

# 2017

## ANNUAL REPORT



**keler**



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KELER

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## CHAIRMAN'S MESSAGE

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ZSOLT SELMECZI-KOVÁCS DR.

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2017 was an eventful year from a political and economic environment perspective and it brought both domestic and international regulatory changes with substantial influence on the financial infrastructure. All in all, the positive economic trends had a favourable effect on the operation and fee income of the KELER Group.

Related to the strategic development objectives of the following years, it is also of great importance that the successful joining of the TARGET-2-Securities (T2S) system, as of 6 February 2017, Keller is now a member of the European settlement security system. The entry into T2S makes securities transaction settlement more secure and efficient, and also improves international access to Hungarian securities.

Changes in the regulatory environment presented challenges to all depositories in the European Union. In line with the requirements of the CSDR (Central Securities Depositories Regulation), KELER started the required repeated authorization process in 2017 related to the provision of central securities depository and banking-type ancillary services.

It deserves highlighting that KELER as a service provider offers considerable assistance to market players in both the capital and the energy markets to meet the various regulatory, transaction and transparency reporting requirements with the extension of the Trade Reporting services offered by KELER. These developments and the continuation of the Strategic Modernization Program, the improvement of account management and settlement systems contribute to the creation of the expanding service offering of the modern national central securities depository and the implementation of its vision.

Similarly to earlier periods, KELER CCP was active in building client relationships and acquiring new clients, both clearing members and non-clearing members. Parallel with its regional and Pan-European clearing service provider role, KELER CCP is an active participant and supporter of the development of the Hungarian capital and energy markets, the introduction of new services.

The complex risk management and clearing activity performed by KELER CCP related to the Xtend trading venue designed to promote the listing of small and medium enterprises and created by the Budapest Stock Exchange in September 2017, and the successful switch in the spot and futures markets of CEEGEX, the Hungarian gas exchange, from HUF-based trading to Euro-based trading and related Euro-based clearing and financial settlement provided by KELER CCP illustrate the role KELER CCP plays in the market.

In 2017, KELER CCP finalized the required developments and closed the authorization process related to the transparent and secure clearing of HUDEX Hungarian Derivative Energy Exchange, the new Hungarian exchange launched on 3 January 2018.

As we close 2017, we look ahead with pleasure to 2018 when we celebrate the 25th anniversary of KELER and the 10th anniversary of KELER CCP.

We can say with confidence that we close a memorable year: the changes of operation implemented in 2017 were made in the interest of one common goal, to improve the competitiveness of the KELER Group. The challenges ahead of the Group can be met only by joining our forces, and the expertise and commitment of our colleagues and the trust of our owners represent our greatest strengths.

I would like to say thank you to the owners for their continued support and to all the KELER Group employees for their persistent and constructive work that contributed to the successes of 2017. Our partners played a key role in the results achieved last year, therefore, on behalf of the KELER Group, I say thank you to the Hungarian banks, investment firms, issuers and capital, gas and energy market participants for their support.



ZSOLT SELMECZI-KOVÁCS DR.  
Chairman

## MARKET ENVIRONMENT

The year 2017 was a most eventful period globally, with numerous factors influencing the money, capital and energy markets, and thus market sentiment. There were several major changes in international politics: in January 2017, Donald Trump was inaugurated President of the United States, and in March, the process to end the EU membership of Great Britain started, and then Emmanuel Macron won the French presidential election in May. In June, a snap general election was held in Great Britain and Theresa May formed a minority government. The German federal elections in September 2017 were followed by the Spanish referendum on the independence of Catalonia in October, and in December, the President resigned and a new prime minister was appointed in Poland.

In this political environment, the Dow Jones Industrial Average Index (DJIA), the US equity index with a long history, gained 25.08% compared to the previous year closing value, and closed the year at 24 719.22 points. The major European stock exchange indices also performed well, the DAX in Frankfurt was up 12.51%, while the London FTSE gained 7.63%. Consequently, the DAX closed the year at 12 917.64 points, while the FTSE was at 7 687.8 points on the last day.

In the FX markets, the Euro weakened continuously against the US Dollar during the year; the EUR/USD exchange rate was 1.0527 at the beginning of the year and strengthened to 1.1942 by the end of the year. The EUR/CHF exchange rate moved in a thin band in the first half of the year, but the Swiss Franc showed signs of strengthening against the

EUR in the second half, and closed the year 8.56% higher than in the previous year. The EUR/GBP rate was 0.8885 on the last trading day, an increase of 3.24% compared to the previous period.

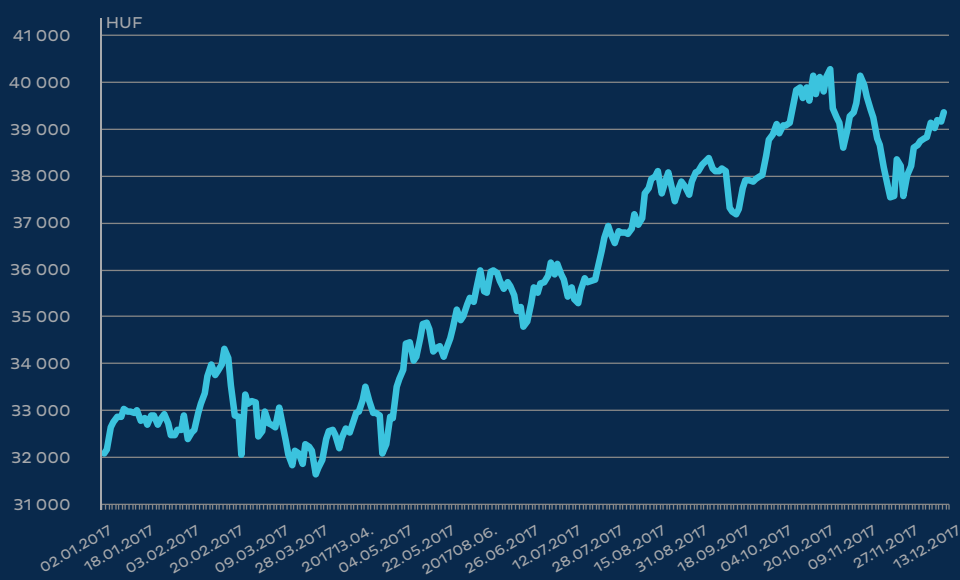
During the year, our national currency against the Euro was rather volatile, with rates moving in the band between 302 and 314 Forints.

In Hungary, the base rate did not change during 2017, and closed the year at 0.90%. The basic inflation indicators increased slightly but gradually. The consumer price index was 1.8% in December 2016; the end of 2017 saw a consumer price index of 2.1%.

At the end of 2017, Hungarian public debt amounted to HUF 26 746.2 billion, an increase of 5.18% compared to the figure at the end of 2016. As for the currency structure of the public debt, 77.35% was Forint-based, 21.62% was foreign currency based and other liabilities represented 1.03%.

BUX, the stock market index of the Budapest Stock Exchange (BSE), closed 2017 at 39 377 points, 23% higher than the closing value of the previous period. The index value increased steadily during the year and moved between price levels of 30 and 40 thousand points. The index value peaked at 40 273 Forint on 11 September. The lowest index value of the year was recorded at the end of the first quarter, on 31 March, at 31 634 points.

### CHANGES OF THE BUX INDEX IN 2017



## REGULATORY ENVIRONMENT

In 2017, 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 2017 or before 2017:

- 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 LIII of 2017 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 40/2016 (III.1.) 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 50/2016 (XII. 12.) 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,
- MNB Decree 35/2017. (XII. 14.) on the Execution of Payment Service.

During 2017, KELER participated in the preparation, reviewing of several regulations affecting its operation.

## GENERAL MEETING

The Annual General Meeting of KELER was held on 17 May 2017.

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

- report by the KELER Ltd. Board of Directors on the 2016 business activity
- acceptance of the financial statements of KELER Ltd. 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 of KELER Ltd.
- decision to discharge the Board of Directors
- amendment of the Bylaws
- amendment of the procedures of the Supervisory Board
- election of the statutory auditor of KELER Ltd.
- Amendment of the Regulation on the Remuneration of Executive Officers, Supervisory Board Members and Employees in Management Positions subject to Section 208 of the Labour Code and Benefits in case of Termination of Legal Relationship

Extraordinary General Meetings were held on 1 September 2017 and 8 November 2017.

**Agenda items of the Extraordinary General Meeting on 1 September 2017 included among others:**

- Proposal on the ownership policy under CSDR on the election, appointment and removal of the Board of Directors, the Supervisory Board and the senior management
- Dismissal of Board of Directors member (acknowledgement of resignation) and election of new Board of Directors member

**Agenda items of the Extraordinary General Meeting on 8 November 2017 included among others:**

- Acknowledgement of Board of Directors member resignation, and election of new Board of Directors member
- Acknowledgement of Supervisory Board member resignation, and election of new Supervisory Board member





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## BUSINESS RESULTS OF KELER

Global economic recovery, fuelled by the European Union, continued in 2017. The region of Central and Eastern Europe within the European Union, and within this region Hungary, closed a good year.

The rate of increase of the Hungarian economy was around 3.9% in 2017, one of the strongest rates of increase in the last decade. The favourable macroeconomic figure is primarily due to the increased use of EU subsidies and recovering internal consumption resulting from the nearly 10% increase of wages. Inflation also followed an upward path, and the rate of inflation was around 2.3%.

These positive market trends had a favourable influence on the fee income realized by KELER Ltd. in 2017, resulting in income from services exceeding the plan by HUF 38 million. Similarly to earlier periods, income from account management represents a decisive part of total income. Income from product groups such as securities settlement services, trade reporting and issuer services generated significantly higher income than in the previous year. Income from securities settlement services in 2017 was HUF 250 million more than in 2016, and income realized in 2017 from the other two services are HUF 12 and HUF 14 million higher respectively than in 2016. Only custody and payment services generated less income than in 2016 (HUF 10 million less compared to the previous year).

The costs and expenses of operation exceed the planned figure by HUF 3 758 million. After the decision of the Board of Directors on 11 April 2018, the result from services of KELER amounting to HUF -108.3 million is significantly lower than in earlier periods due to the depreciation over plan of HUF 2 914 million related to the development of a software and related systems and the provisions created for future commitments due to unclosed contracts amounting to HUF 786 million.

Financial result in 2017 is HUF 103 million less than planned due to the decrease of several tens of billions Forint in client account portfolio and the environment of decreasing yields characteristic of the business year.

Net result for the year is HUF -219.3 million.

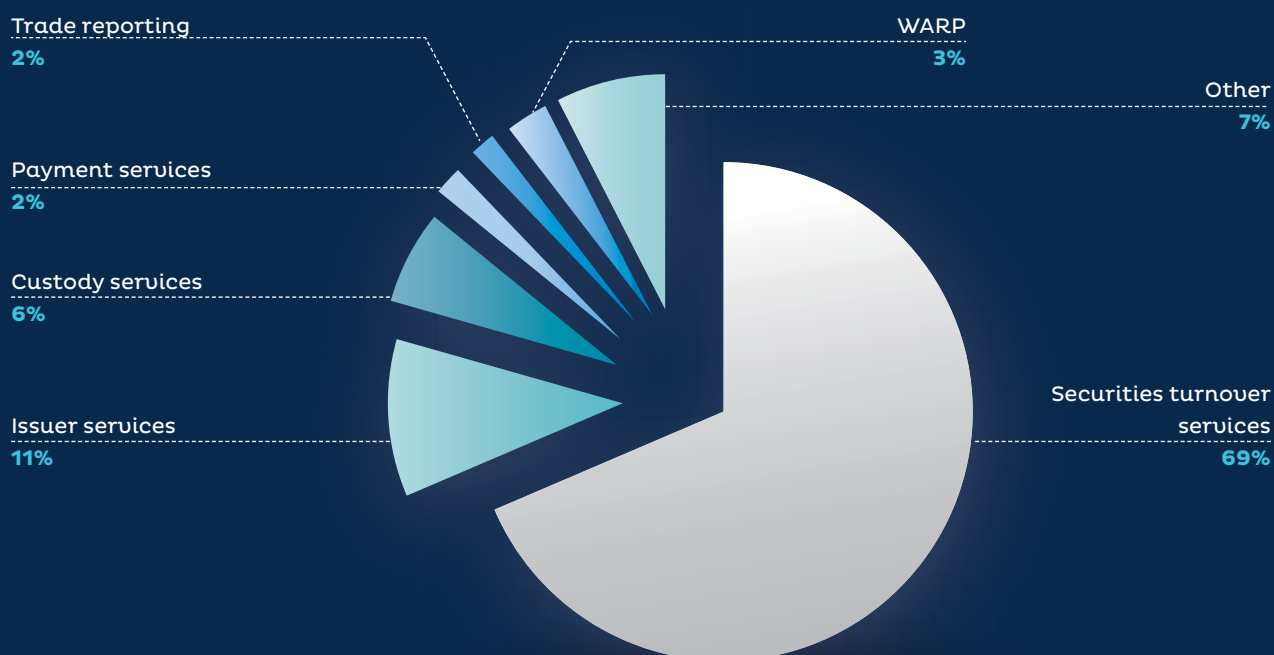


## KELER PROFIT AND LOSS

(in million HUF)

NO.	ITEM DESCRIPTION	2016 actual	2017 plan	2017 actual	2017 actual / plan (%)
<b>A.</b>	<b>Profit or loss on financial operation</b>	<b>1 784.4</b>	<b>1 325.0</b>	<b>1 222.2</b>	<b>92%</b>
1.	Commissions and fees received	4 264.0	4 500.2	4 538.3	101%
2.	Other income	303.0	316.5	320.3	101%
<b>B.</b>	<b>Income from services (B. = 1. + 2.)</b>	<b>4 567.1</b>	<b>4 816.7</b>	<b>4 858.6</b>	<b>101%</b>
3.	Commissions and fees paid or payable	205.3	179.7	198.3	110%
4.	General administrative expenses	3 444.2	3 511.0	3 679.9	105%
	of which: staff costs	1 904.5	2 045.6	2 045.6	100%
5.	Depreciation	445.8	452.9	379.9	84%
<b>C.</b>	<b>Total costs of operation (C.= 3. + 4. + 5.)</b>	<b>4 095.4</b>	<b>4 143.6</b>	<b>4 258.1</b>	<b>103%</b>
<b>D.</b>	<b>Other expenses</b>	<b>550.2</b>	<b>765.6</b>	<b>4 408.8</b>	<b>576%</b>
<b>E.</b>	<b>Costs of operation and expenses of services (E. = C. + D.)</b>	<b>4 645.6</b>	<b>4 909.2</b>	<b>8 666.9</b>	<b>177%</b>
<b>F.</b>	<b>Profit or loss on services (F. = B. - E.)</b>	<b>-78.5</b>	<b>-92.5</b>	<b>-3 808.3</b>	<b>-</b>
<b>G.</b>	<b>Profit or loss on ordinary / business activity (financial and services) (G. = A. + F.)</b>	<b>1 705.9</b>	<b>1 232.5</b>	<b>-2 586.2</b>	<b>-210%</b>
<b>H.</b>	<b>PROFIT OR LOSS BEFORE TAX</b>	<b>1 705.9</b>	<b>1 232.5</b>	<b>-2 586.2</b>	<b>-210%</b>
I.	Corporate tax	293.3	110.9	106.8	96%
<b>J.</b>	<b>PROFIT OR LOSS AFTER TAX (J. = H. - I.)</b>	<b>1 412.7</b>	<b>1 121.5</b>	<b>-2 693.0</b>	<b>-240%</b>
K.	General reserves (10% of profit or loss after tax)	141.3	112.2	-2 473.7	-2206%
<b>L.</b>	<b>PROFIT OR LOSS FOR THE FINANCIAL YEAR (L. = J. -K.)</b>	<b>1 271.4</b>	<b>1 009.4</b>	<b>-219.3</b>	<b>-22%</b>

## STRUCTURE OF INCOME FROM SERVICES (2017)





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## TREASURY

Treasury closed the year with a result of HUF 1 188 million.

The asset portfolio managed by Treasury contracted significantly compared to the previous year, the daily average of the asset portfolio was slightly more than HUF 60 billion. Government securities and deposits with the central bank represented 99% of the asset portfolio. The government securities portfolio consisted mainly of discount treasury bills in order to maintain continuous liquidity within the year. From the second quarter, a remarkable shift in favour of government securities could be observed in the asset portfolio, resulting from the decrease of 3-month deposits. The average portfolio duration was under one year.

KELER met the mandatory reserve requirement throughout the year; the average amount of such reserves was merely 1% of the total asset portfolio.

In addition to trading government securities, KELER Ltd. was an active player in the government securities lending market in 2017, as well. By the end of the year, total repo turnover exceeded HUF 2 290 billion.

To this end, KELER continues to expand its customer base both in the domestic and the international market.

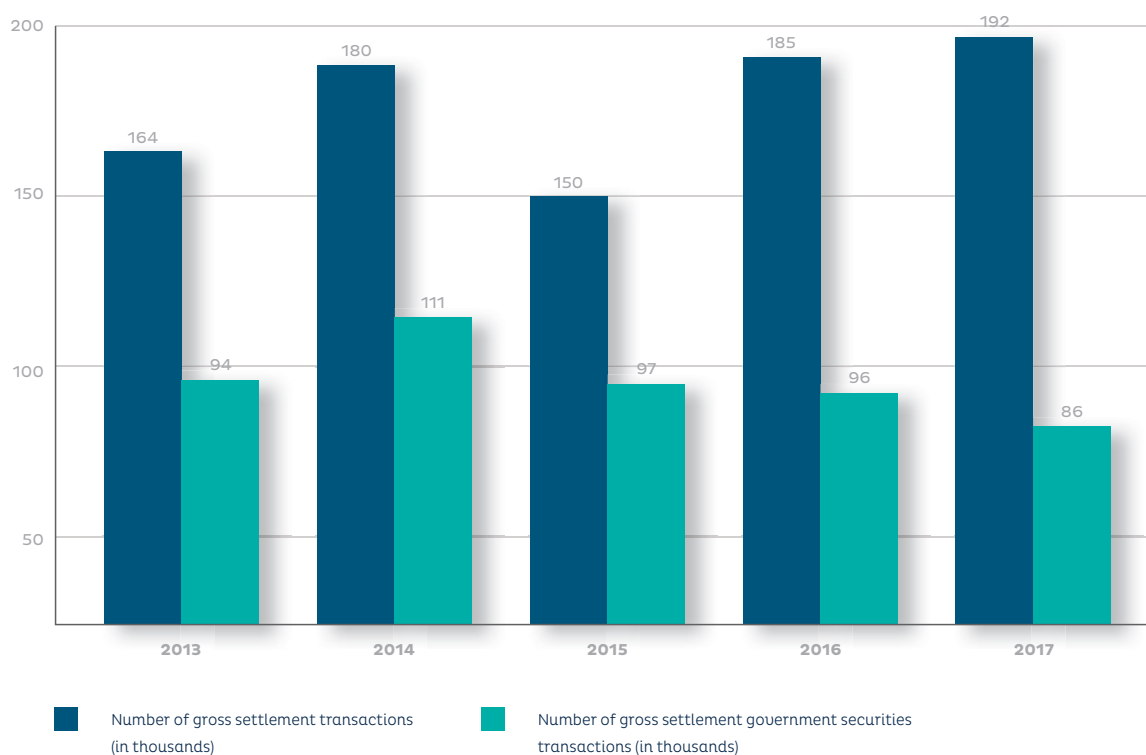
## BUSINESS ACTIVITY

### SECURITIES TRANSACTION SETTLEMENT IN HUF

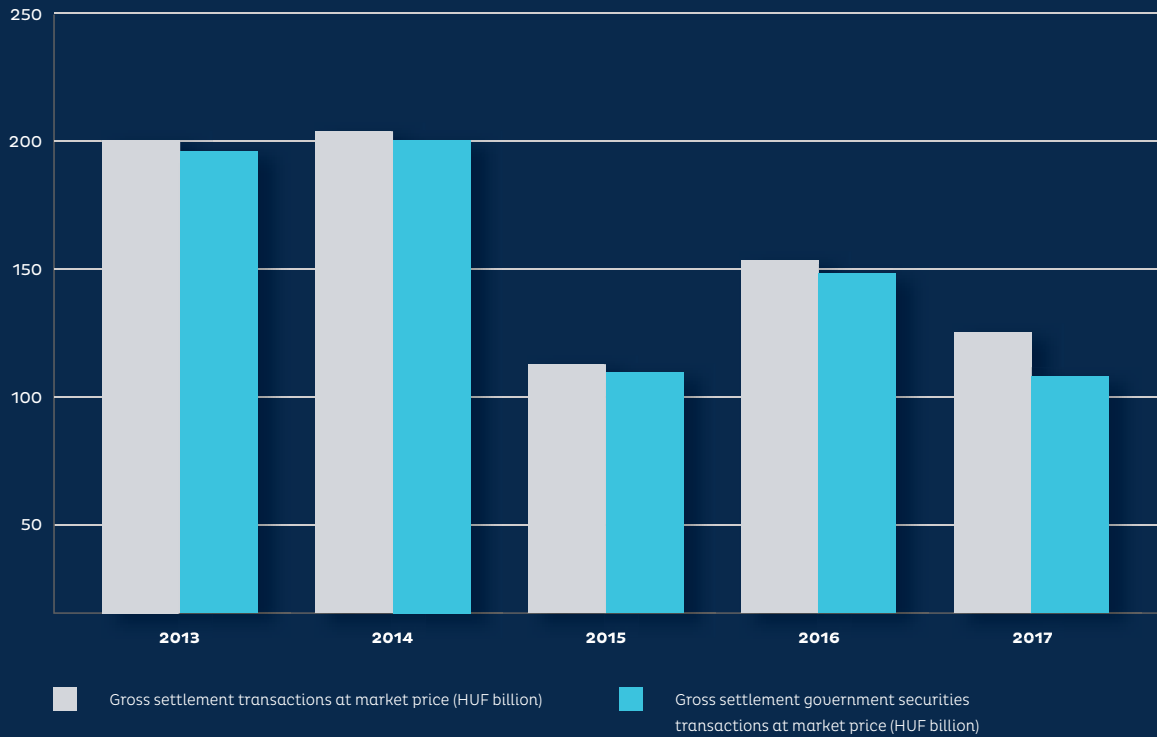
In 2017, the turnover of OTC transactions with gross settlement, executed with the involvement of KELER, was 13% below the previous year figure, and amounted to HUF 133 801 billion. Despite the contraction of turnover, the number of transactions grew during 2017 with 4%. The trend of earlier periods continued in 2017: the number of government securities transactions with gross settlement continued to decrease (45% of total transactions), but these transactions continue to account for more than 95% of transaction value.



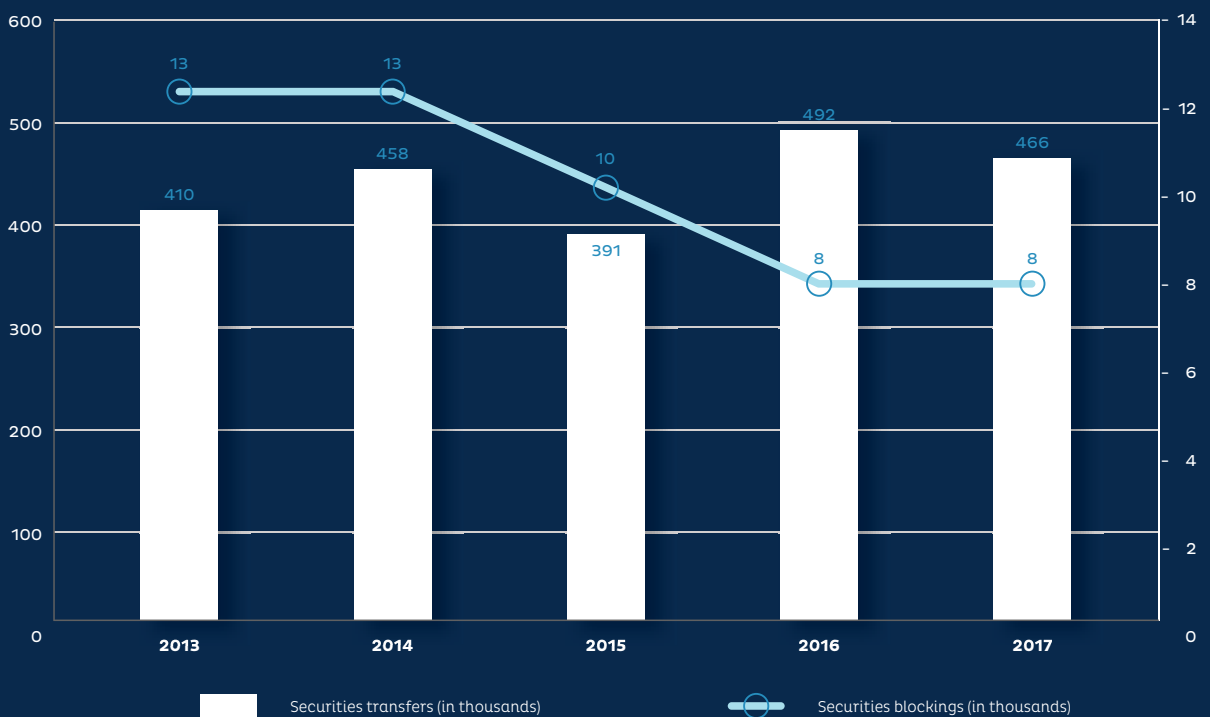
### NUMBER OF TRANSACTIONS WITH GROSS SETTLEMENT 2013-2017



## TURNOVER OF GROSS SETTLEMENT TRANSACTIONS 2013-2017



## NUMBER OF OTHER SECURITIES TRANSACTIONS 2013-2017

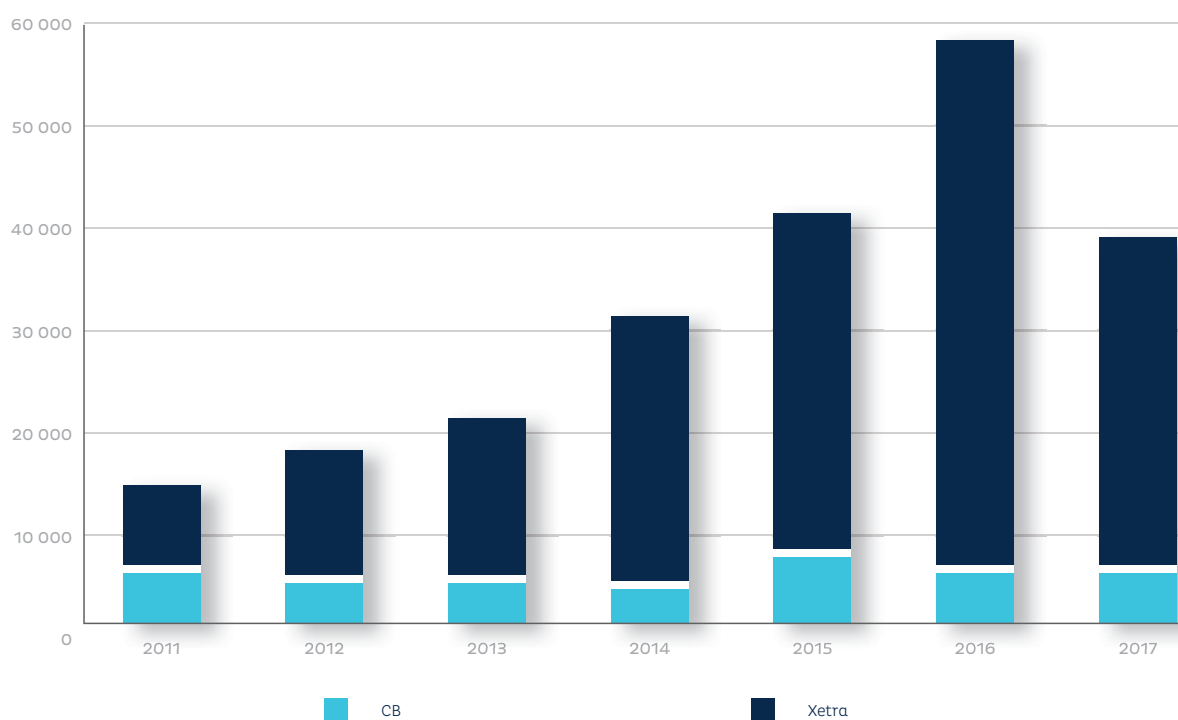


## INTERNATIONAL SETTLEMENTS

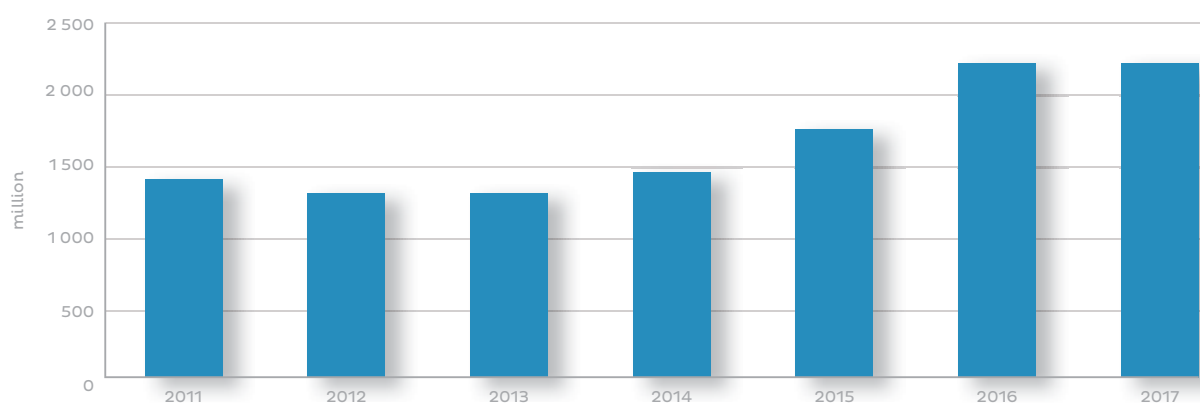
The services provided by KELER related to international securities include the safekeeping of securities, the management of related transactions, the end-to-end management of corporate actions, and the settlement of transactions concluded on Deutsche Börse, a special service created for the Hungarian market. The value of the KELER custody portfolio and the number of cross-border transactions did not change significantly compared to the previous period. Thus, in 2017, the market value of the portfolio was 2 232 million Euro, the number of cross-border

transactions settled was nearly 6 thousand. The provisions of the CSDR necessitated the gradual phasing out of the XETRA service, resulting in a total annual transaction number of 33 thousand and a settlement volume of 284 million Euros, a decrease of 30% in both the number and the turnover of XETRA transactions concluded on the Deutsche Börse.

## NUMBER OF INTERNATIONAL SECURITIES TRANSACTIONS (2011–2017)



## INTERNATIONAL SECURITIES PORTFOLIO IN EURO (2011–2017)

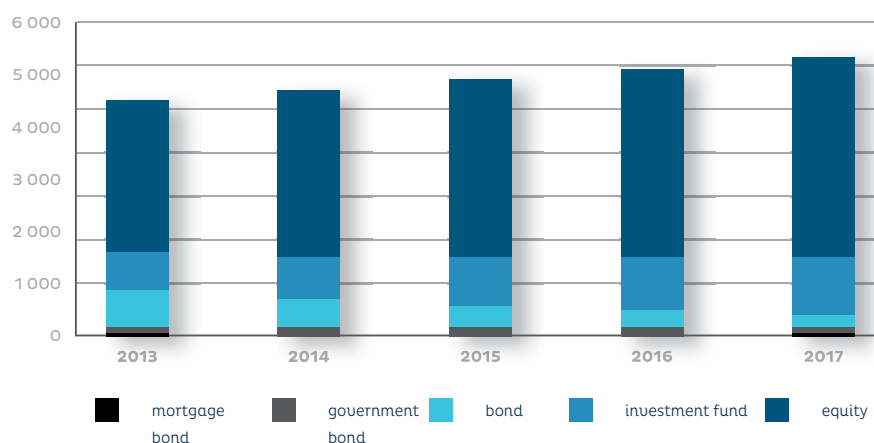


## CENTRAL SECURITIES DEPOSITORY ACTIVITY

### Dematerialized securities series

As of 31 December 2017, there were 5 183 active dematerialized securities series registered in the securities accounts kept by KELER, compared to 4 903 active series as of 31 December 2016, an increase of 5.7%. The decrease in the number of bond series was compensated by the issue of new investment units, mortgage bonds and equity series.

### NUMBER OF DEMAT SECURITIES SERIES BY SECURITIES 2013-2017

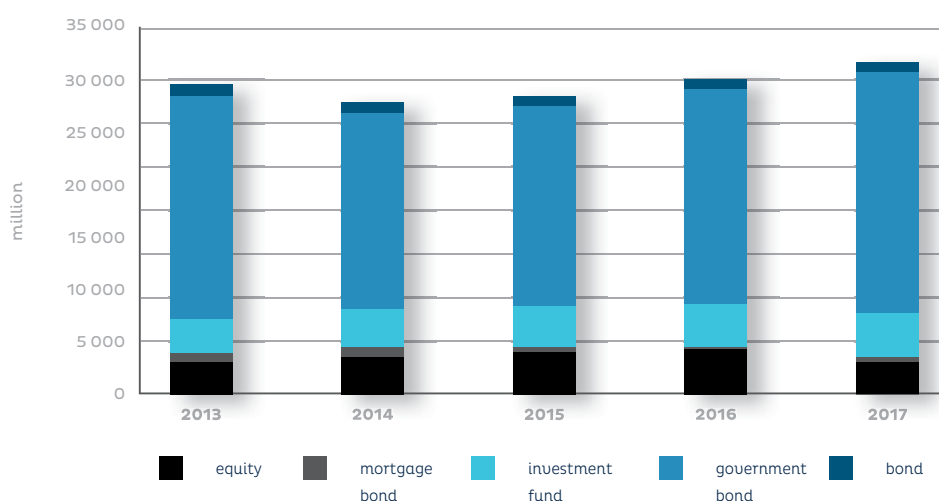


### Dematerialized securities in the central securities accounts

As of 31 December 2017, the securities portfolio of HUF 31 831 billion registered in central securities accounts is again higher than the HUF 30 193 billion value recorded at the end of 2016. Although the number of government securities series in the central securities account stagnated, the volume of the portfolio grew with 12 % as the result of the issue of new Baby bonds, Bonusz Hungarian government

bonds and Premium Euro Hungarian government bonds, the top ups of existing long-term securities series, the significant increase (54.47%) of the mortgage bond portfolio, the activity of mortgage banks established in 2016, and the MNB Mortgage Bond purchase program.

### DEMAT SECURITIES VOLUME BY SECURITIES TYPE (IN HUF) 2013-2017



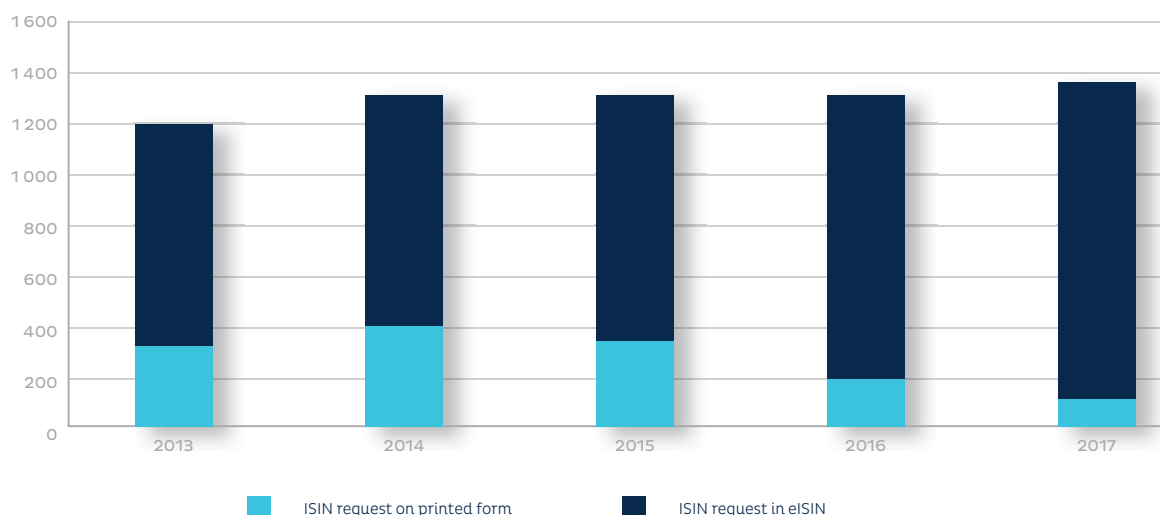
## ISIN issuance

Unlike the trend of past years, the number of ISIN requests submitted to KELER increased by 2.60%, and amounted to 1 340 applications in 2017 (1 306 ISIN requests in 2016).

90% of ISIN applications were submitted with the use of the eISIN application.

Until the end of 2017, KELER allocated ISIN codes to 26 718 securities and 484 143 derivative instruments, out of which 5 681 active derivative instrument ISINs are registered, and kept the central securities record for 12 343 active securities at the end of the year.

## ISIN APPLICATIONS BY CHANNEL 2013-2017



### Investment units – WARP

In 2017, the investment fund market grew considerably: the number of individual WARP instructions grew by more than 20%, while the number of total transactions posted on securities accounts (daily top-ups and cancellations) grew by more than 10% also, and DVP transactions represent about 30% of both instructions and transactions.

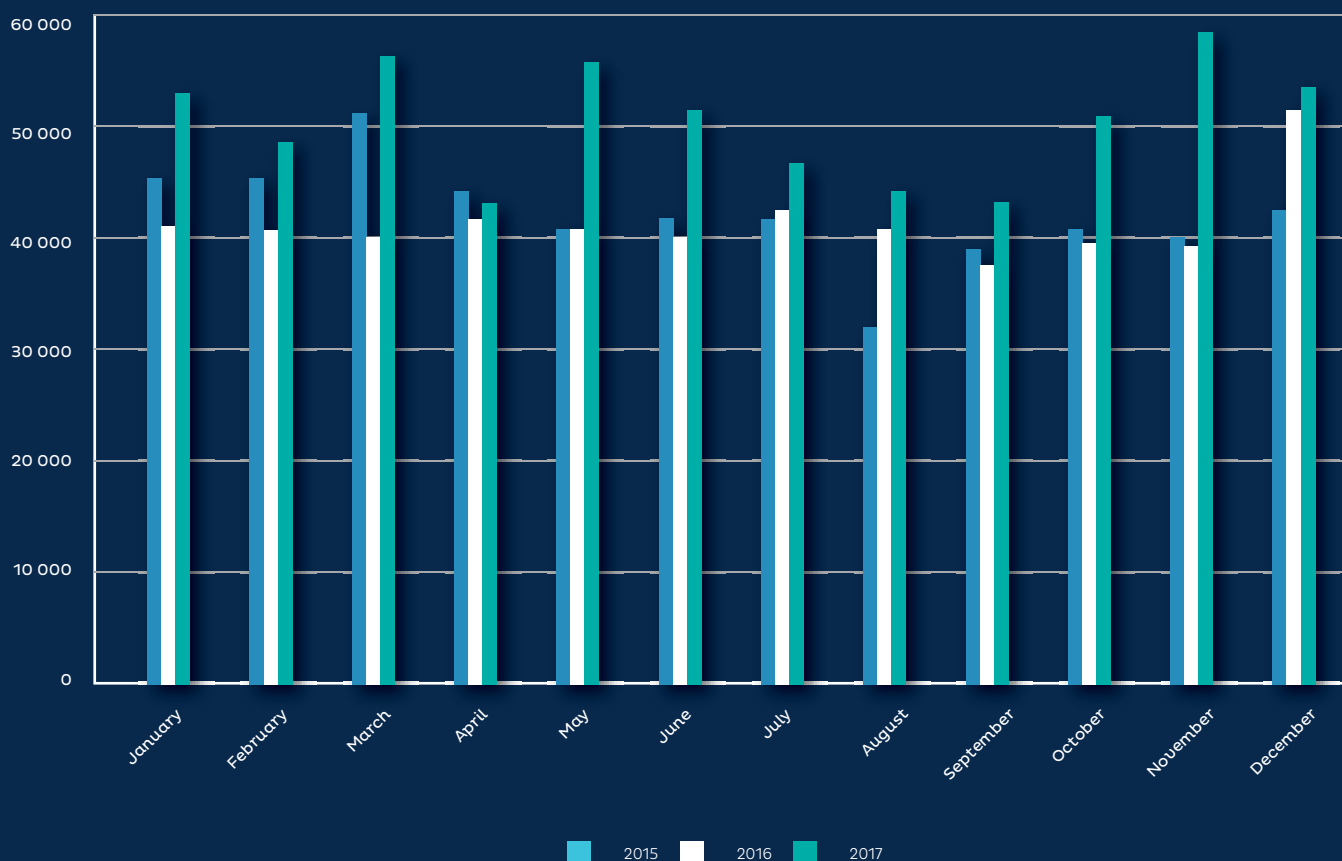
The number of registered, active market participants changed slightly, as the players exiting the market were replaced by new partners.

The number of active securities that can be distributed in the system increased by 9.5% and was 692 at the end of 2017, which served as the basis of volume increase.

There were nearly 700 clients using the system.

At the end of the year, with go-live in December, the modernized instruction import function was launched to support distributors in submitting high volumes of individual instructions in a faster and more reliable interface.

### NUMBER OF WARP INSTRUCTIONS 2015-2017



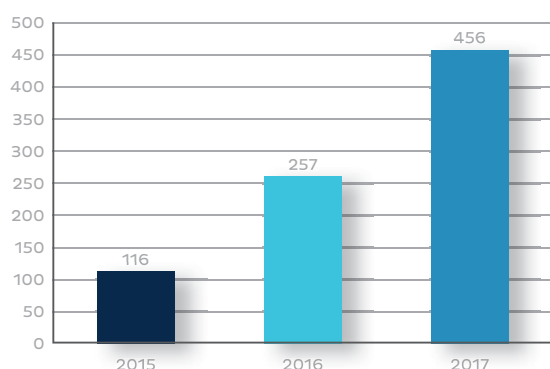


### LEI<sup>1</sup> issuance

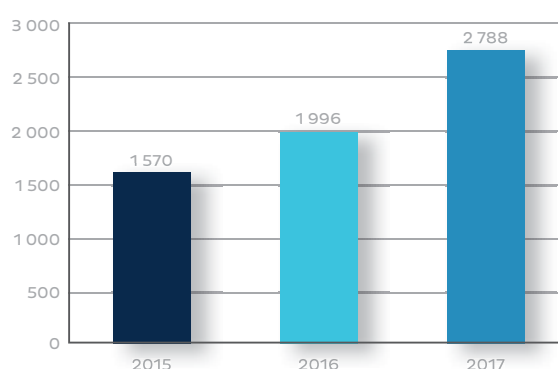
As of February 2014, market participants can apply for Legal Entity Identifier (LEI) through KELER. Similarly to earlier periods, the number of clients using the service continued to grow in 2017. Due to this fact, the number of LEIs managed by KELER exceeded 2 500 by the end of the year, nearly 800 more than at the end of 2016. In the last quarter, changes in legal requirements resulted in a sharp increase of new LEI applications and extensions, leading to a significant

increase of the number of both contracted clients and the LEIs managed by KELER. The number of clients contracting KELER for LEI issuance increased 77.43% compared to the previous period.

### CONTRACTED CLIENTS (LEI)



### NUMBER OF LEIs MANAGED BY KELER



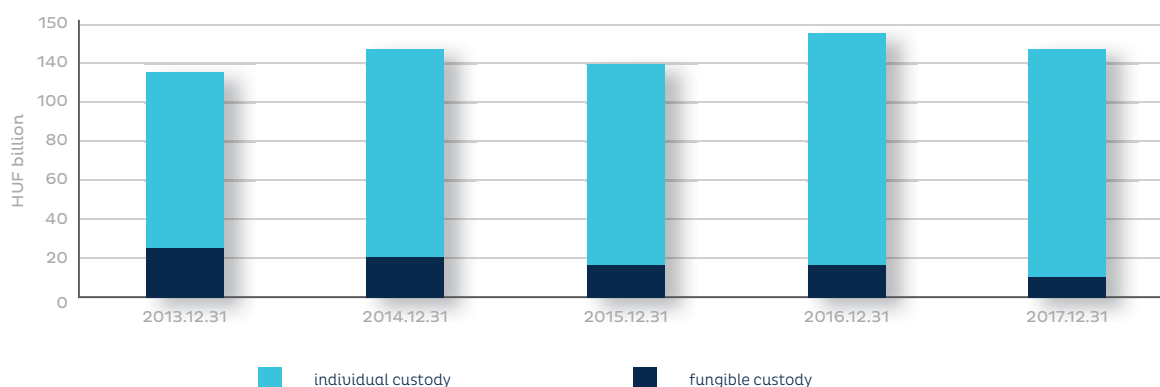
### GENERAL DEPOSITORY ACTIVITY

#### Custody of physical securities

By the end of 2017, the number of physical securities in custody decreased by 2.15%, at nominal value the decrease was 4.21% compared to the end of 2016. The volume of securities in fungible custody decreased by 56.8%, and the volume of securities in individual custody increased by 2.07% compared to the previous period. The substantial decrease

in the volume of securities in fungible custody is due to the conversion of the physical securities into dematerialized securities of 2 companies kept in the depository of KELER. As of 31 December 2017, there were 801 456 physical securities in custody with KELER.

### PHYSICAL SECURITIES IN CUSTODY 2013-2017



<sup>1</sup>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.

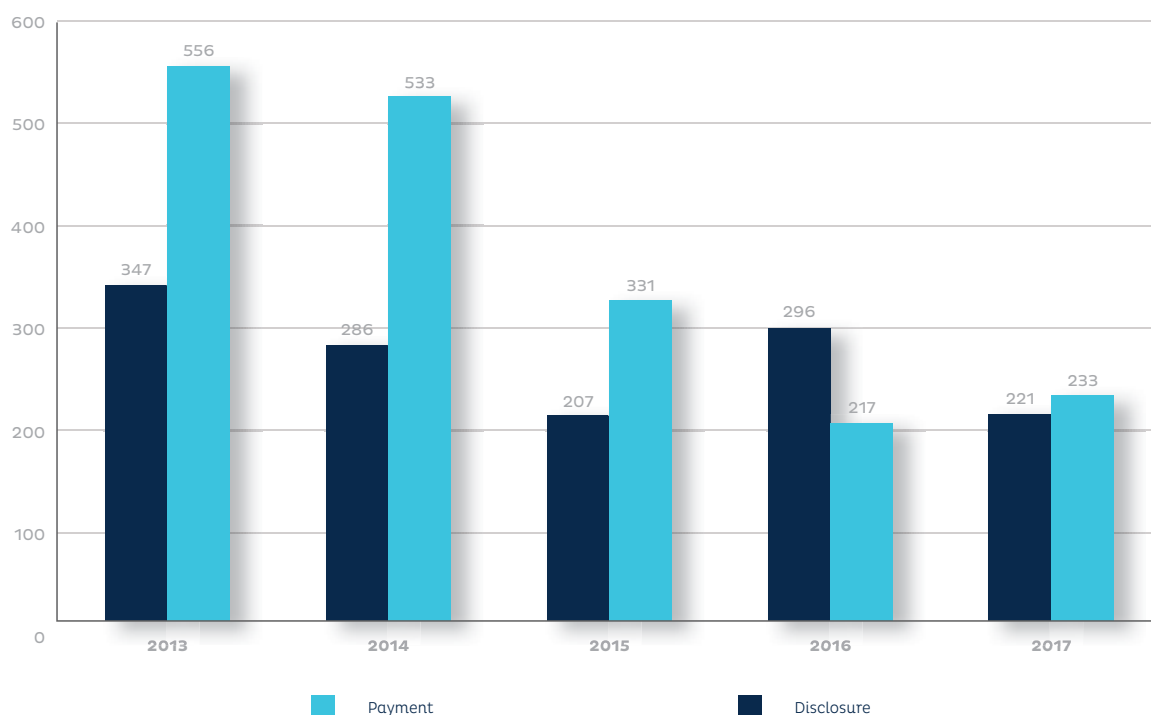


### Corporate action management

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.

### CORPORATE ACTIONS 2013-2017



In 2017, distributors requested the acceptance statement of KELER for 140 international securities series for listing on the Budapest Stock Exchange.

## 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 EU 1227/2011 on wholesale energy market integrity and transparency), and, as of 3 January 2018, the reporting requirements of MiFID II (Markets in Financial Instruments Directive, Regulation EU 2014/65), in addition to the reporting requirements stated in EMIR (European Market Infrastructure Regulation, Regulation EU 648/2012).

Consequently, the trade reporting service offered by KELER based on its own infrastructure allows both energy and capital market players to comply with all trade reporting requirements (EMIR, REMIT, APA and ARM). In the case of EMIR trade reporting, KELER acts as intermediary, while in the case of REMIT, APA and ARM reporting, KELER is a service provider licensed to forward the trade reports.

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 modified continuously, and KELER was able to implement such modifications in time and offered a test environment to clients to test the relevant changes.

There are nearly 170 clients using certain elements of the service package offered, among them an increasing number of international market participants. In 2017, this service generated income in excess of HUF 80 million.



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## 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. The Program was implemented in line with the earlier decisions until September 2017.

The Management appointed as of September 1 identified the determination of the roadmap to the successful implementation of the SMP and the definition of the tasks of the following period as key activities.

Accordingly, the BaNCS system and the contract concluded with the supplier were reviewed, and the organizational structure, and the implementation methodology of the SMP were examined. The Management of KELER consulted partners on certain key issues related to the project several times.

In order to ensure that the SMP serves the current and future needs of partners and operates in a sustainable and secure manner, in December 2017, KELER consulted market participants in several rounds regarding their expectations and recommendations. During this period, the SMP review was in progress and covered the business results expected from the SMP.

The Strategic Modernization Program is of vital importance to KELER. Intensive work is going on to ensure successful, and the implementation. The unchanged objective of KELER is to ensure that the system developed is appropriate for all stakeholders and serves the requirements of the money and capital markets as fully as possible.

### REPEATED AUTHORIZATION UNDER THE CSDR

In line with the provisions of the CSDR, all European central securities depositories are required to obtain a repeated authorization for operation in line with the requirements of the EU-level regulation. KELER started preparatory work in 2014 to obtain the license. However, due to the delayed publication of the regulatory and implementation technical standards of the CSDR, central securities depositories could submit applications in the spring of 2017 only.

KELER submitted the application for repeated authorization under the CSDR to the Magyar Nemzeti Bank, the competent authority on 29 September 2017, and is expected to obtain new authorization in line with the CSDR to provide central securities depository and banking-type ancillary services in 2018.





## REGIONAL NETWORKING

As the most important driver of its international strategy, KELER joined T2S in February 2017. Based on the opportunities offered by T2S and its special depository and bank role, KELER will offer a so-called one-stop-shop solution to its clients in the T2S markets of Central and Eastern Europe (Austria, Romania, Slovakia, Slovenia, Baltic states), supplemented by non-T2S markets such as the Czech Republic and Poland. The group of markets can change in line with client needs.

As the basis of the individual regional offer, KELER creates direct account relationship (so-called direct depository link) with the depositories of the markets concerned in order to be able to perform direct settlement. KELER wishes to offer comprehensive custody services in the markets concerned (link, settlement, financial settlement, safekeeping, corporate action management, etc.). KELER plans to use

the services of local custodians also related to corporate action management, tax services and account management in local currencies, and local custodians will be responsible for the ongoing monitoring of the securities portfolio of KELER, the provision of market and issuer information related to corporate action management, and the execution of investor decisions and orders.

Parallel with the creation of the Central and Eastern European network, KELER reviews the services offered currently related to cross-border settlements.

As the first step of the international project, KELER opens the direct Polish link in the first half of 2018. The regional network is planned to be established gradually in the following 2 to 3 years.

## JOINING THE TARGET2SECURITIES (T2S) SYSTEM

After several years of preparation, the T2S system started to operate in June 2015. The European central securities depositories and central banks joined T2S in five waves; thus, the transaction volume exceeding EUR 300 thousand billion per year can be channelled 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.

After successful migration, as of 6 February 2017, jointly with the German, Austrian, Slovak, Slovenian and Luxembourgian central securities depositories, KELER became 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. As of the date of T2S entry, T2S is the place of settlement of the transactions made in Euro.

In addition to increasing the security and efficiency of securities 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.

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

In order to comply with regulations and to assist clients comprehensively in meeting the trade reporting obligations, KELER develops continuously its reporting activity and the related Trade Reporting system.

In 2017, KELER was licensed as an Approved Registered Mechanism (ARM), as a result transaction reports to be made on T+1 day can be sent to the local authority (MNB) through KELER, and also received the Approved Publication Arrangement (APA) authorisation allowing it to offer a solution to market participants to comply with disclosure

requirements. Consequently, KELER offers a full-scale solution to clients related to MiFID II./MiFIR.

Further developments of the services offered are planned, primarily the requirements of MiFID II. and SFTR (Securities Financing Transaction Regulation) expected to be launched in 2019 will present opportunities of service developments.

## 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 started the necessary accreditation process in 2016 and expects to receive the necessary authorizations in 2018.

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 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. KELER calculates that the number of new LEI applications can grow by nearly 10 000 in the following years, and the capability of KELER to manage related processes as code issuer will be a great help to deal with the expected increase of applications.

<sup>2</sup> 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.

## CLIENT RELATIONS

### CLIENT FORUMS

KELER pays particular attention to keeping contact with its clients, and consults market participants, business partners continuously on the most important issues. In 2017, KELER held several client forums to give information on its plans and learn the opinion of clients. Current events in the Hungarian and the international markets, regulations and developments were the main topics of client forums. The most important areas of 2017 included reporting obligations, including the trade reporting requirement introduced by MiFID II. and the launch of the related service by KELER, changes in EMIR reporting, and T2S.

The Magyar Nemzeti Bank (MNB), the Banking Association, the Association of Securities Dealers, KELER and KELER CCP established the Hungarian TARGET2-Securities National User Group (HU-NUG) in 2011, and later more than 30 additional securities market players joined this group. The last wave of entry in September 2017 closed the entry phase of the T2S-project, but some harmonization tasks continue to exist and receive increased attention due to the delay in solving them. As a result and in order to ensure broad-based support to the further development of the T2S platform, the ECB decided to

widen the mandate of the National User Groups and create National Stakeholder Groups (NSG) from the earlier NUGs. Thus, the Hungarian NUG was transformed and continues to operate as an NSG. The Hungarian National Stakeholder Group (HU-NSG) held its first meeting on 5 December 2017. The HU-NSG was formed officially and the representatives of KELER and the MNB gave a status report on T2S, T2S harmonization and the reform of corporate action management. The HU-NSG decided to submit its written opinion to the competent AMI-SeCo on T2S opening on Good Friday, Easter Monday and 1 May.

The KELER User Committee operating since December 2016 held meetings in 2017 also. The Committee was updated on the draft KELER Disaster Recovery Plan, the plans to set up the CSDR Settlement Discipline working group, and issued a statement to confirm that the rules, processes and contracts of KELER are clear and understandable. The latter statement formed part of the authorization request under the CSDR of KELER.

In June 2017, KELER held a workshop on the most important changes in 2017 of the trade reporting obligation of the European Market Infrastructure Regulation (EMIR). The workshop discussed the changes of the new EMIR technical standards published by ESMA on 21 January 2017 and applicable as of 1 November 2017 that are more significant than the earlier changes. In addition to introducing the important changes, we adopted a practical approach at the workshop and also presented the challenges of trade reporting.

As exhibitor and sponsor, KELER attended The Network Forum conference in Warsaw on 27-29 June 2017. The most important players of the European custody, settlement and post-trade sectors were present at the event that focused on such major issues of the post-trade industry as regulatory changes, infrastructural initiatives and technology changes. The key objective of participation by KELER was to introduce our 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 central securities depositories, currently 37 countries are represented by 41 depositories in the Association. 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.

### ANNA

The Association of National Numbering Agencies (ANNA) is a global industry association, with presence in more than 120 countries, and members including central banks, central securities depositories, stock exchanges, 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 is 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.



## INFORMATION TECHNOLOGY

Similarly to earlier periods, the deliberate, planned operation and the high-level availability of information technology supporting business services continued to be the main goal of IT operation in 2017 also. During the year, the joint availability of KELER systems to clients was 99.929%. We sought to standardize internal processes and ensure support with automated tools. Our goal is to increase awareness, and to improve results and operation discipline with embedded controls and improved control possibilities.

By the end of the second quarter of 2017, we replaced internal firewalls, improved monitoring capabilities. A display interface related to the monitoring system was finalized to assist the immediate localization of unexpected errors, thus supporting the high-level operation of services. The version control of basic IT systems received particular attention; upgrade frequency was changed to monthly from the earlier quarterly frequency.

In order to ensure high-level availability, Disaster Recovery was also tested in 2017; thus, during the test, only one data centre was in use. The system met the expectations fully in this year also.

In the first eight months of the year, 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:

- Compliance with financial reporting in line with the IFRS international accounting standards is a work in progress.
- In 2017, IT developments related to compliance with CSDR requirements were mostly completed.

- As part of the MiFID II project, preparations were made to launch two new services in the first quarter of 2018:

- APA: the KELER Trade Reporting system receives the reports with limited data content sent by partners. Following format and content validation, KELER publishes the data. Start: 3 January 2018.
- ARM: KELER receives transaction reports sent by contracted market participants, and forwards data to the MNB after validation of format and content. The ARM service is also planned to be launched in January.

- Developments related to KELER becoming a LEI issuer were started, the service is planned to be launched in the fourth quarter of 2018.

- The continuous expansion and development of the KELER Data warehouse system was also a task in 2017.

- Apart from two applications, the technology upgrade of KELER business systems was completed: applications are made capable of operating with the standard, supported, most recent versions of the underlying basic software.

We continued to fine-tune the issues managed by the Service Desk Team and to make more user-friendly the Manage Engine application used for this purpose. This system (DMZ SD) available to clients also was used in the BaNCS Market test in the first half of the year and in the MiFID II APA/ARM test in the second half.



## RISK MANAGEMENT

As of 1 August 2013, KELER outsourced risk management responsibilities to KELER CCP. KELER, in the person of the Risk Management 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.

In the field of risk management, compliance with the provisions of CSDR<sup>3</sup> generated change requests in the past years. In line with the requirements of the CSDR, KELER had to license repeatedly the central securities depository and banking-type ancillary services provided. The terms of licensing include a number of risk management requirements also.

After a long period of preparation, KELER submitted to the competent authority the authorization request under the CSDR on 29 September 2017, the authorization process is in progress.

In 2017 also, KELER reviewed and amended the bank disaster recovery plan in line with the applicable guidelines and recommendations. The plan was submitted to the Supervision. KELER reviews risk exposures as appropriate, but at least annually, and presents a detailed report to the Board of Directors on changes to the risk profile.

In 2017, in line with Article 48 (1) of the ESMA RTS supplementing the CSDR, KELER set up a Risk Management Committee. The Committee is responsible for informing the Management and Board of Directors of KELER on the current and future overall risk tolerance and strategy of KELER. As part of the information provided, it can give opinion and make recommendations. It is also required to monitor and give an opinion, as appropriate, on the risk management reports prepared for it during the year. The Committee held its first meeting on 7 July 2017, and met two times during the year.

### COUNTERPARTY RISKS

Besides Treasury counterparties (Hungarian banks), foreign depository links and intermediary institutions are the most important counterparties of KELER.

As part of regular 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.

KELER was less active in the FX markets in 2017. HUF/foreign currency swap transactions were earlier used for HUF



funding, and, in line with the provisions of the CSDR, such transactions will not be made in the future. 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 favoured over 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.

<sup>3</sup> Regulation (EU) No 909/2014 of the European Parliament and of the Council of 23 July 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



## MARKET RISKS

In terms of market risks, KELER runs only Forint yield risk. 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.

## 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 reason for the group level regulation is that although the Basel requirements and the CSDR state that only credit institutions and central securities depositories have to manage operational risks, based on the requirements of EMIR, KELER CCP is also required to manage such 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 2017, the Operational Risk Management Committee held quarterly meetings and discussed loss events and actual operational risks. It took measures to mitigate and prevent risks as necessary and where possible, and monitored the implementation of the measures taken.

The Boards of Directors of KELER and KELER CCP are informed annually on changes in operational risks during the period.



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## HUMAN RESOURCES

In addition to making sure that high-quality services are provided daily, the main task of Human Resources was to provide the human resources needed by legal compliance and the project to replace the account management system.

Due to increased workload resulting from the project and the creation of the new organizational structure, headcount grew to 163.

During the year, an important task of Human Resources was to ensure the resources to fill the new positions. In terms of selection, the hiring and integration into the organization of professionally skilled colleagues with good English remained a priority objective.

The headcount of Management increased again to 6 in 2017.

With the new Organizational and Operational Regulation taking force, a major organizational restructuring was completed at KELER:

- new departments were set up (e.g. Business Support and Reconciliation Department, Business Process Management Department, Legal Department);
- some department names were changed (Corporate Actions and Issuance Department, Product Development Department, Project Office);
- various areas were merged (Sales, Client Relations and Marketing Department);

- existing areas were transferred to new directorates (e.g. Human Resources Department became part of the Strategy and Client Relations Directorate, Product Development Department became part of the Operations and Product Development Directorate).

The Organizational and Operational Regulation illustrates the objective of the changes.

Human Resources seeks to adjust flexibly to the needs of organizational units, to ensure the required professional mix is available in the future, and is in charge of employee training and retraining.

Supporting the integration of new hires, motivating and retaining existing employees and ensuring the appropriate human capital for the projects of the Company are the key tasks.

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## INTERNAL AUDIT

In 2017, 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 2017, there were 10 IT / bank security and 13 non-IT reviews undertaken in KELER. Within the reviews completed, 14 reviews covered specific topics, and 2 follow-up and 7 targeted audits were completed.

The specific topic reviews covered the following fields:

- Physical securities depository activities
- Remuneration policy
- Trading book management
- Demat events
- TR and REMIT reporting
- Internal capital and liquidity assessment processes
- Purchase execution
- Rights management
- Change management
- Separation of development, test and live environments
- IT security risk analysis
- Internal and external communication
- Operation of IT security systems
- Security settings of servers, workstations and databases

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

The follow-up reviews examined the measures taken related to the comprehensive supervisory review 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 6 reviews at KELER CCP.



## SECURITY MANAGEMENT

In 2017, Security Management continued the consolidation started earlier and implemented a number of measures in order to introduce modern solutions providing improved user experience and increased security:

- In the second half of 2017, Security Management was repeatedly fully restaffed. The redesign and implementation of the work methodology are in progress, the purpose is to terminate fluctuation that could be observed in this field in the past years.
- As in each year, the BCPs and support IT system DRPs applicable in the case of interruption of value creating business processes were updated in 2017 also. In 2017, the comprehensive disaster recovery site test and application tests were performed successfully.
- Security Management tested employee security awareness and approach on various occasions, and, in the interest of maintaining the appropriate level of awareness, trainings were organized to supplement these actions due to the turnover of workforce.
- In 2017, the central log collection and analysing system (SSIM), no longer offered by the manufacturer, was fully replaced, migration to the new system is 90% complete.
- The continuous development of the web content filtering system renewed in 2016 allowed us to reach a higher level of protection against online threats.
- We continued to fine-tune the mobile device management system introduced in 2016. In addition to increasing the security of use, we sought to make work on online devices more acceptable to employees.
- In order to comply with the requirements of risk proportionate protection and external requirements, IT security controls are reviewed regularly. As part of this review, IT system vulnerability was tested on three occasions during the year.
- Risk proportionate penetration tests were introduced for new developments, and the 2016 penetration test follow-ups of existing business applications with external interfaces were performed.
- KELER and KELER CCP were designated as National Key System Elements. Consequently, at the end of 2017, the National Directorate General for Disaster Management performed a review, related to which no negative feedback was provided regarding the KELER Group.
- In 2017, we prepared for the replacement of our IDM system to be performed in 2018.
- Our external border protection firewall device was replaced, and an XML validation service was introduced in our WAF server.



## 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.

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%. Galvanized by these results, energy efficiency was measured at another site, and we plan to replace the equipment of high energy consumption located at that site. Furthermore, the continuous monitoring of the central printing system and the analysis of data ensure reduced paper use.



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## REPORT BY THE SUPERVISORY BOARD OF KELER LTD.

### Report by the Supervisory Board of KELER Ltd. on the consolidated financial statements in line with the IFRS

In 2017, the Supervisory Board met 5 times and on 4 occasions passed decisions out of session.

In line with earlier practice, risk assessment and risk analysis were completed prior to finalizing the Internal Audit work schedule for 2017; 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 2017, in order to ensure compliance by KELER Ltd. with legal, regulatory requirements and internal regulations, Internal Audit reviewed the following subjects:

- Internal capital and internal liquidity assessment processes
- Remuneration Policy
- Security inventory taking, depository activity
- Follow-up review of the measures required in the 2016-17 MNB comprehensive review
- Trading book management
- Demat events
- TR and REMIT reporting
- Quarterly review of the management of client financial instruments and funds
- Execution of purchases

In the fields of IT and security, Internal Audit reviewed:

- IT reporting
- Annual tests of the Business Continuity Plan and the Disaster Recovery Plan
- Rights management
- License management, depositing of source codes
- Change management
- Security settings of servers, workstations and databases
- IT Security risk analysis
- Separation of development, test and live environments
- Operation of IT security systems
- Management and supervision of internal and external communication

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 such shortcomings, 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 2016 and the work schedule of the Compliance Officer for 2017. The Supervisory Board approved the report of the statutory auditor on the Remuneration Policy of KELER Ltd., the Performance Management Concept of Internal Audit, and approved the amendments of the Remuneration Policy and Remuneration Regulation, the Internal Audit Manual, and made a proposal to the General Meeting on the selection of the statutory auditor. The Supervisory Board discussed the external audit report of the SMP Project and made a decision to validate the concept of data warehouse compliance with CSDR requirements with OPEN solution, and approved the outsourcing agreement concluded with the BSE.

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. The Supervisory Board

reviewed the financial statements of the Company finalized in line with the Hungarian accounting standards and the report of the auditor. Based on these documents, the Supervisory Board proposes to the General Meeting to accept the consolidated annual financial statements of KELER Ltd. for 2017 with total assets/total liabilities and shareholders' equity HUF 136 958 million, a loss for the period of HUF – 2 986 million, and total comprehensive income HUF – 2 900 million.

The Supervisory Board acknowledges that the KELER Board of Directors proposed dividend payment in the amount of HUF 857 081 637 to the General Meeting despite the negative result. Having regard to the financial situation of KELER, the Supervisory Board accepts the decision, provided that until the date of the General Meeting KELER receives the MNB resolution approving dividend payment despite the negative result.

Budapest, 3 May 2018

**Lajos Bartha**  
Chair of the Supervisory Board

# INDEPENDENT AUDITOR'S REPORT

**Deloitte.**

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Company Registration Number:  
01-09-071057

*Translation of the Hungarian original*

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of KELER Ltd.

### ***Opinion***

The summary financial statements, which comprise the summary balance sheet as at December 31, 2017, the summary income statement and summary statement of cash flows for the year then ended that are presented on pages 36-51 in the annual report for 2017 of KELER Ltd. ("Company"), are derived from the audited statutory financial statements of KELER Ltd. for the year ended December 31, 2017.

In our opinion, the accompanying summary financial statements are consistent in all material respects with the statutory financial statements for 2017.

### ***Summary Financial Statements***

The summary financial statements do not contain all the disclosures required by Act C of 2000 on Accounting ("Accounting Act") effective in Hungary. Reading the summary financial statements and auditor's report on those, therefore, is not a substitute for reading the audited statutory financial statements of Company and auditor's report on those. The summary financial statements and the audited statutory financial statements for 2017 do not reflect the effects of events that occurred subsequent to the date of our report on the audited statutory financial statements.

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

We expressed an unmodified audit opinion on the audited statutory financial statements in our report dated May 11, 2018. The auditor's report on audited statutory financial statements also contains the key audit matters identified during the audit of statutory financial statements for 2017.

### ***Responsibilities of Management and Those Charged with Governance for the Summary Financial Statements***

Management is responsible for the preparation of a summary financial statements in the annual report for 2017 in accordance with relevant information included by audited statutory financial statements.

## INDEPENDENT AUDITOR'S REPORT

### *The Auditor's Responsibilities for the Audit of the Summary Financial Statements*

Our responsibility is to express an opinion on whether the summary financial statements are consistent, in all material respects, with the audited statutory financial statements for 2017 based on our procedures, which were conducted in accordance with National Standard on Auditing "810 Engagements to Report on Summary Financial Statements".

Budapest, June 11, 2018

*The original Hungarian version has been signed*

Nagyváradiné Szépfalvi Zsuzsanna  
on behalf of Deloitte Auditing and Consulting Ltd.  
and as a statutory registered auditor

Deloitte Auditing and Consulting Ltd.  
1068 Budapest, Dózsa György út 84/C.  
Registration number: 000083

Registration number of statutory registered auditor: 005313

# STATEMENT OF FINANCIAL POSITION

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in MHUF, unless stated otherwise)

	Notes	31.12.2017	31.12.2016
Cash and cash equivalents	5	24 564	31 901
Placements with other banks	5	41 300	21 232
Available for sale financial assets	6	50 570	53 119
Current tax assets	9	219	115
Deferred tax assets	17	3	2
Trade receivables relating to gas market	7	4 135	3 482
Receivables relating to clearing and depository activities	8	662	510
Receivables from foreign clearing houses	10	13 595	7 926
Other receivables	9	840	383
Intangible assets	11	784	3 451
Property, plant and equipment	12	286	411
<b>TOTAL ASSETS</b>		<b>136 958</b>	<b>122 532</b>
Deposits from customers	15	96 388	80 655
Liabilities for Guarantee Funds	16	5 828	5 425
Current tax liability	14	-	-
Deferred tax liability	17	57	223
Trade payable from gas market activity	7	4 106	3 500
Trade payables	13	224	362
Provisions for onerous contract	26	786	-
Other payables	14	673	571
<b>TOTAL LIABILITIES</b>		<b>108 062</b>	<b>90 736</b>
Share capital	18	4 500	4 500
Retained earnings		23 780	24 292
Statutory reserves	19	122	2 596
Available for sale financial asset revaluation reserve	29	494	408
Equity holders of the Parent Company		28 896	31 796
Non-controlling interest		-	-
<b>TOTAL SHAREHOLDERS' EQUITY</b>		<b>28 896</b>	<b>31 796</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>		<b>136 958</b>	<b>122 532</b>

# STATEMENT OF COMPREHENSIVE INCOME

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in MHUF, unless stated otherwise)

	Notes	01.01.2017- 31.12.2017	01.01.2016- 31.12.2016
<b>Income from clearing and depository activity</b>	<b>21</b>	<b>5 750</b>	<b>5 389</b>
Interest income	22	1 072	1 814
Interest expense	22	(163)	(436)
<b>Net interest income</b>		<b>909</b>	<b>1 378</b>
<b>Gains on securities, net</b>	<b>23</b>	<b>72</b>	<b>107</b>
<b>Income from the principal activity</b>		<b>6 731</b>	<b>6 874</b>
Bank fees, commissions and similar items	24	(209)	(211)
Personnel expenses	25	(2 423)	(2 210)
Depreciation and amortization		(518)	(563)
IT support	26	(847)	(819)
Expert fees	26	(236)	(74)
Telecommunication fees	26	(75)	(76)
Other expenses	26	(2 031)	(1 016)
<b>Operating expenses</b>		<b>(6 339)</b>	<b>(4 969)</b>
Impairment losses	11	(3 342)	-
Other income and expenses	27	53	44
<b>Operating profit</b>		<b>(2 897)</b>	<b>1 949</b>
Other financial income and expenses	27	(3)	(21)
<b>Financial income</b>		<b>(3)</b>	<b>(21)</b>
<b>INCOME BEFORE INCOME TAX</b>		<b>(2 900)</b>	<b>1 928</b>
Income taxes	28	(86)	(271)
<b>NET INCOME FOR THE PERIOD</b>		<b>(2 986)</b>	<b>1 657</b>
<b>Other comprehensive income:</b>			
Remeasurement gains/losses of available for sale financial instruments	6	95	400
Translation difference on foreign operation		-	-
Income tax of other comprehensive income	17	(9)	(32)
<b>Other comprehensive income for the period</b>		<b>86</b>	<b>368</b>
<b>Of which later to be reclassified to net income:</b>		<b>86</b>	<b>368</b>
<b>Of which later not to be reclassified to net income:</b>		<b>-</b>	<b>-</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>(2 900)</b>	<b>2 025</b>

## STATEMENT OF CHANGES IN EQUITY

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in MHUF, unless stated otherwise)

	Share Capital	Available for sale financial asset revaluation reserve	Retained Earnings	Statutory reserves	Equity holders of the Parent Company	Non- controlling interest	Total
<b>Balance as of 1 January 2016</b>	<b>4 500</b>	<b>40</b>	<b>22 769</b>	<b>2 455</b>	<b>29 764</b>	<b>7</b>	<b>29 771</b>
Acquisition of non- controlling interest	-	-	7	-	7	(7)	-
Total comprehensive income for the year	-	368	1 657	-	2 025	-	2 025
Transfer to statutory reserves	-	-	(141)	141	-	-	-
<b>Balance as of 31 December 2016</b>	<b>4 500</b>	<b>408</b>	<b>24 292</b>	<b>2 596</b>	<b>31 796</b>	<b>-</b>	<b>31 796</b>
<b>Balance as of 1 January 2017</b>	<b>4 500</b>	<b>408</b>	<b>24 292</b>	<b>2 596</b>	<b>31 796</b>	<b>-</b>	<b>31 796</b>
Total comprehensive income for the year	-	86	(2 986)	-	(2 900)	-	(2 900)
Transfer to statutory reserves	-	-	2 474	(2 474)	-	-	-
<b>Balance as of 31 December 2017</b>	<b>4 500</b>	<b>494</b>	<b>23 780</b>	<b>122</b>	<b>28 896</b>	<b>-</b>	<b>28 896</b>

# STATEMENT OF CASH FLOWS

## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in MHUF, unless stated otherwise)

	01.01.2017 31.12.2017	01.01.2016 31.12.2016
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>PROFIT BEFORE TAXES</b>	<b>(2 900)</b>	<b>1 928</b>
Interest expense	163	436
	<b>(2 737)</b>	<b>2364</b>
<b>Non-cash items - adjustments</b>		
Interest income	(1 072)	(1 814)
Depreciation and amortization charged	518	563
Adjustment due to incentive on lease	-	9
Recognition of provision	786	-
Unrealized gain on cash and cash equivalents	(7)	-
Impairment of intangible assets	3 342	-
Expenses from disposal of property plant and equipment and intangible assets	-	4
Gain on disposing property plant and equipment	(7)	(3)
Remeasurement of FVTPL financial assets	-	-
Changes in the guarantee fund liability	403	1 050
<b>Operating cash-flow before working capital adjustments</b>	<b>1 226</b>	<b>2 173</b>
Proceeds/(cash used) in gas market transactions, net	(47)	62
Changes of the deposits of clients, net (loro accounts)	15 733	(59 619)
Cash payments to other clearing houses	(5 669)	(1 848)
Increase in trade and other receivables	(608)	(208)
Increase/(decrease) in trade and other payables	(144)	314
Cash proceeds from financial instruments	2 644	21 666
Net (increase) / decrease in placements with other banks, net of allowance for losses	(20 068)	845
	(6 933)	(36 614)
Interest paid	(172)	(485)
Income tax paid	(367)	(494)
<b>Net cash used in operation</b>	<b>(7 472)</b>	<b>(37 593)</b>

# STATEMENT OF CASH FLOWS

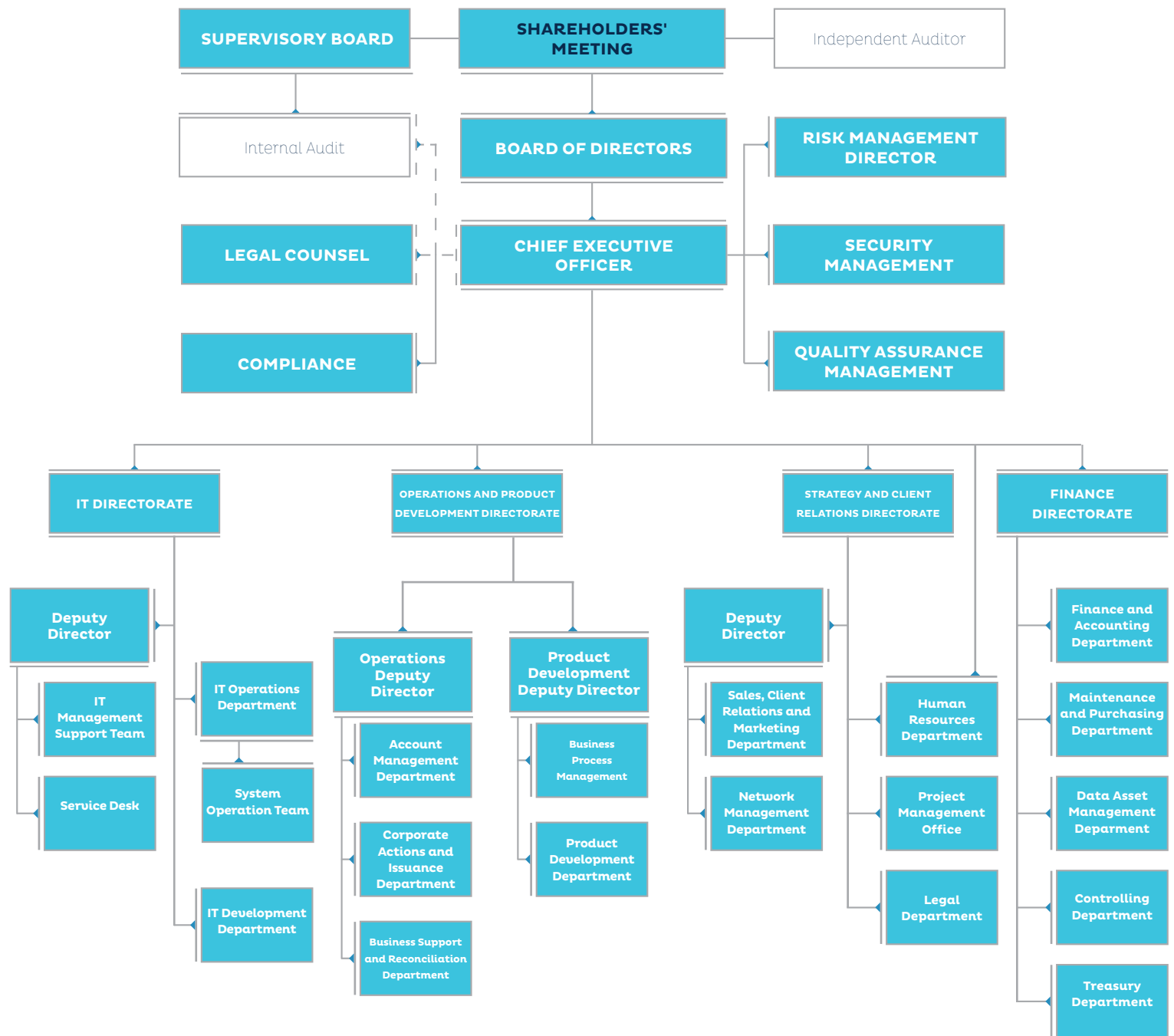
## CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2017

(All amounts in MHUF, unless stated otherwise)

	01.01.2017 31.12.2017	01.01.2016 31.12.2016
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	(64)	(83)
Acquisition of intangible asset	(892)	(1 423)
Cash proceeds from disposal of property plant and equipment	13	9
Cash proceeds from / (cash spent on) financial assets held for investing purposes	-	-
Proceeds from interest	1 071	1 811
<b>Cash provided by investing activity</b>	<b>128</b>	<b>314</b>
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
<b>Cash generated/(used) from/in financing activity</b>	<b>-</b>	<b>-</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(7 344)</b>	<b>(37 280)</b>
Opening cash and cash equivalents	31 901	69 181
Closing cash and cash equivalents	24 564	31 901
Unrealized gain on cash and cash equivalents	7	-
<b>Net decrease in cash and cash equivalents</b>	<b>(7 344)</b>	<b>(37 280)</b>



# ORGANIZATIONAL STRUCTURE



## MANAGEMENT



**ANDRÁS BOJÁRSZKY**

Director of Finance



**GERGELY EKLER**

Director of Strategy and Client Relations



**ATTILA MÓNUS**

Chief Executive Officer



**KÁROLY MÁTRAI**

Director of Risk Management



**SÁNDOR SZALAI**

Deputy Chief Executive Officer and  
Director of Operations



**JÁNOS TÓTH**

Director of IT

### MANAGEMENT IN 2017

Chief Executive Officer

György Dudás

until 31 August 2017

Attila Mónus

from 1 September 2017

Director of Operations

Margit Brauner

until 31 August 2017

Sándor Szalai

Deputy Chief Executive Officer and  
Director of Operations

from 1 September 2017

Director of Finance

András Bojárszky

Director of IT

András Katkó

until 31 August 2017

János Tóth

from 1 September 2017

Director of Risk Management

Károly Mátrai

Director of Strategy and Client

Relations

Sándor Szalai

until 31 August 2017

Gergely Ekler

from 1 September 2017

# GENERAL INFORMATION

Effective between 1 January 2017 and 31 December 2017

## OWNERSHIP STRUCTURE

Shareholders	Financial contribution	Ownership ratio
Central Bank of Hungary	HUF 2 400 000 000	53.33 %
Budapest Stock Exchange	HUF 2 100 000 000	46.67 %
<b>Total</b>	<b>HUF 4 500 000 000</b>	<b>100.00 %</b>

## BOARD OF DIRECTORS

### Chairman:

Zsolt Selmeczi-Kouács dr.

### Members of the Board of Directors:

Csaba Kornél Balogh

Márton Nagy

Richárd Végh

György Dudás (membership ended on 1 September 2017)

Margit Brauner (membership ended on 1 September 2017)

Tamás Madlena (membership ended on 25 September 2017)

Attila Mónus (membership started on 1 September 2017)

Sándor Szalai (membership started on 1 September 2017)

## SUPERVISORY BOARD

### Chairman:

Lajos Bartha

### Members of the Supervisory Board:

Klára Pintér

Lóránt Varga

Miklós Kardos

Michaletzky Márton (membership ended on 25 October 2017)

## CONTACT

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Fax: +36 1 342 3539

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

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

### Central Client Service:

Monday to Friday from 9.00 until 15.00

Phone: +36 1 483 6240

Mobile: + 36 30 481 4331

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

### Service Desk:

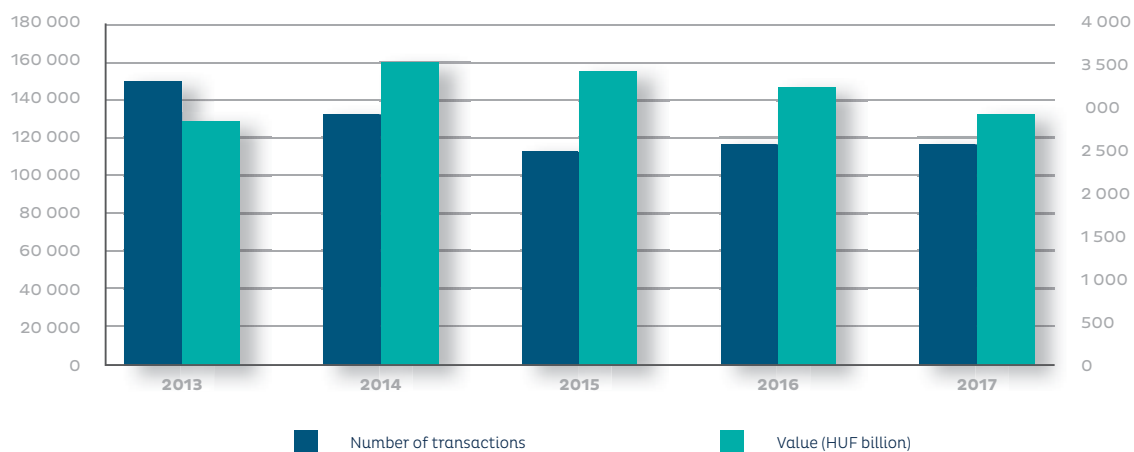
Monday to Friday from 7.00 until 20.00

Phone: +36 1 483 6228

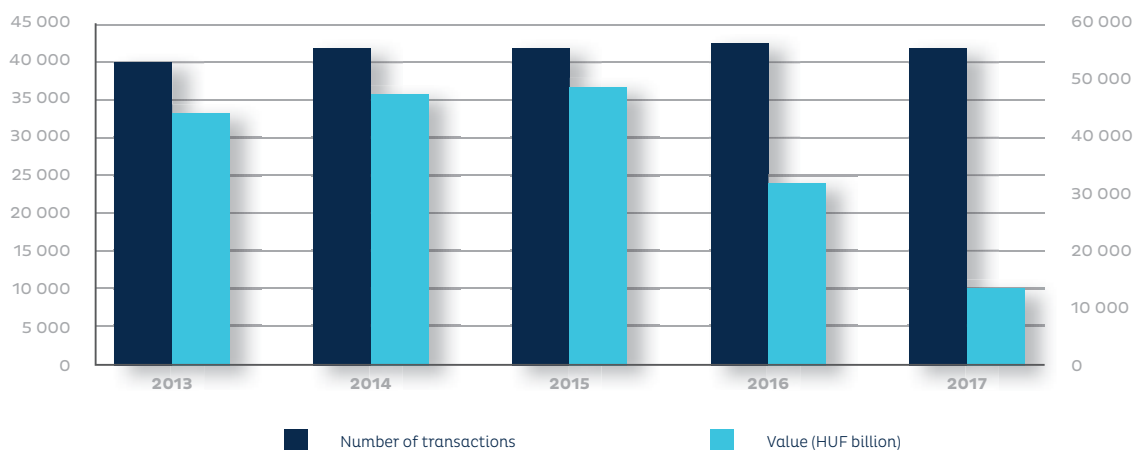
Phone: +36 1 483 6120

## OTHER STATISTICS

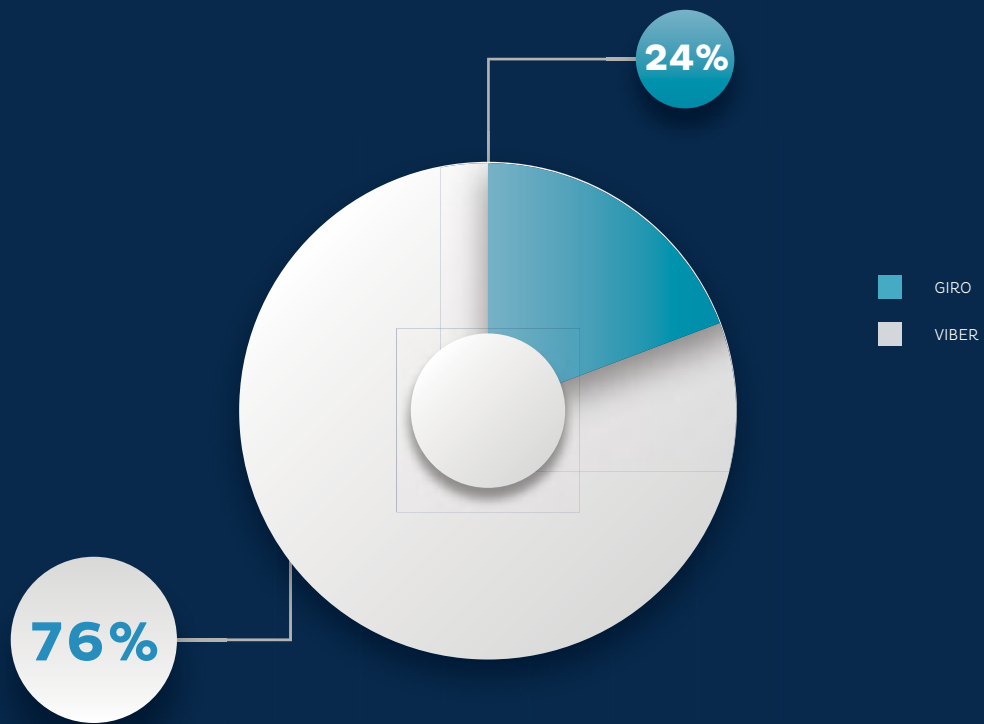
### OUTGOING AND INCOMING PAYMENTS FROM/TO CLIENT CASH ACCOUNTS WITH KELER, 2013-2017



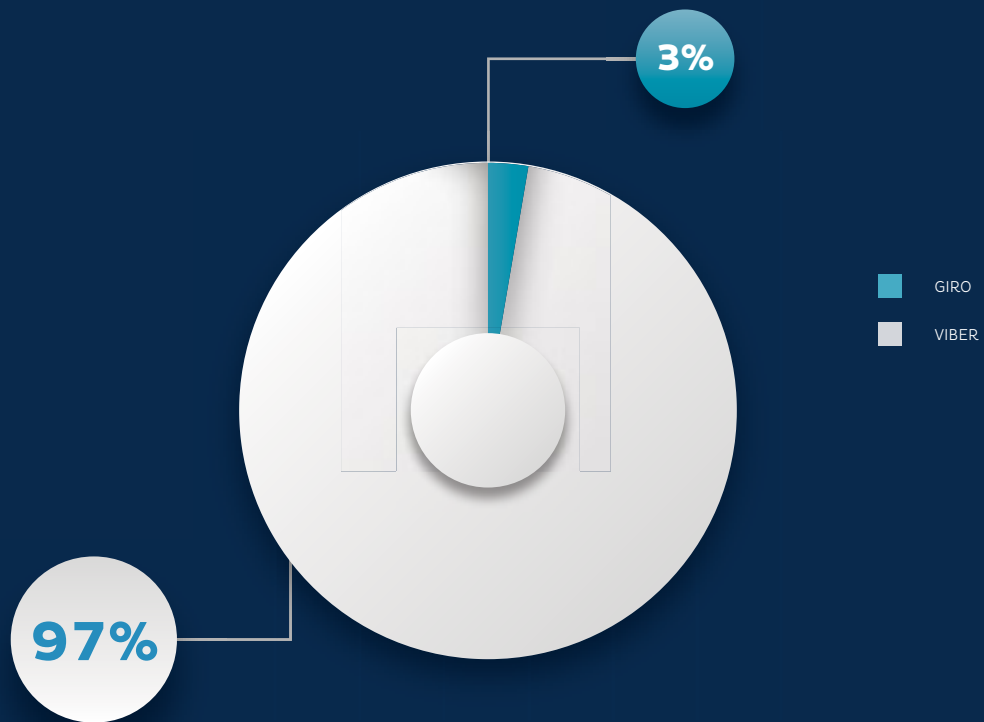
### IN-HOUSE CREDITS AND DEBITS ON CLIENT CASH ACCOUNTS WITH KELER, 2013-2017



### GIRO-VIBER PAYMENTS AT VALUE, 2017



### NUMBER OF GIRO AND VIBER TRANSACTIONS, 2017





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