29,411	1,461,084	1,448,561

Shareholders of SIX Group Ltd with more than 10% of all voting rights are considered as qualified indirect shareholders. There were no transactions with members of governing bodies.

During the reporting period the following transactions were conducted with SIX Group and its group companies:

	2017		2016	
	CHF 1,000	% of item	CHF 1,000	% of item
Result from interest operations	2,903	11.1	1,974	12.2
Result from commission business and services	12	0.0	172	0.1
Result from other ordinary activities	7,120	60.3	6,239	68.5
Operating expenses	-107,527	56.1	-96,474	53.4
Total income from and expenses to SIX Group	-97,492		-88,088	

14. Maturity structure of financial instruments

CHF 1,000	At sight	Cancellable	Due < 3 months	Due 3–12 months	Due 12–60 months	Total
Financial assets						
Liquid assets	3,698,201	–	–	–	–	3,698,201
Amounts due from banks	948,904	–	–	–	–	948,904
<i>thereof custodians</i>	535,012	–	–	–	–	535,012
Amounts due from securities financing transactions	–	–	1,406,165	–	–	1,406,165
Amounts due from customers	21,692	–	–	–	–	21,692
Positive repl. values of derivative financial instruments	59,135	–	–	–	–	59,135
Financial investments	199,964	–	17,784	11,847	–	229,595
Non-consolidated participations	1,457	–	–	–	–	1,457
Total financial assets	4,929,353	–	1,423,949	11,847	–	6,365,149
<i>Previous year</i>	<i>5,201,986</i>	<i>–</i>	<i>1,634,179</i>	<i>85,576</i>	<i>–</i>	<i>6,921,742</i>
Financial liabilities						
Amounts due to banks	5,124,965	–	–	–	–	5,124,965
<i>thereof collaterals</i>	3,272,925	–	–	–	–	3,272,925
Liabilities from securities financing transactions	–	–	360,752	–	–	360,752
Amounts due to customers	375,770	–	–	–	–	375,770
Negative repl. values of derivative financial instruments	58,866	–	–	–	–	58,866
Total financial liabilities	8,832,526	–	360,752	–	–	5,920,353
<i>Previous year</i>	<i>6,242,501</i>	<i>–</i>	<i>182,964</i>	<i>–</i>	<i>–</i>	<i>6,425,465</i>

15. Assets and liabilities by domestic and foreign origin

CHF 1,000	31/12/2017			31/12/2016		
	Domestic	Foreign	Total	Domestic	Foreign	Total
Assets						
Liquid assets	3,128,263	569,938	3,698,201	3,571,460	585,185	4,156,645
Amounts due from banks	176,528	772,376	948,904	39,567	948,218	987,785
<i>thereof custodians</i>	13	534,999	535,012	162	616,846	617,007
Amounts due from securities financing transactions	716,683	689,482	1,406,165	1,075,756	474,393	1,550,149
Amounts due from customers	20,912	779	21,692	20,573	520	21,093
Positive repl. values of derivative financial instruments	36,799	22,337	59,135	34,120	21,193	55,314
Financial investments	199,964	29,631	229,595	102,117	47,183	149,300
Accrued income and prepaid expenses	1,366	–	1,366	2,595	–	2,595
Non-consolidated participations	–	1,457	1,457	–	1,457	1,457
Tangible fixed assets	26,634	–	26,634	27,524	45	27,570
Other assets	30,538	–	30,538	24,958	–	24,958
Total assets	4,337,687	2,086,000	6,423,687	4,898,670	2,078,194	6,976,865
Liabilities and equity						
Amounts due to banks	3,311,979	1,812,986	5,124,965	4,007,116	1,827,803	5,834,919
<i>thereof collaterals</i>	2,120,050	1,152,875	3,272,925	2,812,413	445,688	3,258,101
Liabilities from securities financing transactions	360,752	–	360,752	182,964	–	182,964
Amounts due to customers	375,616	154	375,770	351,408	14	351,422
Negative repl. values of derivative financial instruments	29,012	29,854	58,866	34,973	21,188	56,161
Accrued expenses and deferred income	30,964	92	31,056	26,256	129	26,385
Other liabilities	11,093	19,969	31,062	17,734	21,967	39,701
Provisions	8,077	–	8,077	10,027	–	10,027
Share capital	26,000	–	26,000	26,000	–	26,000
Retained earnings reserve	374,261	–	374,261	394,607	–	394,607
Currency translation reserve	–4,967	–	–4,967	–4,974	–	–4,974
Consolidated profit for the year	37,846	–	37,846	59,654	–	59,654
Total liabilities and equity	4,560,633	1,863,055	6,423,687	5,105,763	1,871,101	6,976,865

16. Assets by country/group of countries

	Rating	31/12/2017		31/12/2016	
		CHF 1,000	Share in %	CHF 1,000	Share in %
Europe		5,960,429	92.8	6,551,820	93.9
Switzerland	AAA	4,337,687	67.5	4,898,670	70.2
Germany	AAA	580,473	9.0	588,180	8.4
Denmark	AAA	302,270	4.7	138,762	2.0
Finland	AAA	284,523	4.4	363,156	5.2
Norway	AAA	156,497	2.4	168,620	2.4
United Kingdom	AAA	153,938	2.4	150,822	2.2
Luxembourg	AAA	82,985	1.3	242,960	3.5
Austria	AAA	62,057	1.0	650	0.0
North America		208,244	3.2	46,260	0.7
United States	AAA	168,604	2.6	1,217	0.0
Canada	AAA	39,639	0.6	45,043	0.6
Australia	AAA	22,803	0.4	182,682	2.6
Asia		98,817	1.5	64,472	0.9
Japan	AAA	98,817	1.5	64,472	0.9
Other countries ¹	n/a	133,393	2.1	131,631	1.9
Total assets		6,423,687	100.0	6,976,865	100.0

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

Because SIX Securities Services 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.

Assets by country rating

	31/12/2017		31/12/2016	
	CHF 1,000	Share in %	CHF 1,000	Share in %
AAA – AA	6,412,945	99.8	6,960,168	99.8
A	7,444	0.1	7,895	0.1
BBB	3,075	0.0	8,645	0.1
BB – B	222	0.0	157	0.0
below B	0	0.0	–	0.0
Total assets	6,423,687	100.0	6,976,865	100.0

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

17. Assets and liabilities by most significant currencies

CHF 1,000	CHF	EUR	USD	GBP	NOK	JPY	Other ¹	Total
Assets								
Liquid assets	3,128,263	569,938	–	–	–	–	–	3,698,201
Amounts due from banks	86,820	59,992	261,658	137,309	75,462	101,502	226,161	948,904
<i>thereof custodians</i>	6,169	33,260	110,961	136,321	25,440	101,501	121,360	535,012
Amounts due from securities financing transactions	364,000	–	943,963	32,925	65,277	–	–	1,406,165
Amounts due from customers	21,539	–	1	7	140	–	5	21,692
Positive repl. values of derivative financial instruments	36,799	217	–	–	20,493	–	1,626	59,135
Financial investments	4,858	151,405	3,414	317	32,089	25	37,488	229,595
Accrued income and prepaid expenses	847	89	390	1	40	–	–	1,366
Non-consolidated participations	–	1,457	–	–	–	–	–	1,457
Tangible fixed assets	26,634	–	–	–	–	–	–	26,634
Other assets	28,202	523	1,713	10	89	–	0	30,538
Total assets	3,697,961	783,621	1,211,139	170,569	193,590	101,526	265,280	6,423,687
Liabilities and equity								
Amounts due to banks	2,805,043	475,158	1,168,227	153,355	163,216	101,464	258,501	5,124,965
<i>thereof collaterals</i>	2,343,318	91,394	606,324	93,192	138,555	17	125	3,272,925
Liabilities from securities financing transactions	6,973	301,807	22,309	16,924	9,308	27	3,405	360,752
Amounts due to customers	371,147	2,787	712	825	248	–	52	375,770
Neg. repl. values of derivative financial instruments	36,365	123	–	–	20,426	–	1,951	58,866
Accrued expenses and deferred income	30,775	263	9	8	–	–	–	31,056
Other liabilities	7,079	1,974	20,485	6	153	–	1,365	31,062
Provisions	8,077	–	–	–	–	–	–	8,077
Share capital	26,000	–	–	–	–	–	–	26,000
Retained earnings reserve	374,261	–	–	–	–	–	–	374,261
Currency translation reserve	–4,967	–	–	–	–	–	–	–4,967
Consolidated profit for the year	37,846	–	–	–	–	–	–	37,846
Total liabilities and equity	3,698,599	782,113	1,211,742	171,117	193,352	101,491	265,273	6,423,687
Net position per currency	–638	1,508	–603	–548	238	36	7	–
Previous year	–821	663	513	–800	245	12	187	–

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

There were no material forex transactions for own purposes as at the balance sheet date (same as previous year).

Information on the consolidated income statement

18. Result from trading activities

CHF 1,000	2017	2016
Net valuation result from the translation of foreign exchange positions	152	107
Total result from trading activities	152	107

19. Personnel expenses

CHF 1,000	2017	2016
Salaries (incl. bonuses)	-53,160	-50,220
Social insurance benefits	-10,534	-10,053
Other personnel expenses	-3,599	-4,589
Total personnel expenses	-67,294	-64,862

20. General and administrative expenses

CHF 1,000	2017	2016
SECOM expenses, cost of equipment	-55,981	-54,583
Consultancy and other services	-46,189	-41,300
Fees of audit firm	-1,526	-1,391
<i>of which for financial and regulatory audits</i>	-667	-964
<i>of which for other services</i>	-859	-426
Cost of premises	-5,590	-4,586
Advertising and marketing expenses	-5,071	-6,020
Indirect taxes and other fees	-3,108	-2,517
Other operating expenses	-6,950	-5,328
Total general and administrative expenses	-124,415	-115,725

21. Losses and extraordinary items

In the reporting year, the sale of assets resulted in extraordinary income of CHF 14 thousand.

In the previous year, a bank building was sold resulting in extraordinary income of CHF 26.3 million, while the sale of the fully consolidated participation SIX SAG Ltd resulted in extraordinary income of CHF 3.7 million.

22. Taxes

CHF 1,000	2017	2016
Expenses from taxes in previous years	-1,173	-121
Expenses for current taxes	-14,028	-19,021
Decrease of provisions for deferred taxes	2,150	2,116
Total taxes	-13,051	-17,026
Weighted average tax rate on operating result before tax (including extraordinary items)	21.2%	21.2%

The decrease in provisions for deferred taxes is due to a substantial release of hidden reserves (provisions) by SIX SIS Ltd.

Some entities have operating losses in Switzerland. The Swiss losses are not taken into account for the calculation of the weighted average tax rate.

23. Negative interest

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 26.4 million (previous year: CHF 19.8 million), while negative interest received amounted to

CHF 32.0 million (previous year: CHF 22.3 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	2017		
	Income statement	Adj. neg. interest	Adj. income statement
Interest and discount income	-3,224	58,464	55,240
Interest and dividend income from financial investments	1,262	-	1,262
Interest expenses	28,107	-58,464	-30,357
Gross result from interest operations	26,145	-	26,145
Changes in value adjustments for default risks	-	-	-
Result from interest operations	26,145	-	26,145

CHF 1,000	2016		
	Income statement	Adj. neg. interest	Adj. income statement
Interest and discount income	-655	42,127	41,472
Interest and dividend income from financial investments	1,802	-	1,802
Interest expenses	14,986	-42,127	-27,141
Gross result from interest operations	16,133	-	16,133
Changes in value adjustments for default risks	-	-	-
Result from interest operations	16,133	-	16,133

Information on off-balance-sheet transactions

24. Contingent assets and liabilities, credit commitments and subordinated assets and liabilities

As in previous years, there were no material contingent assets and liabilities or unfulfilled credit commitments as at the balance sheet date. Furthermore, there were no subordinated assets or liabilities in the consolidated entities.

There is a (pro memoria) joint liability together with other SIX Group members arising from the consolidated value-added tax filing status.

Regulatory disclosure

Pursuant to an individual FINMA ruling, SIX Securities Services is obliged to disclose its capital requirements in line with the partial disclosure required in FINMA Circular 08/22.

Capital adequacy

As of 2017, SIX Securities Services is obliged to comply with the capital adequacy regulations set out in the 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 Securities Services must have a minimum of 110% of the required capital at all times.

To ensure comparability, the prior-year figures are disclosed according to the new regulations. The capital ratios according to the Basel III framework also are disclosed for the same reason.

CHF 1,000	31/12/2017	31/12/2016
Tier 1 capital	395,287	415,587
Dedicated own capital ¹	-4,174	-5,767
Eligible capital	391,112	409,820
Required capital	154,464	111,076
of which for credit risks	17,732	16,488
of which for non-counterparty-related risks	2,131	5,505
of which for market risks	171	1,110
of which for operational risks	33,297	31,447
of which for wind-down risks ¹	101,134	56,527
Capital fulfilment ratio	253.2%	369.0%
p.m. CET1 ratio	59.3%	60.9%
p.m. Basel III capital ratio	59.3%	60.9%

¹ This requirement is FMI-specific (non-Basel III) and therefore regulated in the Swiss Financial Market Infrastructure Ordinance (Art. 48 and 56).



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To the General Meeting of
SIX Securities Services Ltd, Zurich

Zurich, 26 April 2018

Report of the statutory auditor on the consolidated financial statements

As statutory auditor, we have audited the accompanying consolidated financial statements of SIX Securities Services Ltd, which comprise the balance sheet, income statement, cash flow statement, statement of changes in equity and notes (page 7 to 37), for the year ended 31 December 2017.



Board of Directors' responsibility

The Board of Directors is responsible for the preparation of the consolidated financial statements in accordance with the requirements of Swiss law and the consolidation and valuation principles as set out in the notes. This responsibility includes designing, implementing and maintaining an internal control system relevant to the preparation of consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers the internal control system relevant to the entity's preparation of the consolidated 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 consolidated 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 consolidated financial statements for the year ended 31 December 2017 give a true and fair view of the financial position, the results of operations and the cash flows in accordance with the accounting rules for banks and comply with Swiss law and the consolidation and valuation principles as set out in the notes.



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 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
Licensed audit expert
(Auditor in charge)

Samuel Rast
Licensed audit expert

Financial Statements 2017

Balance sheet

CHF 1,000	Notes	31/12/2017	31/12/2016
Assets			
Cash and cash equivalents	7	2,307	1,452
Trade receivables	8	2,622	3,865
Other receivables ¹	9	79,392	125,921
Accrued income and prepaid expenses		299	54
Current assets		84,620	131,292
Financial assets	10	1,071	1,071
Investments in subsidiaries and other investments	11	61,000	66,061
Non-current assets		62,071	67,132
Total assets		146,691	198,424
Liabilities			
Trade payables	12	1,077	3,326
Current interest-bearing liabilities	14	–	1,639
Other payables	13	125	195
Accrued expenses and deferred income		5,033	1,804
Current liabilities		6,236	6,962
Other long-term liabilities	15	2,347	1,564
Non-current liabilities		2,347	1,564
Total liabilities		8,583	8,526
Share capital		26,000	26,000
Statutory retained earnings		10,000	10,000
Voluntary retained earnings			
Other voluntary reserves		51,599	89,271
Profit carried forward		24,627	21,482
Profit for the year		25,882	43,145
Equity		138,108	189,898
Total liabilities and equity		146,691	198,424

¹ Prior-year items have been regrouped from trade receivables

Income statement

CHF 1,000	Notes	2017	2016
Dividend income from investments		30,324	45,366
Service revenues		190	355
Other operating income		16,475	17,917
Total operating income		46,989	63,639
Commission and transaction expenses		-534	-6
Service expenses		-965	-1,937
Personnel expenses		-14,000	-10,031
Cost of premises		-457	-284
IT infrastructure costs		-274	-374
Consulting and other professional fees		-3,590	-6,970
Advertising and marketing expenses		-2	-134
Valuation adjustments and losses		4	-4
Other operating expenses		-635	-905
Total operating expenses		-20,453	-20,644
Operating profit before interest and taxes		26,535	42,995
Financial income		13	20
Financial expenses		-608	-858
Net income before taxes and extraordinary items		25,941	42,157
Extraordinary income	19	-	2,147
Extraordinary expenses	19	-59	-1,100
Net income before taxes		25,882	43,204
Taxes		-	-59
Profit for the year		25,882	43,145

Statement of changes in equity

CHF 1,000	Share capital	Statutory retained earnings	Voluntary retained earnings			Total
			Other voluntary reserves	Profit carried forward	Profit for the year	
Gain on merger	–	–	2,328	–	–	2,328
1 January 2017	26,000	10,000	91,599	21,482	43,145	192,225
Appropriation of profit	–	–	–	43,145	–43,145	–
Dividends	–	–	–40,000	–40,000	–	–80,000
Profit for the year	–	–	–	–	25,882	25,882
31 December 2017	26,000	10,000	51,599	24,627	25,882	138,108
1 January 2016	26,000	10,000	89,271	18,647	37,835	181,753
Appropriation of profit	–	–	–	37,835	–37,835	–
Dividends	–	–	–	–35,000	–	–35,000
Profit for the year	–	–	–	–	43,145	43,145
31 December 2016	26,000	10,000	89,271	21,482	43,145	189,898

The share capital comprises 260,000 registered shares of CHF 100 nominal value.

Appropriation of profit

The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of profit:

CHF 1,000	31/12/2017	31/12/2016
Profit carried forward from previous year	24,627	21,482
Profit for the year	25,882	43,145
Available profit carried forward	50,509	64,627
Dividend payment	-30,000	-40,000
Profit carried forward to the following year	20,509	24,627
Other voluntary reserves carried forward from previous year	51,599	89,271
Dividend payment	-	-40,000
Other voluntary reserves carried forward to the following year	51,599	49,271
Gain on merger	-	2,328

Notes to the financial statements

1. Accounting policies

These financial statements have been prepared according to Swiss Generally Accepted Accounting Principles set out under Title 32 of the Swiss Code of Obligations. Any policies not explicitly defined in Swiss

law are set out below. In this regard, it should be considered that hidden reserves can be accrued or released to secure sustainable growth.

2. Foreign currency translation

Transactions in foreign currencies are posted at the current exchange rates. Monetary balance sheet items are translated into Swiss francs at the exchange rates applicable on the balance sheet date. Non-monetary

balance sheet items are translated at historical exchange rates. Exchange rate gains or losses are credited or debited to the income statement.

The following exchange rates were applied to translate items in foreign currency to CHF:

Currency	31/12/2017	31/12/2016
EUR	1.1695	1.0741
GBP	1.3170	1.2525
USD	0.9782	1.0202

3. Investments in subsidiaries and other investments

Investments in subsidiaries and other investments are stated at cost less necessary depreciation.

4. Revenue recognition

The revenues for services provided are recognized on invoicing. Invoices are issued after the service was effectively rendered.

5. Number of employees

The yearly average number of employees on a full-time equivalent basis was 37.4 (previous year: 29.3).

6. Cash and cash equivalents

CHF 1,000	31/12/2017	31/12/2016
Due from third parties	2,307	1,452
Cash and cash equivalents	2,307	1,452

7. Trade receivables

CHF 1,000	31/12/2017	31/12/2016
Due from third parties	–	81
Due from group entities	2,622	3,788
Collective impairment	–	–4
Trade receivables	2,622	3,865

8. Other receivables

CHF 1,000	31/12/2017	31/12/2016
Due from third parties	26,506	20,214
Due from shareholders	52,887	105,707
Other receivables	79,392	125,921

9. Financial assets

CHF 1,000	31/12/2017	31/12/2016
Shares SIX Group Ltd	1,071	1,071
Financial assets	1,071	1,071
<i>of which current</i>	–	–
<i>of which non-current</i>	1,071	1,071

10. Investments in subsidiaries and other investments

CHF 1,000	31/12/2017		31/12/2016	
	Capital (nom.)	Share ¹	Capital (nom.)	Share ¹
SIX x-clear Ltd, Zurich	CHF 30,000	100%	CHF 30,000	100%
SIX SIS Ltd, Olten	CHF 26,000	100%	CHF 26,000	100%
SIX SIS Nominee U.K. Ltd, Olten (indirect participation)	CHF 100	100%	CHF 100	100%

¹ capital and voting rights

SIX Systems Ltd was merged into SIX Securities Services Ltd in January 2017, while Projektgesellschaft Softwareentwicklung Oktober 2011 Ltd was liquidated in September 2017.

11. Trade payables

CHF 1,000	31/12/2017	31/12/2016
Due to third parties	166	480
Due to group entities	685	1,550
Due to shareholders	226	1,295
Trade payables	1,077	3,326

12. Other payables

CHF 1,000	31/12/2017	31/12/2016
Due to third parties	125	195
Other payables	125	195

13. Current interest-bearing liabilities

CHF 1,000	31/12/2017	31/12/2016
Due to third parties	–	12
Due to group entities	–	1,627
Current interest-bearing liabilities	–	1,639

14. Other long-term liabilities

CHF 1,000	31/12/2017	31/12/2016
Due to third parties	2,347	1,564
Other long-term liabilities	2,347	1,564

15. Contingent liabilities

CHF 1,000	31/12/2017	31/12/2016
Joint liability from consolidated value-added tax filing status	p.m.	p.m.

16. Liabilities from leasing contracts with maturity > 1 year

CHF 1,000	31/12/2017	31/12/2016
Maturity from 1 to 5 years	-	-
Liabilities from leasing contracts with maturity > 1 year	-	-

17. Net release of hidden reserves

In the reporting year net hidden reserves in the amount of CHF 4,039 were released to the income statement (previous year: 0).

18. Explanations of extraordinary items in the income statement

The extraordinary expenses of CHF 58,619.40 represent prior-year expenses charged by a group company in the reporting year.

In the previous year, the sale of the investment in SIX SAG Ltd resulted in extraordinary income of CHF 2,147 thousand. The extraordinary expenses of CHF 1,000 thousand in the previous year resulted from a contribution to the pension fund into individual retirement savings to maintain the previous level of pension payments following a change in the pension fund regulations.

19. Significant events after the balance sheet date

None.



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To the General Meeting of
SIX Securities Services Ltd, Zurich

Zurich, 26 April 2018

Report of the statutory auditor on the financial statements

As statutory auditor, we have audited the accompanying financial statements of SIX Securities Services Ltd, which comprise the balance sheet, income statement, statement of changes in equity and notes (page 42 to 49), for the year ended 31 December 2017.



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 2017 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 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
Licensed audit expert
(Auditor in charge)

Samuel Rast
Licensed audit expert

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