



Annual Report  
2016



# Content

1. Chairman's Message	3
2. Market Environment	4
3. Regulatory Environment	6
4. Business Results of KELER	8
5. Treasury	10
6. Business Activity	11
7. High Priority Projects and Service Developments	16
8. Client Relations	18
9. Information Technology	20
10. Risk Management	21
11. Human Resources	23
12. Internal Audit	24
13. Security Management	25
14. Environmental Protection	26
15. Report by the Supervisory Board of KELER	27
16. KELER Ltd.'s IFRS Consolidated Financial Statement	29
17. Statement of Financial Position	31
18. Statement of Comprehensive Income	32
19. Statement of Changes In Equity	33
20. Statement of Cash Flows	34
21. Organizational Structure of KELER	35
22. Management	36
23. General Information	37
24. Other Statistics	38

# 1. Chairman's Message



KELER Ltd. closed a financially successful year with both services and financial operation providing attractive profits.

In the past year, KELER Ltd. continued the Strategic Modernization Program of decisive importance for the future of the Group and designed to develop services, the organization and IT to assist the KELER Group in becoming an innovative, leading market participant in Europe and the region. The Company successfully prepared for entry into Target2-Securities, the uniform European securities settlement system. By performing the commitments assumed in the international contract, KELER Ltd. connects the Hungarian capital market through T2S to an integrated European securities settlement system that makes international securities settlement more secure and economical.

In order to facilitate compliance with international regulatory reporting obligations to forecast economic crises and manage such events in a timely manner, in 2016, KELER Ltd. continued to develop Trade Reporting services. As a Registered Reporting Mechanism (RRM), the Company offers energy market trade reporting (REMIT) in addition to capital market trade reporting (EMIR) to several Hungarian and international clients. In 2016, KELER launched a project to acquire the licenses to meet reporting and transparency requirements under MiFID II./ MiFIR to complete the range of KELER TR services.

As an integral part of the KELER Group, in 2016, KELER CCP developed steadily and became one of the most dynamically growing central counterparties with EMIR license in Central and Eastern Europe. As a unique feature, KELER CCP provides central clearing for the cash securities markets, the derivative capital markets and the Hungarian natural gas markets, and allows access to key European energy markets.

As a recognition of the continuous, secure and high-quality clearing services offered to Hungarian and international clients, in September 2016, KELER CCP and Bursa Romana de Marfuri (the Romanian Commodity Exchange) concluded an agreement on the provision of central counterparty services to the natural gas market operated by Bursa Romana de Marfuri. This service is expected to be offered in the second half of 2017.

The launch of the new sales and client relationship concept with the objective of creating central, single point of contact client servicing and client contact, and improving service level was a major change in the life of the KELER Group. The KELER Group believes that customized solutions, expert assistance and high-level services are vital to assist clients in reaching their goals, and the increase in the number of clients confirms the success of the efforts made. As a result of new services, market changes and more frequent and successful participation at international conferences, the number of KELER CCP clients increased with 28% to 98, while 76 new clients chose KELER Ltd. owing to the expansion of TR services.

I would like to thank all the KELER Group employees for their hard and constructive work, for ensuring a successful year for the Group and for contributing to the success of Hungarian and international banks, investment firms, issuers and participants of the capital, gas and energy markets.



**Zsolt  
Selmeczi-Kovács dr.**

Chairman

## 2. Market Environment



The year 2016 continued to confront member states with new challenges to retain the integrity of the European Union. Both international politics and the growth of extremist tendencies had an impact on the currency of the European Union. This was highlighted by two events: the EU membership referendum in the United Kingdom and the US presidential election. The UK referendum, or Brexit, became a daily topic in the press. The referendum produced an unexpected result as the British voted to leave the European Union. In November 2016, Donald Trump was elected US president based on an agenda that marks radical break with the past.

In Hungary, the base rate continued its downward trend, and was at 0.90% on 31 December 2016; however, inflation increased compared to the record low inflation rates in 2015, but remained within the targeted band. Towards the end of the year, the increase of the consumer price index could be observed.

The Dow Jones Industrial Average Index (DJIA), the US equity index with a long history gained 13.42% compared to the previous year closing value, and closed 2016 at 19 762.60 points. The major European stock exchange indices also performed well, the DAX in Frankfurt was up 6.87%, while the London FTSE gained 14.43%. Consequently, the DAX closed the year at 11 481.06 points and the FTSE was at 7 142.83 on the last day.

In the FX markets, after the tremendous fall in 2015, the Euro recovered against the Swiss Franc. The rate showed signs of strengthening at the beginning of the year, but became rather volatile during the year. By the end of 2016, the rate was at the closing value of the previous year. On the last trading day, the rate was 1.0756 that is 0.80% lower than the previous year closing value. Against the US Dollar the Euro closed 2015 at 1.0934 and 2016 at 1.0575, representing a Euro weakening of 3.28%.

During the year, our national currency against the Euro was rather volatile. Early 2016 saw the annual peak when on 12 January the rate was 317.97. The Forint strengthened by the beginning of the last quarter, with the rate getting close to, though never crossing during the year, the psychological limit of 300 Forint, it was quoted against the Euro at 304.28 on 7 October. Similarly to the previous period, the rate was weakest in the first month of 2016, with the fourth month instead of the second month seeing some strengthening. On 30 December, the last trading day of the year, the closing rate was 311.02, which is a slight increase of 0.67% over the closing value of the previous year.

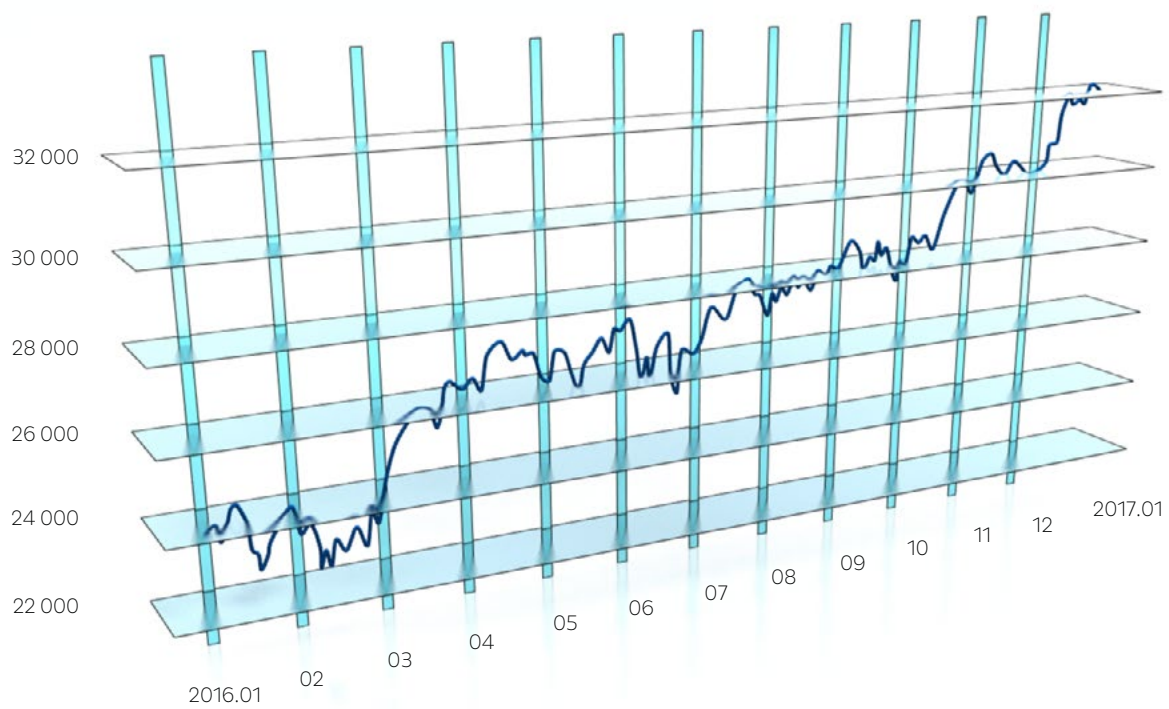
In 2016, not surprisingly to analysts, the Monetary Council of the Magyar Nemzeti Bank (Central Bank of Hungary) continued to keep the base rate low. There were three base rate cuts during the year. The rate cuts were even, 15 basis points each time, similarly to the interest rate policy of the previous year. The Monetary Council decided to leave the rate unchanged in the second half of the year, thus the base rate is 0.90% since the last cut (25 May 2016).

In contrast to last year, the share of foreign investors financing the increasing Hungarian public debt dropped significantly (-9.66%). The volume of government securities denominated in Hungarian Forint grew with 13.42% during one year to reach HUF 19 108 billion. While at the end of 2015 22.58% (HUF 4 315 billion) of outstanding debt was held by foreign investors, by December 2016 this went down to 20.40% (HUF 3 898 billion). As for the maturity structure, the share of securities with remaining maturity less than one year rose from 22.91% to 29.56%, and thus it was again near to 30% in 2016. The share of securities with remaining maturity between 1 and 2 years dropped to 24.08% from 26.46% during the year. The share of securities with longer maturities also followed a downward trend. Securities with remaining maturity between 3 and 5 years represented 23.43% after 25.51% in 2015, while the share of securities with remaining maturity of more than 5 years dropped to 22.93% from 25.13% in the previous year. When Forint and FX debt are considered jointly, proportions similar to the previous period can be observed.



BUX, the stock exchange index of the Budapest Stock Exchange (BSE), closed 2016 at 32 003 points, this is 34% higher than the closing value in 2015. The index increased steadily during the year and moved in a much smaller band than in the previous period. The index value peaked at 32 026 Forint on 28 December. The lowest index value of the year was registered on 11 February at 22 536 points.

#### ■ Changes of the BUX index in 2016



### 3. Regulatory Environment

In 2016, the operation of KELER was affected by the following new regulations and changes to regulations, and these will continue to affect operation after they are published in 2016 or before 2016:

- Regulation (EU) No 575/2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012 (CRR),
- Regulation (EU) No 909/2014 on improving securities settlement in the European Union and on central securities depositories and amending Directives 98/26/EC and 2014/65/EU and Regulation (EU) No 236/2012 (CSDR),
- Act XLIX of 1991 on Bankruptcy Proceedings and Liquidation Proceedings,
- Several amendments to Act CXX of 2001 on the Capital Market,
- Act CXXXVIII of 2007 on Investment Firms and Commodity Dealers and on the Regulations Governing their Activities,
- Act V of 2013 on the Civil Code,
- Act CXXXIX of 2013 on the Magyar Nemzeti Bank (Central Bank of Hungary),
- Act CCXXXVII of 2013 on Credit Institutions and Financial Enterprises,
- Act XVI of 2014 on Collective Investment Forms and their Managers and Amending Certain Finance Related Acts,
- Act LXXXV of 2009 on the Pursuit of the Business of Payment Services,
- Act XIX of 2014 on Announcing the Agreement between the Government of Hungary and the Government of the United States of America to Improve International Tax Compliance and to Implement FATCA and the Amendment of Specific Related Acts,
- Act CXXXVI of 2007 on the Prevention and Combating of Money Laundering and Terrorist Financing,
- Act XXXVII of 2014 on the Further Development of the System of Institutions Strengthening the Security of the Individual Players of the Financial Intermediary System (Resolution Act),
- Government Decree 284/2001 (XII. 26.) on the Mode of Generation and Forwarding of Dematerialized Securities and the Relevant Rules on Safety, as well as on the Opening and the Keeping of the Security Account, the Central Securities Account and the Customer Account,
- Government Decree 67/2014 (III.13.) on Certain Issues related to the Management of the Share Registry of Companies Limited by Shares,
- MNB Decree 58/2015. (XII. 22.) on the Requirement to Report the Master Data of Persons and Entities subject to Supervision by the Financial Intermediary System,
- MNB Decree 20/2014 (VI. 3.) on the ISIN identifier,
- MNB Decree 40/2014 (X. 29.) on the Forms to be Used in Licensing, Approval and Registration Processes by the Magyar Nemzeti Bank (Central Bank of Hungary) and the Forms for Reporting Purposes,
- MNB Decree 49/2015 (XII. 9.) on the Reporting Requirements of the Central Bank Information System for Capital Market Institutions in order to Allow the Magyar Nemzeti Bank (Central Bank of Hungary) to Undertake Supervisory Responsibilities.

During 2016, KELER participated in the preparation, reviewing of several regulations affecting its operation.

## GENERAL MEETING

The Annual General Meeting of KELER was held on 25 May 2016.

The Annual General Meeting Agenda covered the following items among others:

- report by the Board of Directors on the 2015 business activity
- acceptance of the individual financial statements in line with Act C of 2000 on Accounting, decision on the distribution of profit for the period:
  - acceptance of the consolidated financial statements in line with IFRS (based on Act C of 2000):
  - decision to discharge the Board of Directors
  - election of the members of the Supervisory Board
  - amendment of the procedures of the Supervisory Board

## 4. Business Results of KELER

In 2016, the macroeconomic improvement started in 2013 and economic recovery continued, and nowhere is this more apparent than in Hungary's sovereign credit rating that the three major American credit rating agencies upgraded and is no longer in the junk category. Although economic recovery continued, growth slowed down. The stagnation of industrial production and the setback in the performance of the construction sector are the primary reasons for lower growth rates. However, the improved performance of market services and agriculture, and the growth of about 4% of domestic consumption jointly resulted in a GDP increase that is expected to be around 2% per annum. During 2016, consumer prices increased with less than 0.5%, the Hungarian currency definitively left the group of currencies considered to be most vulnerable. Based on the solid foundation created by the stable improvement of macro statistics, the Monetary Council of the MNB reduced the base rate to 0.9% during the year.

The above positive market developments reflected favorably upon the fee income of KELER Ltd., as a result total income expected in the business plan was exceeded with more than HUF 60 million. Similarly to earlier years, account management generated the major part of income in 2016 also.

As far as product groups are concerned, securities services and custody services produced HUF 40 million and HUF 35 million more income than planned, respectively. Income from issuer services, payment services and investment unit settlement was less than planned; the total income realized from these activities is less than HUF 20 million below the planned amount.

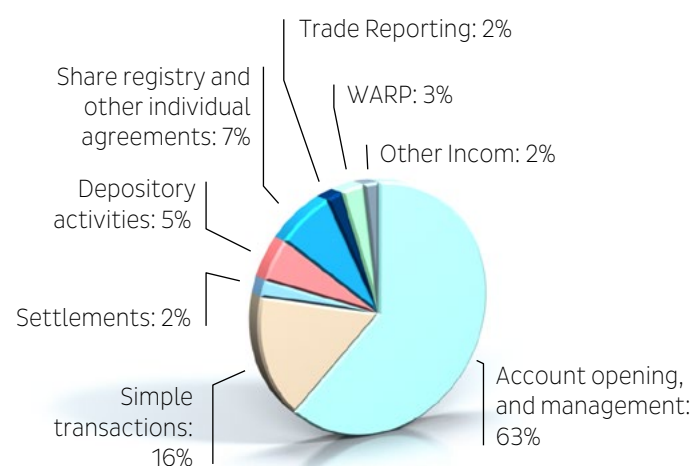
The operating costs and expenses of the depository were slightly less than planned, which is due to strict cost management and lower than planned amortization.

Though profit or loss on services is negative, it is considerably more favorable than the plan for 2016.

Despite the decrease of several tens of billion Forints in the client account portfolio, profit or loss on financial operation exceeded expectations significantly.

All in all, KELER Ltd. closed a successful year in 2016 as both profit or loss on services and profit or loss on financial operation are well above the planned level.

### ■ Structure of income from services / 2016



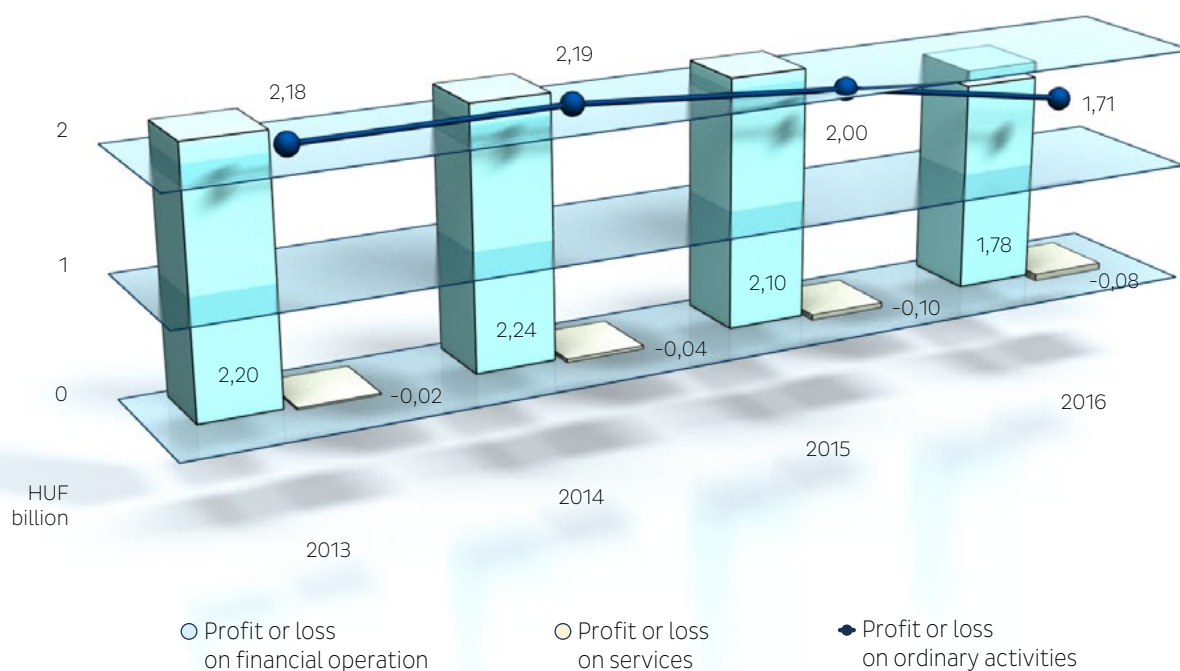


**KELER PROFIT AND LOSS**

(M HUF)

Item description	2015 actual	2016 plan	2016 actual	2016 actual / 2016 plan
<b>Profit and loss on financial operation</b>	<b>2 109,2</b>	<b>1 422,6</b>	<b>1 784,4</b>	<b>125,4%</b>
<b>Comissions and fees received</b>	<b>4 056,3</b>	<b>4 196,7</b>	<b>4 264,0</b>	<b>101,6%</b>
<b>Other income</b>	<b>314,4</b>	<b>304,5</b>	<b>303,0</b>	<b>99,5%</b>
<b>Income from services</b>	<b>4 370,7</b>	<b>4 501,2</b>	<b>4 567,1</b>	<b>101,5%</b>
<b>Commissions and fees paid or payable</b>	<b>175,2</b>	<b>184,2</b>	<b>205,3</b>	<b>111,5%</b>
<b>General administrative expenses</b>	<b>3 196,7</b>	<b>3 365,7</b>	<b>3 444,2</b>	<b>102,3%</b>
<i>a) staff costs</i>	<i>1 780,5</i>	<i>1 887,4</i>	<i>1 904,5</i>	<i>100,9%</i>
<b>Depreciation</b>	<b>579,6</b>	<b>562,5</b>	<b>445,8</b>	<b>79,3%</b>
<b>Total costs of operation</b>	<b>3 951,4</b>	<b>4 112,4</b>	<b>4 095,4</b>	<b>99,6%</b>
<b>Other expenses</b>	<b>519,7</b>	<b>533,6</b>	<b>550,2</b>	<b>103,1%</b>
<b>Costs and expenses of services</b>	<b>4 471,1</b>	<b>4 646,0</b>	<b>4 645,6</b>	<b>100%</b>
<b>Profit or loss on services</b>	<b>-100,4</b>	<b>-144,8</b>	<b>-78,5</b>	<b>54,2%</b>
<b>Profit or loss on ordinary activities (financial and services)</b>	<b>2 008,0</b>	<b>1 277,8</b>	<b>1 705,9</b>	<b>133,5%</b>
<b>PROFIT OR LOSS BEFORE TAX</b>	<b>2 008,8</b>	<b>1 277,8</b>	<b>1 705,9</b>	<b>133,5%</b>
<b>Corporate Tax (10% up to HUF 500 million, 19% above)</b>	<b>347,9</b>	<b>197,8</b>	<b>293,3</b>	<b>148,3%</b>
<b>PROFIT OR LOSS AFTER TAX</b>	<b>1 660,9</b>	<b>1 080,0</b>	<b>1 412,7</b>	<b>130,8%</b>
<b>General reserve (10% of profit after tax)</b>	<b>166,1</b>	<b>108,0</b>	<b>141,3</b>	<b>130,8%</b>
<b>PROFIT OR LOSS FOR THE FINANCIAL YEAR</b>	<b>1 494,8</b>	<b>971,9</b>	<b>1 271,4</b>	<b>130,8%</b>

■ Profit or loss on financial operation, services and ordinary activities / 2013-2016



## 5. Treasury



From the point of view of Treasury operation, 2016 was a successful year in terms of business result. Treasury closed the year with a result of HUF 1 719 million that is 20% above the planned HUF 1 423 million. One of the reasons for the better than planned Treasury performance is the policy of continuous interest rate decrease at a scale higher than expected during the year.

In 2016, the asset portfolio managed by Treasury contracted markedly compared to the previous year, the daily average of the asset portfolio was slightly more than HUF 100 billion. Government securities and MNB deposits represented 94% of the asset portfolio. The government securities portfolio consisted of mainly discount treasury bills in order to maintain continuous liquidity within the year. From the second quarter, there was a remarkable shift in the asset portfolio in favor of government securities due to the termination of the two-week MNB deposit construction and the later reduction in the portfolio of the three-month deposit product. The average portfolio duration was under one year.

KELER met the mandatory reserve requirement all through the year; the average amount of such reserves was slightly above 1.80% of the total asset portfolio.

In addition to trading government securities, KELER was an active player in the government securities lending market in 2016, as well. By the end of the year, total repo turnover exceeded HUF 2 590 billion.

# 6. Business Activity

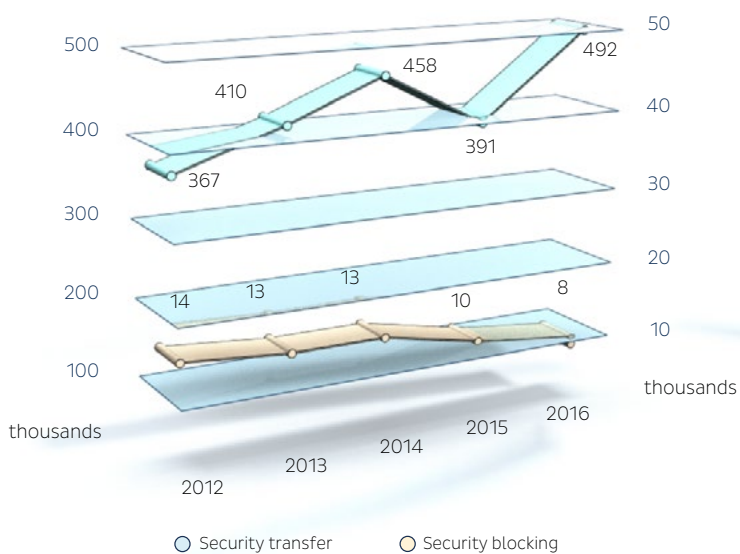
## SECURITIES TRANSACTION SETTLEMENT IN FORINT

In 2016, the turnover of OTC transactions with gross settlement, executed with the involvement of KELER, exceeded the previous year amount with 27% and amounted to HUF 153 237 billion. The growth of 13% in the number of transactions mirrors also the major increase in turnover. The trend of earlier periods continued in 2016: government securities transactions generate more than half (64%) of total turnover and represent 97% of transaction value.

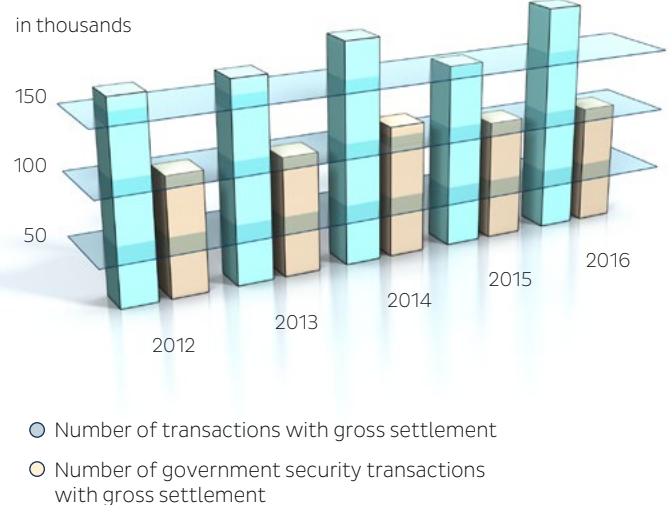
### Turnover of transactions with gross settlement / 2012-2016



### Number of other securities transactions / 2012- 2015



### Number of transactions with gross settlement / 2012-2016

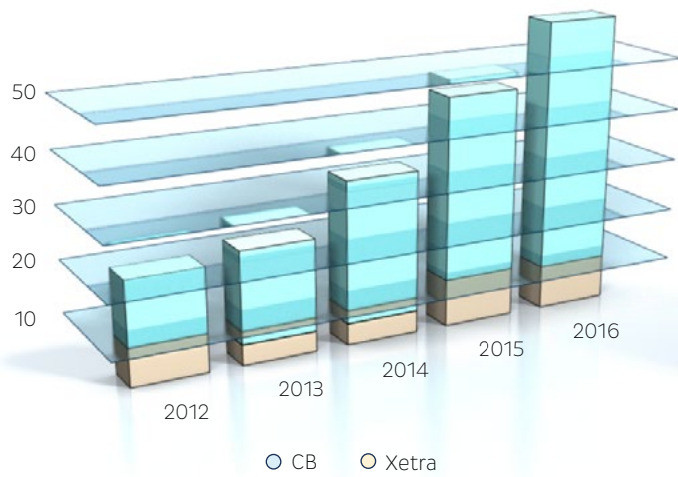




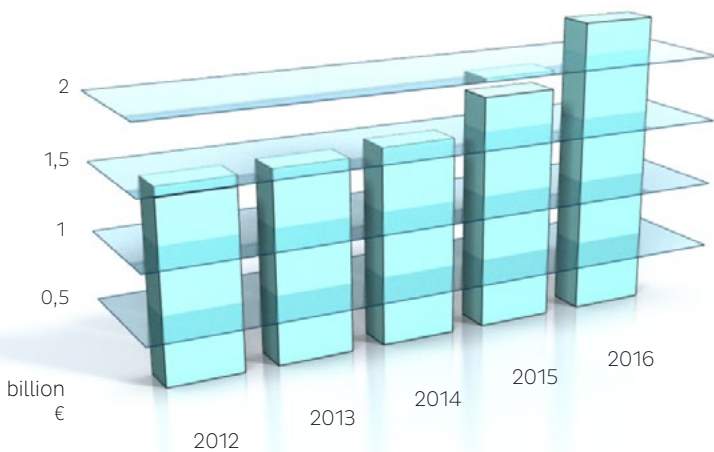
**INTERNATIONAL SETTLEMENTS**

The services provided by KELER related to international securities include the safekeeping of securities, the management of related transactions, the end-to-end management of corporate actions, and the settlement of transactions concluded on Deutsche Börse, a special service created for the Hungarian market. Both the value of the KELER custody portfolio and the number of transactions increased with nearly 30% in 2016, thus the market value of the portfolio exceeded Euro 2 243 million, the number of settled transactions was more than 50 thousand. Similarly to the trend of previous periods, the expansion was generated primarily by the settlement of XETRA transactions made on the Deutsche Börse, the transaction value of which was nearly Euro 400 million.

■ Number of international securities transactions / 2012 - 2016



■ International securities portfolio / billion € / 2012 - 2016

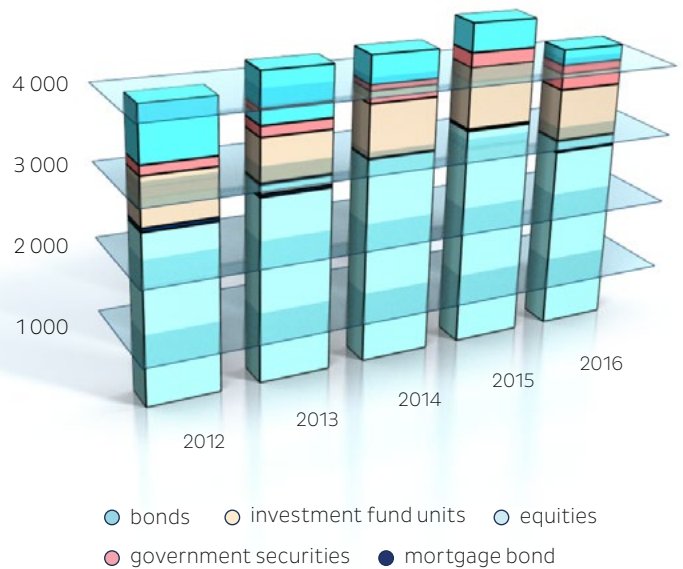


**CENTRAL DEPOSITORY ACTIVITY**

**Dematerialized securities series**

As of 31 December 2016, there were 4 129 active dematerialized securities series registered in the securities accounts kept by KELER, compared to 4 605 active series as of 31 December 2015, which is a decrease of 10% and contrary to the trends of earlier periods. The cancellation by the court of registration of companies limited by share and the resulting cancellation of equities series such as companies issued exacerbated the decrease of equities series; although the increase in the number of new investment units issued somewhat compensated this trend.

■ Number of demat securities series by securities type / 2012-2016

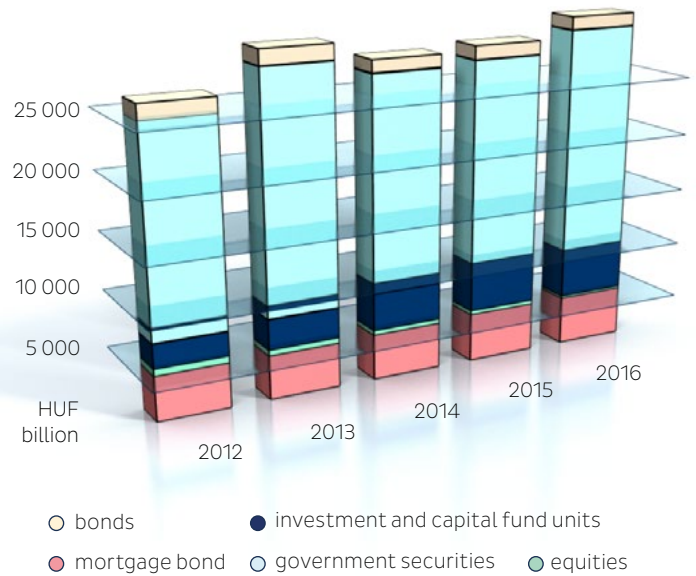




### Dematerialized securities in the central securities accounts

As of 31 December 2016, the securities portfolio of HUF 30 193 billion registered in central securities accounts is again higher than the HUF 28 346 billion value recorded at the end of 2015. Although the number of government securities in the central securities account stagnated, the volume of the portfolio grew with 12% as the result of top-ups of existing securities series.

Demat securities portfolio by securities type / mrd Ft / 2012-2016



### Investment units – WARP

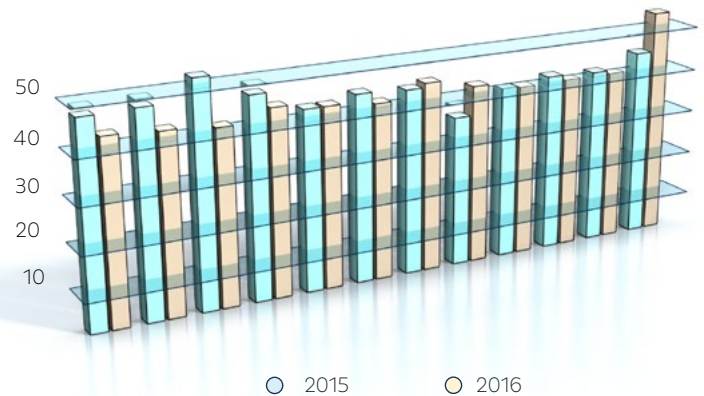
The number and volume of transactions executed in the WARP system are closely linked to the performance and marketability of investment units in the year concerned. The turnover figures in 2016 show a trend similar to the trend of the previous year, the volume of transactions settled in the system did not change significantly. By December 2016, the number of active distributors decreased with one, the number of WARP instructions during the year dropped with 2%.

The number of open-ended investment fund units that can be distributed in the system continued to increase and reached 632 by the end of the year; at the same time the number of end-of-day top-ups and cancellations increased with more than 15%. The increase in the number and activity of distributors confirms the goal set upon the launch of WARP: this platform facilitates and makes transparent the relationships of the participants in the investment fund market.

In the middle of the year, we performed a major IT infrastructure upgrade (server change), as the result of which the performance of the system improved decidedly.

Business developments planned in the WARP system are aligned with the KELER system replacement project; thus, in 2016, the functionalities adjusted to BaNCS and the creation of the new fee calculation structure were the priorities.

Number of WARP instructions / 2015 - 2016



**Issuance of ISIN codes**

Unlike the trend of past years, the number of ISIN requests submitted to KELER increased by 0.93% and amounted to 1 306 requests in 2016 (1 294 requests in 2015).

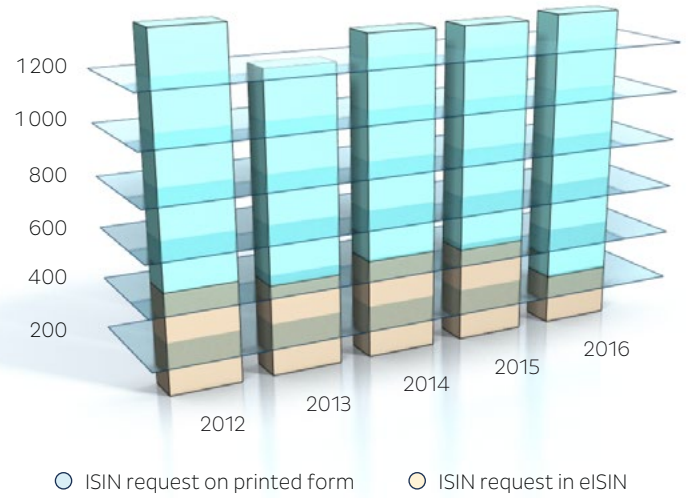
The number of ISIN requests submitted in eISIN exceeded 84%. In connection with the KELER system replacement, the eISIN system was also developed to offer additional opportunities to investment fund managers in the case of partial funds, as the ISIN of the investment unit can be applied for electronically also, thus reducing the existing market gap.

By the end of 2016, KELER allocated ISIN codes to 25 444 securities and 451 969 derivative instruments, and keeps the central securities records for 11 814 active securities.

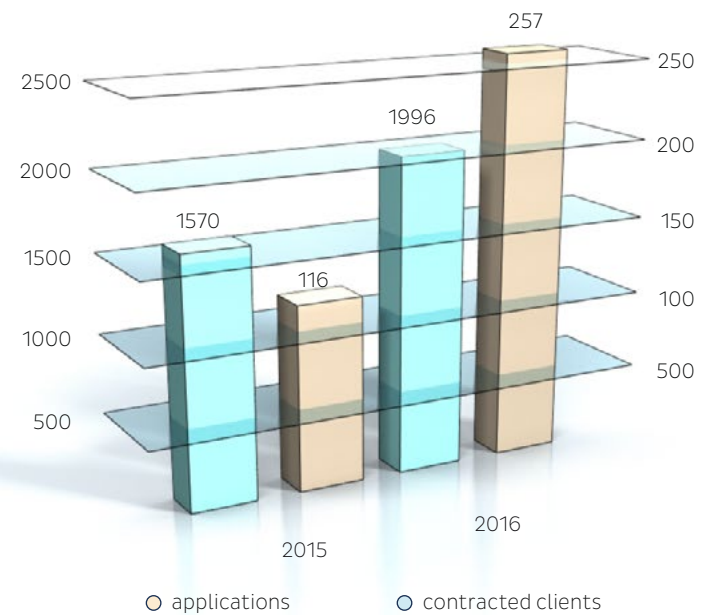
**LEI<sup>1</sup> issuance**

As of February 2014, market participants can apply for Legal Entity Identifier (LEI) through KELER. Similarly to earlier periods, the number of clients using the service continued to grow in 2016. In addition to new applications, there was a pronounced increase in the number of clients that renewed through KELER the codes requested from other code issuers. Owing to this, by the end of 2016, the number of LEIs managed by KELER reached 2000, an increase of nearly 500 compared to the end of 2015.

■ Number of ISIN requests by channel / 2012-2016



■ Number of LEI applications and contracted clients / 2015 - 2016



1] The LEI is a 20-character international reference code to uniquely identify the counterparties (banks, issuers, listed companies, stock exchange traders, investment funds, etc.) of financial transactions worldwide.

## GENERAL DEPOSITORY ACTIVITY

### Custody of physical securities

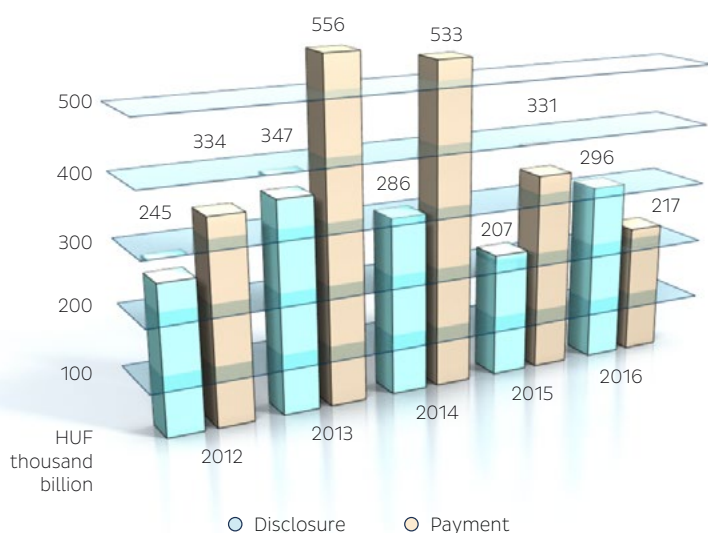
By the end of 2016, the number of physical securities in custody increased by 3%, at nominal value the increase was 9.13% compared to the end of 2015. The volume of securities in fungible custody increased by 0.4%, and the volume of securities in individual custody increased by 10.28% compared to the previous period. As of 31 December 2016, there were 819 043 physical securities in custody with KELER.

### Corporate action management

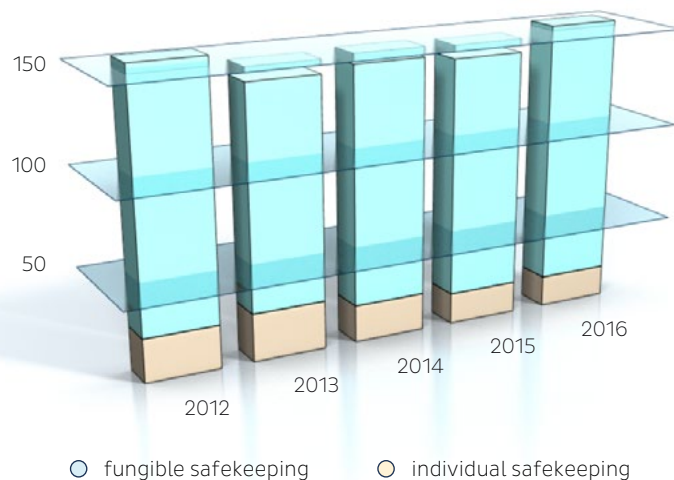
As part of the central securities depository activity, KELER provides corporate action management services, including share registry, preparation and execution of general meetings, preparation of orders related to the disclosure of the personal data of holders, dividend payments and payments.

In 2016, distributors requested the acceptance statement of KELER for 163 international securities series for listing on the Budapest Stock Exchange.

### Corporate actions / 2012 - 2016



### Physical securities in custody / billion HUF / 2011 - 2015



## TRADE REPORTING

In February 2014, KELER launched the Trade Reporting (TR) service that today assists market participants in complying with the reporting requirements of REMIT (Regulation 1227/2011) also, in addition to the reporting requirements stated in EMIR (Regulation 648/2012).

The system developed by KELER not only checks the reports submitted by clients, but also informs clients continuously on the actual status, acceptance or rejection of the reporting with the use of various status codes.

During the past years, the content of reports was continuously modified to some extent, and KELER was able to implement such modifications in time and offered a test environment to clients to test the relevant changes.

In 2016, the number of clients using the KELER TR service grew remarkably, owing mainly to the start of the REMIT trade reporting service.

It is worth highlighting that in addition to Hungarian market participants, there are 60 international clients using this KELER service. In 2016, the total income from this service amounted to HUF 70 million..



## 7. High Priority Projects and Service Developments

### STRATEGIC MODERNIZATION PROGRAM

As part of the Strategic Modernization Program (SMP) started in June 2012, KELER replaces the account management and settlement systems, and reviews and improves services and processes. Based on the evaluation of the first community test in the middle of 2015, KELER made major alterations to the Program that led to the introduction of several changes from June 2015: among others, KELER finalized a set of test cases based on detailed steps and acceptance criteria, which resulted in more efficient cooperation, and project members can monitor on a graphic Dashboard the continuous measurement system that was created.

The alterations increased the transparency of the project to the market and project communication became more open. Several market groups held regular meetings and helped with testing the work of the internal project members of KELER. Consequently, in 2016 the market could test a large part of the KELER services on migrated test data, identical to live data. In 2016, after consultation with market participants, KELER decided on the new services that can be launched at the start of the new system and the services that will be available later, under another software version. The preparation of community tests for go-live is in progress.

As KELER and the market prepare for the change, Clients are informed continuously and in detail on the preparations related to the system change.

With the start of the new system (BaNCS), KELER intends to provide clients a higher level of service, and exploit the opportunities of service development presented by the system.

Contrary to earlier plans, the launch of BaNCS was postponed to 2017.

### JOINING THE TARGET2 SECURITIES (T2S) SYSTEM

The objective of the central infrastructure established and operated by the European Central Bank is to make available at a single platform the securities of the joining central securities depositories. Thus, even complex cross-border transactions with long settlement chains can be settled real time, in high powered money (for the time being in Euro only). This is the most secure form of settlement; furthermore, due to the enormous volume of transactions concentrated in the T2S system, settlement costs are expected to decrease in the long term.

After several years of preparation, the TS system started to operate in June 2015. The European central securities depositories and central banks join T2S in five waves; thus, the transaction volume exceeding EUR 300 thousand billion per year will be channeled gradually into the system. The purpose of creating the T2S platform is to harmonize and standardize European settlement systems in addition to ensuring seamless international settlement across central securities depositories.

Due to the postponed start of the BaNCS system, we had to rethink our T2S entry, which we completed in the last months of 2016, in close cooperation with our clients, the European Central Bank and peer central securities depositories.

After the successful migration started in November 2016, as of 6 February 2017, jointly with the German, Austrian, Slovak, Slovenian and Luxembourgian central securities depositories, KELER is a member of the European securities settlement system. In the past 5 years, KELER and the participants of the Hungarian and the international securities market prepared for T2S entry with intensive, systematic joint work, and joined T2S in the fourth migration wave that was the largest wave in terms of volume.



In addition to increasing the security and efficiency of transaction settlements, the benefits of T2S entry include the improved international availability of Hungarian securities. T2S has medium and long-term market transformation impact, in which KELER intends to play an active role.

T2S entry is a key element of the international and regional strategy of KELER, as the use of the Pan-European platform started 18 months ago is expected to improve the availability of Hungarian securities markets and also make possible the introduction of new settlement services.

### AUTHORIZATION TO ISSUE LEIs

A high priority strategic objective of KELER is to obtain authorization to issue LEIs as opposed to the current intermediary role. KELER has started the necessary accreditation process in 2016 and expects to receive the necessary authorizations in the second half of 2017.

A new system will be developed in order to issue LEIs, and clients will be able to complete the entire process online in this system. The license to issue LEIs is of outstanding importance to KELER, as, on the one hand, the data required to apply for the code will be extended significantly in the future, and, based on various legal requirements, an increasing number of market participants will be required to apply for this code, on the other. KELER calculates that the number of new LEI applications can grow with nearly 10 000 in the following years, and it will be a great help if KELER as code issuer can manage the related processes.

### TRADE REPORTING (TR) – MIFID II./MIFIR<sup>2</sup>

In line with the traditions of past years, KELER intends to assist market participants in meeting the reporting and disclosure requirements stated in the MiFID II./MiFIR regulations. In order to be able to provide a comprehensive solution to clients, KELER started consultations with market participants and assessed the required developments in 2016.

In line with the decision of the Board of Directors, on one hand KELER intends to obtain Approved Registered Mechanism (ARM) license from the local supervisor so that trade reporting to be sent on T+1 day can be submitted to the local supervisor through KELER and as Approved Publication Arrangement (APA), KELER will offer a solution to meet the disclosure requirement applicable to market participants, on the other.

Consultations will continue in 2017 also, and community tests are planned to be started in the third quarter.

2| Directive 2004/39 (MiFID I) on investment services, regulated markets and multilateral trading facilities is in force since November 2007; however, with regard to the changes experienced in financial markets and the rapidly evolving technical innovations, in 2011 the Committee finalized its recommendation to review the directive in the form of a directive (MiFID II) and a regulation (MiFIR). MiFID II/MiFIR jointly create the legal framework that defines the rules applicable to parties performing investment services, regulated markets and reporting parties.

## 8. Client Relations



### CLIENT FORUMS

Similarly to the past years, KELER deems continuous consultation with clients of the utmost importance. In 2016, the most important client forums of KELER focused on crucial developments of the forthcoming period: the launch of the BaNCS system, T2S entry and compliance with CSDR. Client forums performed serious professional work, and participants jointly formed future market practice as part of the consultations.

The start of the BaNCS system requires ongoing communication and contact between KELER and its clients as the start of the new system will bring major changes for clients also. KELER met this requirement primarily through the publicity ensured by the Beta Forum and the Developer Forum. Both forums were created by market participants voluntarily and reviewed arising tasks related to the launch and the project status and provided the opportunity to give opinion and consult on professional issues.

KELER believes that it is vital in the T2S project also that Hungarian market participants receive all important information in a timely manner. Since its establishment in 2011, the Hungarian T2S National User Group (NUG) is the primary forum of information exchange related to T2S, 33 KELER clients joined this forum. In the spring of 2016, the NUG set up to prepare for the introduction of T2S corporate action recommendations identified the obstacles to create the new market practice. In addition to identifying several practical tasks, it was concluded that legal regulations need to be changed. The options to start the new practice were reviewed, and the timing to introduce the new processes was agreed. The working group involves all stakeholders: representatives of banks, investment firms, securities issuers, the Ministry of the National Economy, the National Tax and Custom Administration, the Budapest Stock Exchange and KELER.

KELER created a User Committee related to CSDR compliance that met for the first time on 13 December 2016. The goal of setting up the User Committee is not only compliance with the requirements of CSDR, but also the creation of an independent sounding board that could serve as the primary consultation forum for both market

participants (participants of the securities settlement system and issuers) and KELER. KELER requested industrial associations (Association of Hungarian Investment Fund and Asset Management Companies, Association of Securities Dealers, Hungarian Banking Association), the Budapest Stock Exchange Issue Committee, the Investor Protection Fund, MAVIR representing energy market clients and KELER CCP to create the Committee, and these entities delegate one member each to the Committee.

On 15-16 June 2016, as exhibitor and sponsor KELER attended the Network Management conference in Dubrovnik for the second time. More than 500 participants representing major players of the European custody market participated at the event. KELER attended the conference in order to introduce its regional T2S strategy to the market, potential partners and clients.

### INTERNATIONAL RELATIONS

#### ECSDA

The European Central Securities Depositories Association (ECSDA) is the organization of European CSDs where currently 37 countries are represented by 41 depositories. The goal of ECSDA is to find common solutions and determine common principles in the interest of efficient cross-border securities trading and settlement. Investors in Europe and globally need efficient and secure, low-cost cross-border settlement to exploit new opportunities. KELER has been an important member of ECSDA for years, and in 2016, the Chief Executive Officer of KELER was appointed Vice-Chair of ECSDA for another term of 3 years.

### ANNA

The Association of National Numbering Agencies (ANNA) is a global industry association, with presence in excess of 120 countries, comprising a membership of central banks, central securities depositories, stock exchange, data vendors and regulators. The goal of the organization is to facilitate and standardize the creation and issue of global identifiers to ensure that each security and capital market product has a unique identifier and basic product data can be available. The carefully finalized and maintained internal principles allow members of ANNA to apply general rules of ISIN code creation, modification or cancellation in a uniform manner. Through the ANNA Service Bureau, ANNA is responsible for the operation, maintenance and development of the system to identify international securities.



## 9. Information Technology

In 2016, IT activity at KELER followed the 2014-2016 IT strategy of the KELER Group based on the accepted business strategy that entered into force in the autumn of 2013 and was updated on one occasion in the meantime. The deliberate, planned operation and the high-level availability of information technology supporting business services remained the main goal of IT operation. During the year, the joint availability of KELER systems to clients was 99.96%, which proves the efforts made in this field came to fruition.

In order to ensure the secure operation of the IT infrastructure we started to replace the software components with support ending in the near future. In the interest of more transparent software and license management and due to regular audit requirements, the registration system was replaced. In order to ensure high-level availability, Disaster Recovery was also tested in 2016; thus, in this period only one data center was in use. The system met the expectations.

In 2016, IT development tasks focused on the Strategic Modernization Program (SMP) that aims at replacing the account management system. Accordingly, only minor modifications were completed in the current systems that support existing business services:

- The KELER Data Warehouse system was extended with general ledger data – a further goal is to use it for risk management purposes.
- Compliance with the preparation of financial statements in line with the IFRS was assessed; the requirement applies to KELER as of 1 January 2018. The developments are started in 2017.
- The T2S BCP was created in the current architecture.
- In 2016, IT support was provided to ensure compliance with the CSDR requirements, and preparatory steps related to developments were taken. The company plans to implement the development in 2017.
- The project to create trade reporting (REMIT) was closed; as a result, the group of services offered by the Trade Reporting system expanded: as an RRM that joined ACER, we receive the reports of clients on ACER energy transactions, and, after validation, forward them to the trade repository.
- During the year, the assessment, preparation of KELER becoming a LEI issuer was completed. After the accreditation process published by GLEIF, in December 2016, KELER was granted all licenses to become LEI issuer. Accordingly, developments started, the service is planned to be launched in September 2017.
- The technology upgrade of KELER business systems was performed (TR, eISIN, WARP, RKV, SFTP Center).
- The issues managed by the Service Desk Team were grouped, the management of such issues is governed by regulation, and the SD application (DMZ SD), available to clients also, supported the testing of the account management system replacement. Additionally, the Manage Engine application was extended as a task manager system to cover tasks related to internal audit, reporting and the TR / REMIT contracts, tasks.





## 10. Risk Management

As of 1 August 2013, KELER outsourced risk management responsibilities to KELER CCP. KELER, in the person of the Risk Management and Finance Director, remains responsible for and makes decisions related to risk management; however, daily risk management responsibilities are assumed by KELER CCP in line with a separate procedure.

As the CRR (Capital Requirement Regulation) is directly applicable in Hungary also and the modified Credit Institutions Act is applicable as of 1 January 2014, in 2014, KELER put into effect updated internal regulations to reflect regulatory changes and started to prepare for CSDR based on the known text of CSDR and related technical standards.

In line with the requirements of CSDR, KELER had to license repeatedly the central securities depository and banking ancillary services provided. The terms of licensing include a number of risk management requirements. In the licensing project, in order to comply with the applicable requirements, KELER explored in detail and identified gaps, and finalized an action plan to eliminate such gaps.

In 2016, in line with the guidelines and recommendation of the MNB (Central Bank of Hungary), KELER reviewed and amended the credit institution recovery plan. The plan was submitted to the Supervision. KELER reviews risk exposures as required, but at least annually and presents a detailed report to the Board of Directors on the changes of the risk profile.

### COUNTERPARTY RISKS

In the framework of bank rating, the counterparties of Treasury were rated based on annual audited financials and a proposal was made to the Assets and Liabilities Committee on the risks that can be taken towards the counterparties. There was no substantial change in the group of Treasury counterparties, the type and amount of trades made.

Due to declining HUF yields, KELER was less active in the FX markets in 2016. FX swaps earlier used for HUF funding were not concluded in 2016. In line with the applicable requirements, counterparty risk management, aggregation is completed at client group level where relevant. Risk management tools include repo deals that are favored in addition to depo deals, the counterparty limit system that is based on the above mentioned counterparty rating system and daily limit monitoring by Risk Management. Counterparty risk related country risk limits are also monitored daily.

### MARKET RISKS

The purpose of the MNB self-financing program is to motivate banks to buy government securities and lend instead of depositing funds with the central bank, and maximize the amount banks invest in Forint denominated government securities.

Risk Management performs quarterly yield stress calculations for the asset portfolio, in line with legal requirements. The amount of loss calculated with stress parameters continues to remain below the level stated in the law. The VaR of the government securities portfolio is calculated daily with both stressed and historic volatilities. The market risk of government securities repo transactions is also taken into account when exposure is calculated.

### **OPERATIONAL RISK MANAGEMENT**

The goal of the operational risk management system established by Risk Management is to make sure that KELER is continuously aware of its own risks, monitors and mitigates them as much as possible. Therefore, data on past losses are collected and expert estimates are made; additionally, the potential events that occur rarely, but may result in stress events that can cause great damage are treated separately.

The second pillar (as opposed to the first pillar) is operational risk management at the KELER Group level. The reason for the group level regulation is that although the Basel requirements state that only credit institutions have to manage operational risks, based on the requirements of EMIR KELER CCP is also required to manage operational risks. Due to the high level of operational reliance between KELER and KELER CCP, the two entities apply the same risk management principles on a voluntary basis.

In 2016, the Operational Risk Management Committee held quarterly meetings and discussed the loss events and the actual operational risks. It took measures to mitigate and prevent risks as necessary and as much as possible and monitored the implementation of the measures taken.



## 11. Human Resources

In addition to making sure that KELER provides high-quality services daily, in 2016, the main task of Human Resources was to provide the human resources needed to comply with law and by the project to replace the account management system. Due to increased workload related to the account management system replacement project, headcount rose to 137 employees.

In 2016, providing resources to the account management system replacement project continued to remain a key responsibility of Human Resources. Due to the increased turnover of employees, it is important to hire and integrate promptly professionally skilled colleagues with good English.

At the Strategy and Client Relations Directorate, a department in charge of sales and client relations was established with the reorganization of existing departments and having regard to business processes.

The headcount of Management decreased to 5 in 2016, the Deputy Director Sales and Client Relations position ceased to exist.

KELER places strong emphasis on employee retention.

English language, cooperation, change and stress management workshops helped our colleagues expand their professional knowledge base, and special IT courses were held to support the use of new technology and the operation of our secure IT background.

In 2016, KELER was able to provide the human resources necessary to reach its objectives.





## 12. Internal Audit

In 2016, Internal Audit completed its activities in line with the annual work schedule approved by the Supervisory Board and based on risk assessment and risk analysis, and the prevailing operating procedure on Internal Audit. When the areas to be reviewed were determined, the review of activities, processes with inherent risks and high priority and the operation of controls were considered essential aspects. Internal Audit also reviewed new or updated regulatory documents.

In 2016, there were 10 IT/bank security and 12 not IT related reviews undertaken in KELER. Within the reviews completed, 13 reviews covered specific topics and 1 follow-up and 8 targeted audits were completed.

The specific topic reviews covered the following fields:

- Physical securities depository activities
- Remuneration policy
- WARP services
- Corporate action management
- Client satisfaction survey
- Internal capital adequacy
- Treasury back office
- Data protection
- Physical security
- Client management
- Responsibilities of operators
- Server management
- Service desk

Targeted reviews covered the management of client financial assets and funds, the management of rights, the execution of disaster recovery tests, reporting related to IT incidents and the depositing of source codes.

The follow-up review covered the measures related to the overseer audit completed by the MNB.

Reviews focused on compliance with the provisions of legal regulations, internal rules and instructions, the operation of controls and compliance with security requirements; special attention was paid to checking the implementation of measures and recommendations deemed to be necessary to correct discrepancies identified in earlier audits.

Furthermore, based on the outsourcing agreement, Internal Audit completed 7 reviews at KELER CCP.





## 13. Security Management

In 2016, Security Management continued the consolidation started earlier and implemented a number of measures in order to introduce modern solutions providing improved user experience and improved security:

- In the second half of 2016, all staff members of Security Management were replaced. The reengineering of the methodology of work and the implementation of the new methodology terminated the employee turnover experienced for years.
- In 2016, the BCPs and support IT system DRPs to be followed in the case of interruption of value creating business processes were updated. In 2016, in addition to the usual full-scale disaster recovery site test, all the plans (220 plans) were tested.
- Comprehensive data property inventory was performed at the end of the year.
- As a result of fine-tuning the system to protect sensitive data and prevent data leak (DLP – Data Loss/Leak Prevention) the number of false positive alarms decreased with 90%.
- Security Management tested employee security awareness and approach on various occasions, in the interest of maintaining the appropriate level of awareness trainings were organized to supplement these actions. In 2016, similarly to the previous year, an e-learning system was employed to help increase the efficiency and convenience of security awareness training.
- In 2016, with the review of the rules of the central log analyzer system (SIEM) and with a development performed by Security Management, behavior-based monitoring and alarm generation were set.
- In early 2016, the outdated equipment of the online content filter system was replaced.
- CyberArk, a password safe system managing key user accounts was modernized greatly. We tested the automation of the password management of several accounts.
- The system managing mobile devices (MDM – Mobile Device Management) was selected in early 2016 and was launched in the third quarter.
- In order to comply with the requirement of risk proportionate protection and external requirements, IT security controls were reviewed. Additionally, IT system vulnerability was checked quarterly.
- In 2016, the independent penetration test of business applications with external interfaces was performed.
- Related to the SMP project, and with due regard to security aspects, first round configuration analysis, compliance assessment and application level penetration testing were performed. Detected shortcomings were submitted to developers as error tickets.
- The large scale security review completed at the end of the year led to major operational security modernization in the vault of KELER.
- KELER and KELER CCP are designated National Vital System Components. The related surveys and documents were completed in the third quarter of 2016.
- The complete rethinking of the methodology of work led to reduced costs of operations in the first half of the year, while higher quality was ensured.



## 14. Environmental Protection

The goal of KELER Group's Green Office Program is to integrate environmentally conscious thinking into the corporate culture in the longer term, to reduce energy and paper use drastically at the corporate level, and to create the system of selective waste collection. The Group is committed to responsible thinking and the creation of a healthy working place is of key importance.

As of April 2014, the KELER Group operates in the R70 Office Complex in Budapest (7th district, Rákóczi út 70-72.). When selecting the new premises, the priorities considered included the need to create an attractive place of work for staff that they can truly enjoy, while environmentally conscious tools and solutions are used, and that the already well-functioning Green Office Program can be continued.

In 2016, KELER continued to take measures in line with the principles of the protection of the environment. Energy efficiency has been vital: in the wake of the energy efficiency audit, new plans were finalized to promote energy efficient operation. Accordingly, for example a modern, highly energy efficient UPS equipment was installed at the KELER DRP site, which reduced electricity use with nearly 40%. Furthermore, the continuous monitoring of the central printing system and the analysis of data ensure reduced paper use.





# 15. Report by the Supervisory Board of KELER

## **Report by the Supervisory Board of KELER Ltd. on the financial statements in line with Act C of 2000 on Accounting.**

In 2016, the Supervisory Board met 6 times and on one occasion passed decision out of session.

In line with earlier practice, risk assessment and risk analysis were completed prior to finalizing the Internal Audit work schedule for 2016; this ensures that the reviews of Internal Audit focus on the activities and the processes with the highest inherent risks.

The Supervisory Board approved the Internal Audit work schedule and at its meetings during the year it was informed continuously on the implementation of the work schedule.

The Supervisory Board reviewed quarterly reports on the activity of the Board of Directors of KELER Ltd. and was informed on the agenda items discussed at the Board of Directors meetings.

In 2016, in order to ensure compliance by KELER Ltd. with legal, regulatory requirements and internal regulations, Internal Audit reviewed:

1. internal capital adequacy,
2. the implementation of the client satisfaction survey action plan,
3. the follow-up of measures stated in the PFMI overseer assessment (KELER),
4. securities inventory taking, depository activity,
5. WARP services,
6. the Remuneration Policy,
7. ancillary activities related to corporate actions,
8. quarterly the management of client financial instruments and funds,
9. back office processes related to Treasury deals.

In the fields of IT and security, Internal Audit completed reviews related to:

1. IT reporting,
2. the annual validation of DRP tests,
3. rights management processes,
4. license management, depositing of source codes,
5. Service Desk processes,
6. client management,
7. server management,
8. data protection /DLP
9. the implementation of daily operator processing tasks,
10. the security and operation of premises, server rooms.

The Supervisory Board discussed and approved the reports made. Internal Audit reports and related actions plans included the shortcomings identified in the reviews and the recommended tasks to eliminate them, the responsible persons and the deadline to complete the relevant task.

Based on the Internal Audit reports, the Supervisory Board of KELER Ltd. monitored continuously the implementation of the measures recommended in the reports.

The Supervisory Board regularly discussed periodic reports on the business and management of KELER Ltd.

In order to monitor the risks influencing the business of KELER Ltd. on an ongoing basis, the Supervisory Board was briefed on information provided by Internal Audit quarterly to measure operational risks, and received the minutes of the Operational Risk Committee meetings.

The Supervisory Board was informed on the activity of the Compliance Officer in 2015 and the work schedule of the Compliance Officer for 2016. The Supervisory Board approved the report of the statutory auditor on the Remuneration Policy, and approved the amendment of the Regulation on the operation of the Internal Audit system of KELER Ltd.

Based on the Internal Audit reports and other documents discussed, the Supervisory Board establishes that throughout the operation of KELER Ltd. processes are regulated, management is in order and the Board of Directors and the management of the Company make continuous efforts to maintain secure operation at a high level.

In the course of creating the procedures and defining the directions of development, the Company strived to facilitate the spreading of up-to-date methods in all areas of the money, the capital and the energy markets. The Supervisory Board is convinced that similarly to earlier periods KELER Ltd. has all the personal and material conditions to meet the challenges of the forthcoming years.

The capital structure of KELER Ltd. continues to provide great security to the players of the money, the capital and the energy market that use the services of the Company. Furthermore, we are convinced that the infrastructure necessary to provide high quality services is available to KELER Ltd.

The Supervisory Board established that the management of the Company exercised due care with respect to the financial sources entrusted to it; however, the Supervisory Board notes that KELER Ltd. faces significant, unplanned costs related to the delay of the BaNCS project.

The Supervisory Board reviewed the annual financial statements of the Company prepared in line with the Hungarian accounting standards, and the report of the auditor. Based on these documents, the Supervisory Board proposes the General Meeting to accept the annual financial statements of KELER Ltd. for 2016 with total assets/total liabilities HUF 107 766 million and HUF 1 272 million profit for the financial year.

Budapest, 6 April 2017

*Lajos Bartha*  
Supervisory Board Chair



# 16. KELER Ltd.'s IFRS Consolidated Financial Statement



KPMG Hungária Kft.  
Váci út 31.  
H-1134 Budapest  
Hungary

Tel: +36 (1) 887 71 00  
Fax: +36 (1) 887 71 01  
E-mail: info@kpmg.hu  
Internet: kpmg.hu

## Independent Auditor's Report on the Financial Statements

To the shareholders of KELER Ltd.

### *Opinion*

The summary financial statements presented on pages 31 to 34 of the 2016 Annual Report, which comprise the consolidated statement of financial position as at 31 December 2016, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended (hereinafter referred to as "the summary financial statements"), are derived from the audited consolidated financial statements of KELER Ltd. (hereinafter referred to as "the Company") as at and for the year ended 31 December 2016 prepared and presented in accordance with IFRS as adopted by the EU (hereinafter referred to as "the financial statements").

In our opinion, the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated changes in equity and consolidated statement of cash flows presented on pages 31 to 34 of the accompanying 2016 Annual Report of the Company are consistent, in all material respects, with the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated changes in equity and consolidated statement of cash flows included in the audited consolidated financial statements of the Company as at and for the year ended 31 December 2016 which they were derived from.

### *Summary Financial Statements*

The summary financial statements do not contain all the disclosures required by IFRS as adopted by the EU. Reading the summary financial statements and the auditor's report thereon, therefore, is not a substitute for reading the audited financial statements and the auditor's report thereon. The summary financial statements and the audited consolidated financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the audited consolidated financial statements.

### *The Audited Consolidated Financial Statements and Our Report Thereon*

We expressed an unmodified audit opinion on the audited consolidated financial statements in our report dated 19 April 2017.

*Management's Responsibility for the Summary Financial Statements*

The management of the Company is responsible for ensuring that the summary financial statements included in the Annual Report agree with the consolidated statement of financial position, consolidated statement of comprehensive income, consolidated changes in equity and consolidated statement of cash flows of the audited consolidated financial statement.

*Auditor's Responsibility*

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited consolidated financial statements based on our procedures, which were conducted in accordance with International Standard on Auditing (ISA) 810, "Engagements to Report on Summary Financial Statements."

Budapest, 14 June 2017

KPMG Hungária Kft.  
Registration number: 000202



Gábor Agócs  
Partner

# 17. Statement of Financial Position

## Consolidated Statement of Financial Position for the year ended 31 December 2016

(All amounts in MHUF, unless stated otherwise )

	31.12.2016	31.12.2015
Cash and cash equivalents	31 901	69 181
Placements with other banks	21 232	22 077
Available for sale financial assets	53 119	74 385
Income tax receivable	115	85
Deferred tax assets	2	2
Trade receivables relating to gas market	3 482	4 917
Receivables relating to clearing and depository activities	510	494
Receivables from foreign clearing houses	7 926	6 078
Other receivables	383	188
Intangible assets	3 451	2 435
Property, plant and equipment	411	490
<b>TOTAL ASSETS</b>	<b>122 532</b>	<b>180 332</b>
Deposits from customers	80 655	140 275
Liabilities for Guarantee Funds	5 425	4 374
Income tax payable	0	2
Deferred tax liability	223	379
Trade payable from gas market activity	3 500	4 873
Trade payables	362	230
Other payables	571	428
<b>TOTAL LIABILITIES</b>	<b>90 736</b>	<b>150 561</b>
Share capital	4 500	4 500
Retained earnings	24 292	22 769
Statutory reserves	2 596	2 455
Available for sale financial asset revaluation reserve	408	40
Equity holders of the Parent Company	31 796	29 764
Non-controlling interest	0	7
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>31 796</b>	<b>29 771</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>122 532</b>	<b>180 332</b>



# 18. Statement of Comprehensive Income

## Consolidated Statement of Comprehensive Income for the year ended 31 December 2016

(All amounts in MHUF, unless stated otherwise)

	01.01.2016 – 31.12.2016	01.01.2015 – 31.12.2015
<b>Income from clearing and depository activity</b>	<b>5 389</b>	<b>5 061</b>
Interest incomes	1 814	3 693
Interest expenses	-436	-1 907
<b>Net interest income</b>	<b>1 378</b>	<b>1 786</b>
<b>Gains on securities, net</b>	<b>107</b>	<b>-364</b>
<b>Income from the principal activity</b>	<b>6 874</b>	<b>6 483</b>
Bank fees, commissions and similar items	-211	-176
Personnel expenses	-2 210	-2 038
Depreciation and amortization	-563	-661
IT support	-819	-750
Expert fees	-74	-89
Telecommunication fees	-76	-73
Other expenses	-1 016	-1 067
<b>Operating expenses</b>	<b>-4 969</b>	<b>-4 854</b>
Other income and expenses	<b>44</b>	<b>71</b>
<b>OPERATING INCOME</b>	<b>1 949</b>	<b>1 700</b>
Other financial income and expenses	-21	-1
<b>Financial income</b>	<b>-21</b>	<b>-1</b>
<b>PROFIT BEFORE INCOME TAX</b>	<b>1 928</b>	<b>1 699</b>
Income tax	-271	-383
<b>NET PROFIT FOR PERIOD</b>	<b>1 657</b>	<b>1 316</b>
Other comprehensive income:		
Remeasurement gains/losses of available for sale financial instruments	400	48
Translation difference on foreign operation	0	0
Income tax of other comprehensive income	-32	-8
<b>Other comprehensive income for the period</b>	<b>368</b>	<b>40</b>
<b>Of which later to be reclassified to net income</b>	<b>368</b>	<b>40</b>
<b>Of which later not to be reclassified to net income</b>	<b>0</b>	<b>0</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>2 025</b>	<b>1 356</b>



## 19. Statement of Changes In Equity

### Consolidated Statement of Changes in Equity for the year ended 31 December 2016

(All amounts in MHUF, unless stated otherwise)

	Share Capital	Available for sale financial asset revaluation reserve	Retained Earnings	Tide-up reserve	Equity holders of the Parent Company	Non-controlling interest	Total
<b>Balance as of 1 January 2015</b>	<b>4 500</b>	<b>0</b>	<b>23 908</b>	<b>0</b>	<b>28 408</b>	<b>7</b>	<b>28 415</b>
Total comprehensive income for the year	0	40	1 316	0	1 356	0	1 356
<b>Balance as of 31 December 2015</b>	<b>4 500</b>	<b>40</b>	<b>25 224</b>	<b>0</b>	<b>29 764</b>	<b>7</b>	<b>29 771</b>
<b>Balance as of 1 January 2016</b>	<b>4 500</b>	<b>40</b>	<b>25 224</b>	<b>0</b>	<b>29 764</b>	<b>7</b>	<b>29 771</b>
Acquisition of non controlling interest	0	0	7	0	0	-7	0
Total comprehensive income for the year	0	368	1 657	0	2 025	0	2 025
<b>Balance as of 31 December 2016</b>	<b>4 500</b>	<b>408</b>	<b>26 888</b>	<b>0</b>	<b>31 796</b>	<b>0</b>	<b>31 796</b>

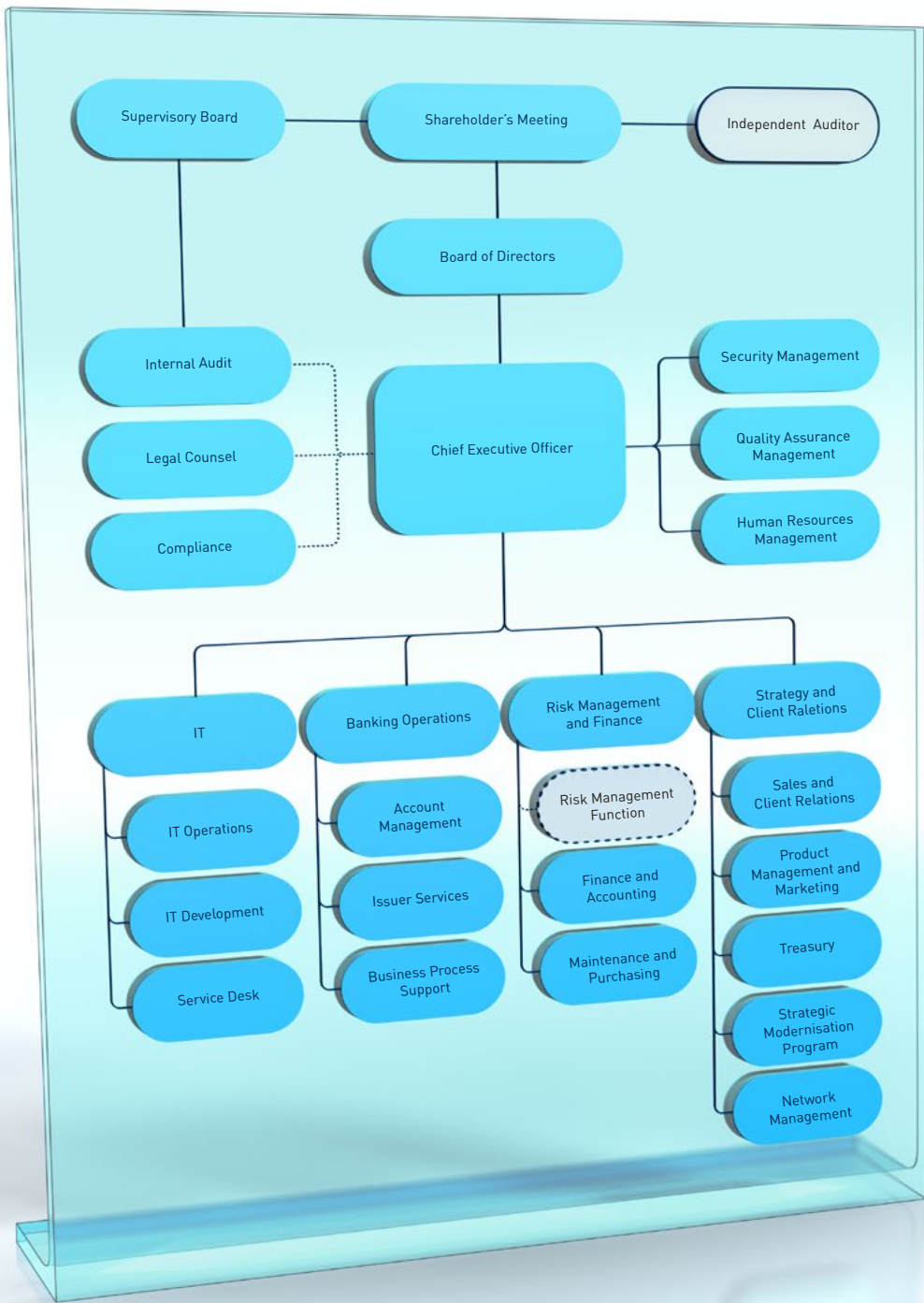
## 20. Statement of Cash Flows

### Statement of Cash Flows for the year ended 31 December 2016

(All amounts in MHUF, unless stated otherwise)

	01.01.2016–31.12.2016	01.01.2015–31.12.2015
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>Profit before taxes</b>	<b>1 928</b>	<b>1 699</b>
<b>Interest expense</b>	<b>436</b>	<b>1 907</b>
	2 364	3 606
<b>Non cash items - adjustments</b>		
Interest income	(1 814)	(3 693)
Depreciation and amortization charged	563	661
Adjustment due to incentive on lease	9	6
Expenses from disposal of property plant and equipment and intangible assets	4	156
Gain on disposing property plant and equipment	(3)	-
Remeasurement of FVTPL financial assets	-	1 725
Changes in the guarantee fund liability	1 050	(1 782)
<b>Operating cash-flow before working capital adjustments</b>	<b>2 173</b>	<b>679</b>
Proceeds/(cash used) in gas market transactions, net	62	(48)
Changes of the deposits of clients, net (loro accounts)	(59 619)	(44 268)
Proceeds/(cash payments) from/to other clearing houses	(1 848)	1 289
Decrease/(increase) in trade and other receivables	(208)	149
Increase/(decrease) in trade and other payables	314	150
Cash proceeds/cash paid from financial instruments	21 666	(47 333)
Net (increase) / decrease in placements with other banks, net of allowance for losses	845	1 833
	(36 614)	(87 549)
Interest paid	(485)	(2 073)
Taxes paid (-/+)	(494)	(497)
<b>Cash generated/(used) in operation</b>	<b>(37 593)</b>	<b>(90 119)</b>
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(83)	(173)
Acquisition of intangible asset	(1 423)	(1 089)
Cash proceeds from disposal of property plant and equipment	9	-
Cash proceeds from/cash spent on financial asset held for investing purposes	-	54
Proceeds from interest	1 811	3 704
<b>Cash generated/(used) from investing activity</b>	<b>314</b>	<b>2 496</b>

# 21. Organizational Structure of KELER





## 22. Management



Ms Margit Brauner

Director  
*Operations*



Mr Károly Mátrai

Director  
*Risk Management and Finance*



Mr András Katkó

Director  
*IT*



Mr Sándor Szalai

Director  
*Strategy and Client Relations*



Mr György Dudás

Chief Executive Officer



## 23. General Information

Effective between January 1, 2016 and December 31, 2015

### Ownership structure

Shareholders	Financial contribution	Ownership ratio
National Bank of Hungary (NBH)	HUF 2 400 000 000	53,33%
Budapest Stock Exchange (BSE)	HUF 2 100 000 000	46,67%
Total	HUF 4 500 000 000	100,00%

### Board of Directors

**Chairman:**

Zsolt Selmeczi-Kovács dr.

**Members of the Board of Directors:**

Csaba Kornél Balogh  
Márton Nagy  
Richárd Végh  
Tamás Madlena  
Margit Brauner  
György Dudás

### Supervisory Board

**Chairman:**

Lajos Bartha

**Members of the Supervisory Board:**

Klára Pintér  
Lóránt Varga  
Miklós Kardos  
Márton Michaletzky

### Contact

**Address:**

Rákóczi út 70-72., 1074, Budapest, Hungary

**Mailing address:**

H-1426 Budapest, POB 57

Phone: (+36-1) 483-6100

Fax: (+36-1) 342-3539

Home page: [www.keler.hu](http://www.keler.hu)

E-mail: [keler@keler.hu](mailto:keler@keler.hu)

### Central Client Service

Monday to Friday  
from 9.00 until 15.00

Phone: (+36-1) 483-6240

(+36-30) 481 4331

E-mail: [ugyfelszolgalat@keler.hu](mailto:ugyfelszolgalat@keler.hu)

### Service Desk

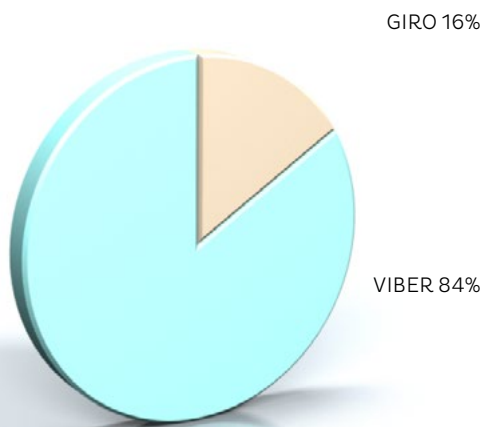
Available from 7.00 until 20.00

Phone: (+36-1) 483-6228

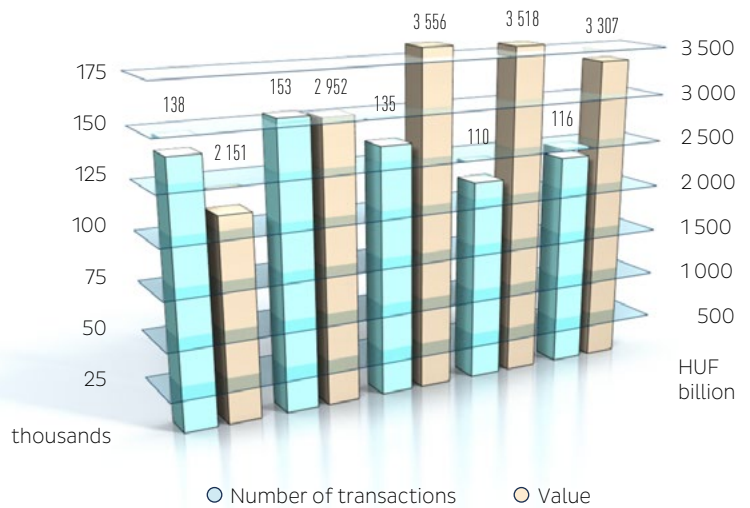
+36-1) 483-6120

# 24. Other Statistics

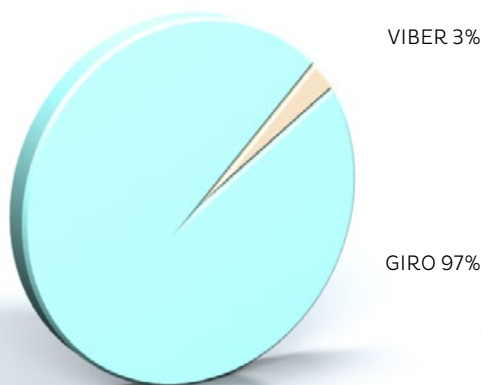
■ GIRO - VIBER payments / 2016



■ Outgoing and incoming payments from/to client cash accounts with KELER / 2012 - 2016



■ Number of transactions / 2016



■ In-house debits and credits on client cash accounts with KELER / 2012 - 2016

