



KELER News on KELER's Strategic Modernization Program

17 October, 2012



Dear Customers,

Pursuant to the decision of the Board of Directors KELER Group launched the Strategic Modernization Program in July 2012. This is to inform you on the start of the Program and its objectives.

Objective of the Strategic Modernization Program

KELER intends to renew its now almost 20 years-old central securities depository software in the forthcoming years in line with its medium-term strategy and also in order to join the European Central Bank's securities settlement platform Target2-Securities (T2S). With the system renewal KELER is committed to create the conditions of operation of an innovative, competitive central securities depository (CSD) providing high quality services to customers and in 2016 the Hungarian market can join T2S with the renewed infrastructure.

KELER plans to implement the Program in 3 phases between 2012 and 2016:

1. **Planning, system selection (June 2012 – June 2013)** – selection of the new CSD system / solution and its supplier, detailed analysis of T2S requirements.
2. **Implementation (June 2013 – beginning of 2015)** – launch of the new software,, preparations for joining T2S.
3. **Joining T2S (2015-2016)** – international testing with the T2S platform with headquarters in Frankfurt, joint tests together with other European CSDs, followed by a migration and the go-live of the T2S-KELER connection.

Start of the planning and system selection phase

KELER launched the planning and system selection phase of the Program in July 2012 preparatory and planning tasks of which have already been successfully completed. In this phase the new system / solution and its supplier will be selected by mid-2013 in an international tender of several rounds. KELER expects that the introduction of the new system will facilitate internal and external process optimization, increased operational efficiency, the launch of additional services and compliance with T2S.

Simultaneously, and due to the T2S Framework Agreement concluded by KELER and the European Central Bank (ECB) in June 2012, KELER is an active participant in the international group of 22 European CSDs and 21 European central banks forming jointly with ECB the organization, processes and rules of the future pan-European securities settlement operations.

Therefore in the first phase of the Strategic Modernization Program tasks related to T2S will continue. One of these tasks is the detailed elaboration of the method of joining T2S selected by KELER that defines the scope of future business operation between KELER and T2S and the selection of the future network service provider of the KELER-T2S technical link.



Involvement of market participants

With the Strategic Modernization Program KELER aims to improve service quality and expand the range of services in line with market needs in a way that requires as little change as possible from the side of market participants. However, replacement of KELER's core system (expected at the beginning of 2015) and implementation of T2S connectivity (expected at the end of 2016) will most probably have a significant impact on our customers. Therefore after the new CSD software is selected, in the interest of successful market preparation, in the summer of 2013 we will start detailed subject matter discussion with our customers.

With respect to T2S preparation, the T2S National User Group (NUG) was established by the Hungarian Banking Association, the Association of Investment Service Providers, the National Bank of Hungary and KELER in May 2011, well before KELER's final decision to sign the T2S Framework Agreement in June 2012, and the NUG currently has nearly 40 members. There are two working groups within the NUG, with about 15 active market players that meet on a monthly or bi-monthly basis to discuss issues on T2S and provide a joint, market level response to questionnaires on various topics requested by the ECB.

In the coming years T2S will require new market practice in a number of areas, and as consequence current operational and legal frameworks may need amendments (e.g. in securities corporate action management) as there are strong, European level harmonization efforts that are due to be introduced simultaneously with the launch of T2S. With the start of the Strategic Modernization Program the T2S NUG will continue to operate, primarily to analyze the impacts of T2S on the Hungarian securities market. Detailed analysis of T2S market impacts can be started in line with and after the selection of the KELER's new CSD system.

In summary, the first phase of the Strategic Modernization Program was started and currently progresses as planned. Our customers will be informed regularly on material events related to the Program. We trust that as a result of the job to be done in the following period and cooperation by our customers the terms of operation of a more modern and competitive Hungarian capital market can be created in line with the prevailing strategy of KELER and European standards.

KELER Group

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