



*Securities. Solutions. Success.*



**ANNUAL REPORT**

**2020**

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## CHAIRMAN'S MESSAGE



*Zsolt Selmeczi-Kovács*  
**ZSOLT SELMECZI-KOVÁCS DR.**  
 Chairman

Like for many other economic operators, last year was from every aspect an extraordinary year for the KELER Group as well. The COVID-19 crisis and the compulsory lockdown posed serious challenges for us, and now we are proud to say that the KELER Group stood up to these challenges to the maximum. We must keep in mind that KELER and its subsidiary, KELER CCP make up the fundamental infrastructure for the Hungarian capital and energy markets, and as such their primary responsibility is to ensure safe and stable operation. During the extraordinary events of 2020 the Group flawlessly delivered on this goal. What's more, it did so without compromising the protection of the health or safety of its employees.

Despite the economic difficulties caused by the pandemic, both companies delivered extraordinary financial results. Thanks to the commitment and performance of the employees, we can say that both companies have not only kept on working towards the market development and project goals of the year, but they actually successfully achieved them.

Following the financial crisis of 2008 the authorities responsible for the operation of the securities market have gradually and fundamentally rewritten the rules of the operation of the financial and capital market sector. The purpose of the increased pressure coming from the regulatory authorities is to guarantee the security of the clients, the transparency of the financial and the capital market sector, and risk management. In the past decade, CSDs and clearing houses have focused a considerable proportion of their resources to regulatory compliance, and the KELER Group was also largely affected by this. In Europe, MiFID and MiFID II emerged as regulatory standards on trading level and EMIR for clearing activities, while for the operation of CSDs these were the change to T2S, and CSDR and SDR II compliance. KELER obtained its CSDR licence last December. This was the end of a several-year-long licensing process and I hereby express my congratulations for successfully concluding it.

KELER CCP is a guarantor institution which provides clearing services and supports the stability of the markets it serves. Despite the challenges of 2020 it successfully implemented the so-called "Settlement Bank Model Change" project and as a result, the new system has been running live since 1 December 2020. As a result of the successful model change, clients of KELER CCP in the energy market now can choose from the services of several commercial partner banks in the financial clearing process. We hope this development will enable us to provide more flexible and competitive services to our customers, and it will also provide a competitive edge to the operating model of KELER CCP on international markets.

Let me hereby express my congratulations to the KELER Group, for performing so great during the pandemic. Also I would like to thank the owners for their trust, as well as the management and the employees of KELER and KELER CCP for their extraordinary performance, which not only contributed to stability, security and the delivery of excellent business results, but also enabled both companies to implement the most important development projects that had been set out for last year.

And last but not least, I would like to thank the clients and partners of the KELER Group for their loyalty and cooperation. I believe that by keeping up the good work, the KELER Group will continue to contribute to the development of financial and capital markets and the Hungarian gas and electricity markets, as well as to the business results of our clients in the years to come.

## CHIEF EXECUTIVE OFFICER'S MESSAGE

Last year KELER achieved several professional milestones, so we have every reason to feel proud. First of all, I would like to highlight how we stood up to the challenges the coronavirus pandemic posed to us.

Using the opportunities in these changes, our company switched to "pandemic mode" virtually from one day to the next, quickly introducing home office work. Despite the pandemic situation we maintained daily business flawlessly, went on with our banking and IT operations, served our clients and carried on with KELER's priority projects. In the domain of digitalisation, we also made a huge step in a short time towards almost fully electronic document and workflow management.

Additionally, we highly focused on maintaining the mental health of our co-workers and keeping our workplace community together.

Despite the economic difficulties that were caused by the COVID-19 pandemic, KELER closed the year 2020 with good results. The revenue coming from securities trading services grew by over HUF 0.5 billion. Furthermore, KELER's fees and commissions exceeded the HUF 6 billion threshold for the first time ever since it was established. Last year, security account management and settlement-related fees were prevalent in KELER's CSD and credit institution services: these made up 76% of the fee income, while the share of issuer services amounted to 11%. In effect the total revenue of KELER amounted to HUF 7.2 billion in 2020, which means 8.3% growth compared to the previous year. The profit before tax amounted to HUF 1.3 billion last year.

Despite all the difficulties, 2020 was a milestone in the history of KELER from a professional point of view: concluding several years of preparation, KELER finally acquired its CSDR licence as per the EU-regulation "Central Securities Depositories Regulation" on 16 December 2020. The Company can now provide its clients efficient and secure services to support the securities market as a consolidated CSD that is operating based on European regulation. KELER came to an extremely important milestone by obtaining the CSDR licence. This is a significant step towards a more flexibly, securely and transparently operated domestic and European capital market.

Also I am happy to announce that since we obtained a LEI code issuer licence in December 2020, KELER can issue LEI codes to Hungarian market players independently. This way we broadened our service range, can offer our services at even more convenient fees to our clients, and our system is available on the Internet in Hungarian.

As a capital market expert, KELER also provides services to stock market issuers and pursued IT developments in this domain last year as well. The domestic implementing legislation Shareholder Rights Directive II was announced in July 2019. In order to ensure compliance with SRD II, KELER launched a project with the primary goal of ensuring legal compliance to the greatest extent possible before the deadline specified by law. On 3 September 2020 KELER made available to its clients the newly developed CAPS system, which is available on the Internet. KELER joins issuers of stock market securities with the account managers of the shareholders as an intermediary and the operator of the CAPS system, ensuring that corporate event-related information is communicated automatically via standard messages. The issuer records all its corporate events that have been announced via other communication channels in the CAPS system as well, in order to inform the shareholders via the involved account managers without delay.



**ZSOLT DEMKÓ-SZEKERES**  
Chief Executive Officer

KELER made every effort to carry on with its large-scale IT development project – the KELER Service Development Program – that was launched in 2018 even during the pandemic. The purpose of this program is to create state-of-the-art, high-quality IT infrastructure on new bases and with a domestic developer and supplier background, which will provide a considerable contribution for the Company on its journey towards becoming an internationally renowned CSD. In this program we will create functional and service items through the implementation of several independent projects that still build upon each other. The system is planned to go live in 2021, and will contribute to making the operation of the Hungarian capital market compliant with the relevant EU standards, more efficient, more secure and more competitive, and hopefully, to the satisfaction of our clients, too.

Apart from the fact that due to today's challenges, market-based companies have no choice but to use a client-driven approach and take the interests of market players into consideration, it is paramount for us to understand client satisfaction and raise it to a strategic level. To ensure that the services provided by the KELER Group satisfy the needs of its clients to the greatest extent possible, KELER and KELER CCP have conducted a group-level client satisfaction survey for 2020 (for the 9th time now) among their domestic and international partners in the capital and energy markets. After processing the results of the client satisfaction survey, we prepared an action plan to determine which areas we should focus on to increase client satisfaction and enhance client experience. Let me highlight here, that we managed to increase client satisfaction even during the pandemic period now partly behind us: compared to the previous survey we have delivered better results in several domains. Based on the indices, we have achieved the highest improvement in the domain of operative and strategic client relations. This clearly shows the efforts our co-workers made even during the pandemic, to ensure that our clients receive high-quality authentic information on daily business and priority projects. Our co-workers quickly adapted to the new situations and altered circumstances, and kept in touch with clients via telephone or online instead of meeting them in person, whenever it was possible. I am happy to see that based on the answers provided by our clients, the professional competence, reliability and proactivity of my co-workers remained to score high, which proves again that for KELER, the capital market expertise of its employees is a core asset.

Last year was stressful both mentally and physically, and our employees played a key role in achieving these outstanding results. They indeed represent a stable value component in the accomplishments of the KELER Group. In order to support the organisation, the management of KELER will continue to work on the development of a responsible, cooperation- and trust-based, people-oriented corporate culture, where the goals of the employees match the goals of the company.

Hereby I would like to express my gratitude to the owners for their support and trust, and to the office and home office workers of the KELER Group for working persistently all year, even in the challenging circumstances caused by the COVID pandemic, which made everyday life more difficult both at work and in family life. Also let me thank – in the name of the KELER Group – the Hungarian credit institutions, investment companies, issuers and all the actors in the capital, gas and energy markets for the year-round cooperation!

# MARKET ENVIRONMENT



The most significant event of 2020 was clearly the COVID-19 epidemic escalating into a pandemic. This single event and its consequences influenced the financial, capital and energy markets and also the social life the most both in Hungary and internationally.

The virus gradually spread in the world and as a result of this it hit with different timing and intensity when we look at the different countries and regions. In order to slow down the spreading of the virus travel options among the countries were significantly restricted. Beyond international travels also curfews were ordered domestically several times. Several industries experienced rough conditions due to the virus and the restrictive measures. Industries that were hit the most include the service sector, including airlines, tourism and catering. Businesses tried to adjust to the new situation and toned down their purchasing and investments that resulted in the decrease of production and increasing indebtedness levels.

The national banks supported the crediting by creating favourable interest conditions, asset purchase programs and credit and guarantee programs and all these eased the liquidity problems of the companies. On the fiscal side the budgetary measures were aimed at the mitigation of the financial effects of the pandemic assisted the market actors. Due to the government deficit booming, the measures and due to the slowing down of the economic growth the indebtedness of the states significantly increased in 2020. The state subsidies offered to market actors and the increase of the indebtedness of the state might pose a risk to the sustainability of the state finances in the medium term.

Most analysts expect a rapid bounce back in 2021 after the global economic downturn of 2020 but the question remains whether this would exceed last year's decrease. Economic growth will be affected by the COVID pandemic and its consequences the most. By the end of 2020 several effective COVID vaccines have been put on the market and vaccination programs started. More and more people are vaccinated, depending also on the production capacities of the vaccine producers and as a result of this, after the end of the third wave in 2021 the economic and social situation might gradually return to the situation prior to the pandemic.

The first COVID wave caused extreme market movements in the global capital and financial markets. The top stock exchange indexes dropped by 20-30% in spring 2020 and markets were characterized by substantial uncertainty and volatility. Beyond capital markets also energy and commodity markets were characterized by extreme prices changes and in April the WTI oil rate turned into negative.

As a result of the economic recovery actions of the governments and national banks the leading exchange indexes nearly reached the figures of early 2020 by Q3 2020 and since then they have also exceeded this benchmark. The US Dow Jones Industrial Average index increased by 6% compared to the closing figure of the previous year, while Standard & Poor's 500 index enjoyed a growth of 15.2%. Beyond US exchange indexes the Japanese Nikkei 225 increased by 18.3%, while the German DAX index grew by 2.5%. The European Stoxx Europe 600 index decreased by 4.3% compared to the end of the previous year.

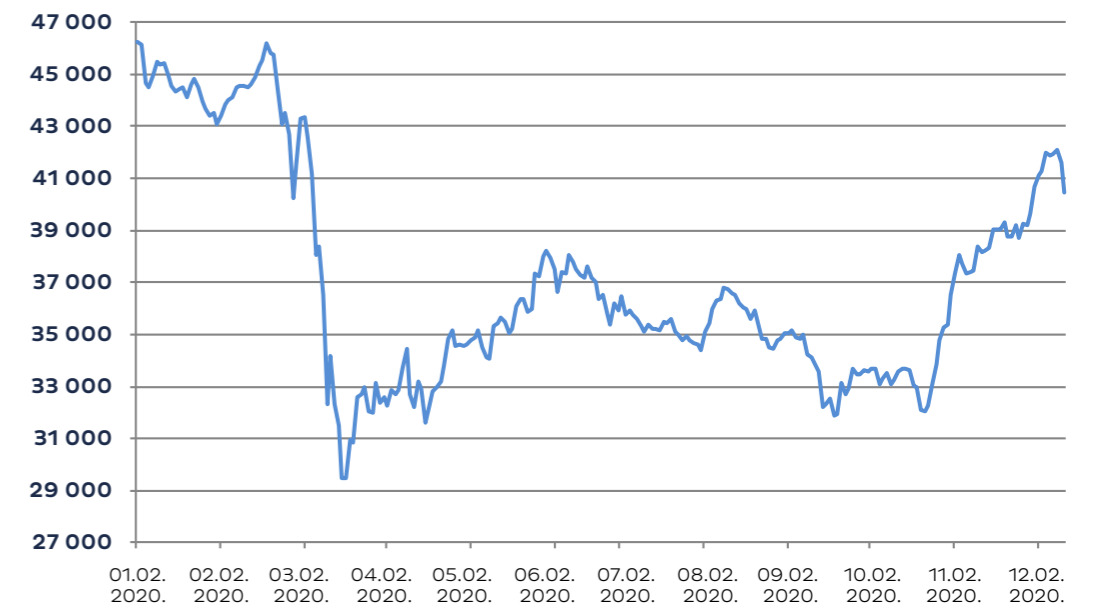
Similar to international stock indices, Budapest Stock Exchange's (hereinafter: BÉT) stock index also has undergone a considerable appreciation, as opposed to the low point in March. On the last trading day of 2020, BUX closed on 42,107 points. The stock market turnover of BÉT was significant, as it grew by more than 30% over the previous year: in terms of value, combined turnover grew from HUF 2,575 billion to HUF 3,351 billion.

The Hungarian forint fluctuated in a wide range in relation to EUR: between 329 EUR/HUF and 369 EUR/HUF. Glancing back at 2020 and with a view to the opening rate on 1 January and the closing rate on 31 December the HUF weakened by 10.6% in comparison to EUR. At the end of 2020 a similar

weakening could be established in comparison with USD (- 1.0%) and CHF (- 11.1%). In the international currency market the USD lost momentum in comparison to most of the significant currencies, e.g. the rate decreased by 9.6% in comparison to EUR and 10.0% in comparison to CHF in the above time period.

In Hungary the basic interest rate decreased in two steps in 2020: first from 0.9% to 0.75%, then below 0.6%, then remained unchanged since the interest resolution on 22 July 2020. In 2020 the consumer price index was 3.3 %, the core inflation was 4.1 %, while the core inflation without indirect taxes amounted to 3.7%.

Changes of the BUX Index in 2020



# REGULATORY ENVIRONMENT



The operation of KELER in 2020 was influenced especially by the following new laws or amendments to the below laws (whether in 2020 or before):

- Act no. CXX of 2001 on the capital market,
- Regulation 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 as well as Regulation 236/2012 (CSDR),
- Act no. CCXXXVII of 2013 on credit institutes and financial undertakings,
- Regulation 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation 648/2012 (CRR),
- Regulation (EU) 2016/679 of the European Parliament and of the Council of 27 April 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation, GDPR),
- Regulation (EU) No 260/2012 of the European Parliament and of the Council of 14 March 2012 establishing technical and business requirements for credit transfers and direct debits in euro and amending Regulation (EC) No 924/2009 (SEPA),
- Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (MAR),

- Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012 (MiFIR),
- Act no. CXXXVIII of 2007 on investment undertakings and commodity exchange service providers and on the rules of their activities,
- Act no. V of 2013 on the Civil Code,
- Act no. CXXXIX of 2013 on the Hungarian National Bank,
- Act no. XVI of 2014 on collective investment forms and their managers, furthermore on the amendment of certain financial legislation,
- Act no. XLIX of 1991 on the bankruptcy and liquidation proceedings,
- Act no. LXXXV of 2009 on the provision of payment services,
- Act no. XIX of 2014 on the announcement on the Treaty concluded by the Government of Hungary and the Government of the United States of America for the facilitation of the international taxation cooperation and on the implementation of the FATCA regulation, furthermore on the amendment of certain related legislation,
- Act no. LIII of 2017 on the prevention and combatting of money laundering and the terrorist financing,
- Act no. LII of 2017 on the implementation of the financial and wealth restricting measures ordered by the European Union and by the Security Council of the UN,
- Act no. XXXVII of 2014 on the development of the institutional system strengthening the security of the actors of the financial intermediary system (Restructuring act),
- Act no. V of 2006 on public corporate information, corporate law proceedings of the courts and on the voluntary liquidation,

## REGULATORY ENVIRONMENT

- Act no. CXXII of 2009 on the economic operation of state-owned business entities,
- Act no. CXII of 2011 on informational self-determination and on the freedom of information,
- Act no. CLXVI of 2012 on the identification, appointment and protection of crucial systems and facilities,
- Act no. XXXVII of 2013 on certain rules of the international public administration cooperation regarding taxes and other public dues,
- Act no. CCXXII of 2015 on the general rules of electronic administration and trust services,
- Act no. LVII of 2018 on the supervision of foreign investments harming the security interests of Hungary,
- Act no. XXX of 1997 on credit institutes acting as mortgages and on mortgage bonds,

- Act no. XXIII of 2003 on the finality of the performance in payment and security settlement systems,
- Government decree no. 284/2001 (XII.26.) on the ways of the creation and forwarding of dematerialized securities and on the security rules, furthermore on the rules of the opening and keeping of securities accounts, central securities account and client accounts,
- Government decree no. 67/2014 (III.13.) on certain matters regarding the keeping of the share registry of companies limited by shares,
- Government decree no. 285/2001. (XII.26.) on bonds,
- MNB decree no. 20/2014. (VI. 3.) on the ISIN identifier,
- MNB decree no. 35/2017. (XII. 14.) on the arrangement of cash flow payments.

KELER contributed to the preparation of several laws in 2020 concerning its operation and provided its opinion thereon in numerous instances.

### General meetings

**The annual ordinary general meeting of KELER was held on 28 May 2020.**

**The agenda of the general meeting included the following, among others:**

- Report of the Board of Directors (BoD) of KELER Ltd. on the activities performed in 2019 (the proposal is identical with the Business report of 2019)
- Approval of the independent report of KELER Ltd. prepared in line with the IFRS rules in conjunction with the Accountability Act, decision on the profit after taxes
  - the proposal of the BoD for the approval of the individual IFRS report of KELER Ltd.
  - the report of the Supervisory Board (SB) on the individual IFRS report of KELER Ltd.
  - the proposal of the auditor concerning the individual IFRS report of KELER Ltd.
  - approval of the individual IFRS report of KELER Ltd, decision on the profit after taxes
- Approval of the consolidated IFRS report of KELER Ltd
  - the proposal of the BoD for the approval of the consolidated IFRS report of KELER Ltd.
  - the report of the Supervisory Board (SB) on the consolidated IFRS report of KELER Ltd.
  - the proposal of the auditor concerning the consolidated IFRS report of KELER Ltd.
- Amendment of the credit lines provided by KELER Ltd. to KELER CCP Ltd. and of the underlying cooperation agreement and deposit agreement

- Approval of the amendments of the Order of Business of the SB of KELER Ltd.
- Information on the special decision-making rules under Government decree no. 102/2020 (IV.10.) on the departing rules on the operation of business entities during the state of emergency that is also applicable to the general meetings managing boards and supervisory boards of the KELER Group
- Amendment of Policy no. 3-17 On the remuneration and termination allowances payable to executive directors, SB members and executive employees in the sense of § 208 of the Labour Code at KELER Ltd.

**Extraordinary general meetings were held at KELER on 27 February, 27 August and 28 September 2020.**

**The agendas of the extraordinary general meetings included among others:**

#### 27 February 2020

- Election of a board member
- Election of SB member(s) and president

#### 27 August 2020

- Election of new BoD members and the determination of their remuneration
- Amendment to the Articles of Association of KELER Ltd.
- Amendment to the Order of Business of the SB of KELER Ltd.

#### 28 September 2020

- Proposal for the amendment of the credit lines provided by KELER Ltd. to KELER CCP Ltd.

# FINANCIAL MANAGEMENT ACTIVITIES OF KELER



The COVID-19 pandemic led to several disfunctioning industries, including the most of the global services sector due to the curfews and restrictions prohibiting the meeting of larger number of people. Governments tried to aid the redundancies and businesses threatened by bankruptcy by providing aids and subsidies globally.

The economic effects of the crisis hit the hardest in Q2 last year in the Hungarian economy, then the economic activities started to significantly increase, however the economic output (GDP) of Hungary still suffered a nearly 5% drop in 2020 and the state budget deficit in relation to the GDP was at 8.1%, while the state debt increased to 80.4% of the GDP. Due to the increasing government deficit the HUF state bonds started to boom and this caused KELER's fee income to increase rapidly. The income from securities transaction services increased by more than HUF 500 million but also other services enjoyed a growth of income due to the volatile financial and capital market transactions. Only the income from the corporate action management decreased due to the state of emergency. This was the first time in KELER history that the income from depository and credit institute activities exceeded the threshold of HUF 6 billion.

KELER's income from interests was less than in 2019 due to the expiries of securities purchased at higher interest rates in the previous years, due to the low market profits and due to the assets of some clients that were removed from KELER. To balance out the above KELER managed in the reference period to take out loans for a 5-year definite period and with fixed interests in the amount of HUF 28 billion in a Hungarian National Bank tender that was used for the purchase of 5-year state bonds resulting in a 30-90 basis point transaction margin.

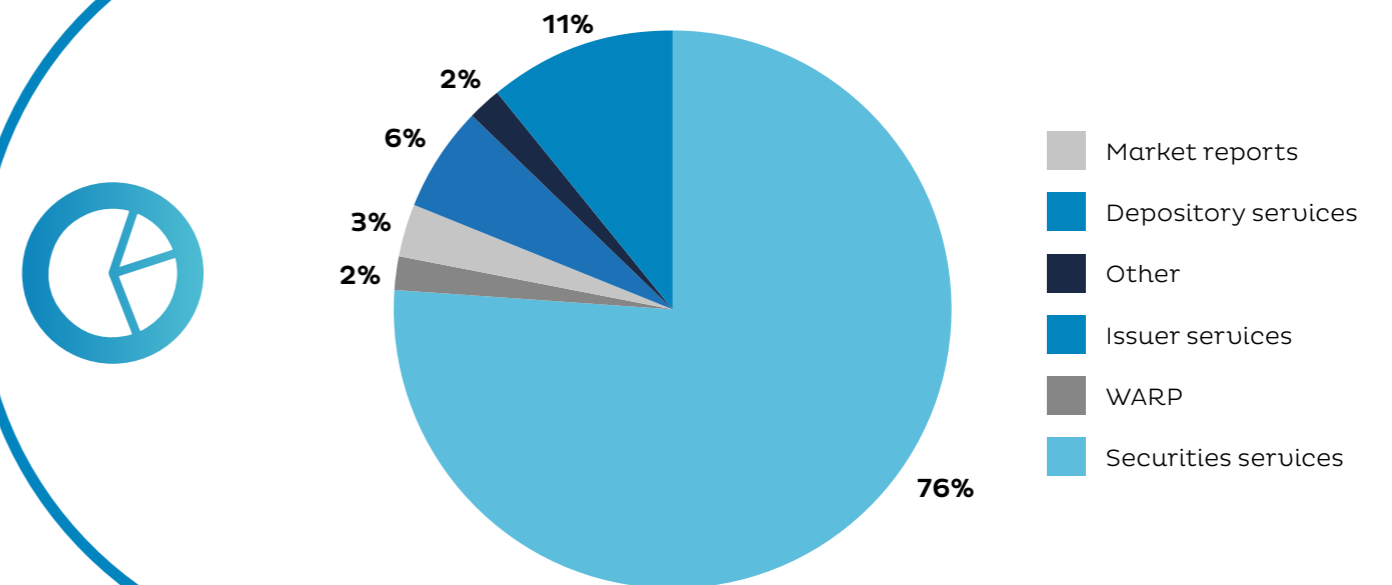
Even though the operational costs of the depository increased by ca. HUF 400 million compared to the previous year but this was still hundreds of millions of forints less than projected for the business year due to less money spent on experts.

Operational result showed a favourable picture, the value thereof was HUF 1.3 billion, while the profit before taxes was similar, ca. HUF 1.3 billion.

## KELER Results (in million HUF)

Item	2019 I-XII.	2020 Adjusted plan	2020 (I-XII.)	Performance (%)
Fees and commission from depository and credit institution	5 401,5	5 595,2	6 038,2	108%
Infrastructural revenues	380,6	393,7	346,2	88%
Interest margin	860,4	685,2	810,2	118%
Anticipated imparement	1,4	2,0	5,2	258%
Result from main activity	6 643,9	6 676,1	7 199,8	108%
Operating expenses	5 593,9	6 471,6	5 985,0	92%
Impairment	1,6	0	0	0
Other revenues, expenditures	91,0	89,3	87,1	98%
PROFIT BEFORE TAX	1 139,3	293,7	1 301,7	443%

Fees and commissions from clearing, depository, and credit institution activities (2020)



## TREASURY



The Treasury was responsible for an interest result of HUF 810.2 million of KELER in 2020 that was a ca. HUF 50 million decrease compared to the previous year.

The erosion of the interest difference was caused mainly by a drop in the managed assets by HUF 48 billion, a less favourable interest environment for expiring investments and the changes in the HUF assets, the structure of the funds and the profitability. The latter one is caused by the decreased interest margins given as a result of the deposit and escrow rules of the CSDR permit.

The missing interest profit could be replaced by the liquidity tools provided by the national bank that was aimed at the mitigation of the economic effects of the pandemic. With a view to the risk limits also KELER participated in the credit

tender of the Hungarian National Bank and “won” 5-year credits with fixed interests worth HUF 28 billion that was used for the purchase of 5-year state bonds by the Treasury. Owing to this transaction KELER will enjoy an interest profit of HUF 172 million annually in the upcoming years. The credit amounts were invested almost exclusively into assets where the expiry is due before the repayment date of the credits and this reduces any risks to minimum level.

The Treasury properly fulfilled its main tasks: daily liquidity management and the setting up of reserves.

## BUSINESS ACTIVITIES

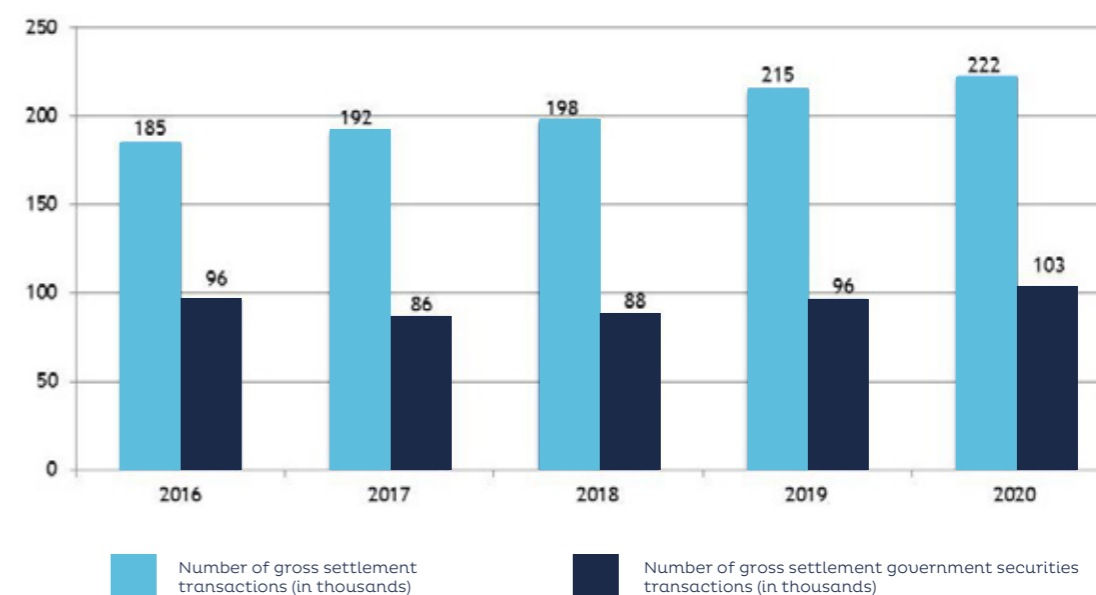


### HUF-based settlement of security transactions

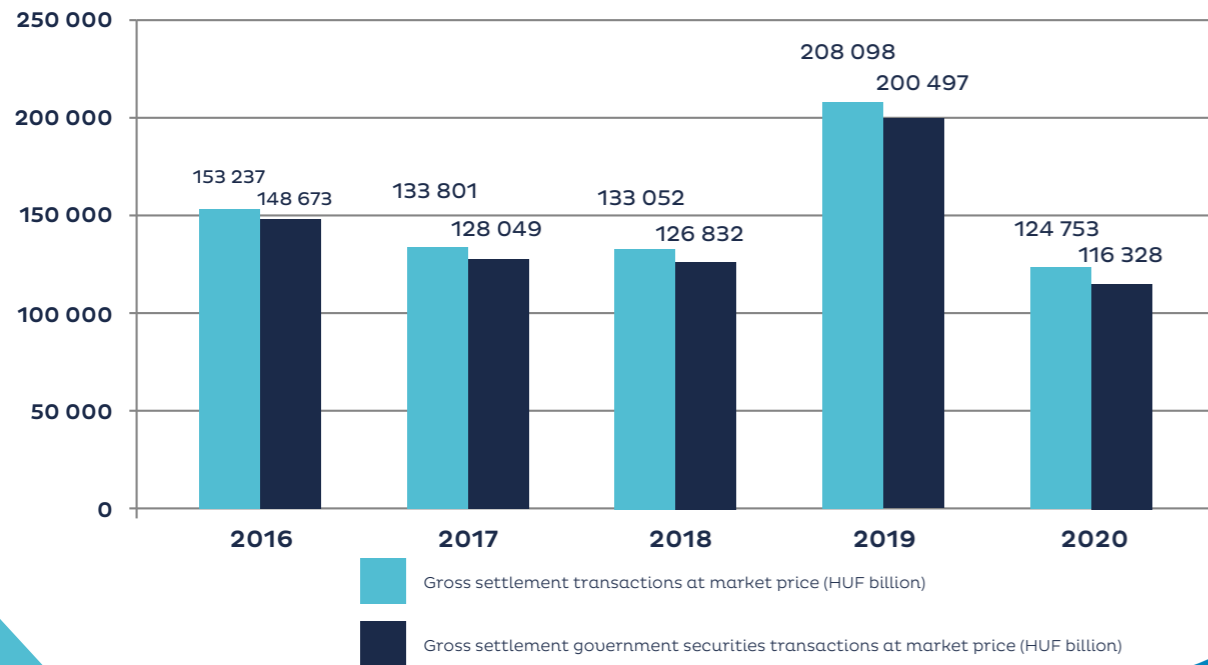
The settlement amount-based turnover of gross settlement OTC transactions arranged with the engagement of KELER decreased significantly in 2020, by 40% in comparison to the previous year that totalled at HUF 124.753 billion. Despite the significant decrease of the turnover, the transaction number

grew by 3.3% in the subject period. The previously identified trend did not change in comparison to 2019, namely the number of gross settlement state bond transactions grew (46% of the total transaction number). These transactions still provide more than 93% of the transaction value.

Number of transactions with gross settlement 2016 - 2020



### Turnover of gross settlement transactions 2016-2020



### International settlements

KELER's services related to international securities comprise depository safekeeping of securities, processing the related transactions and the full-scale management of corporate actions.

In 2020 the value of the foreign portfolio managed by KELER in escrow decreased by 2% compared to the previous year but the number of cross-border transactions increased by 20%.

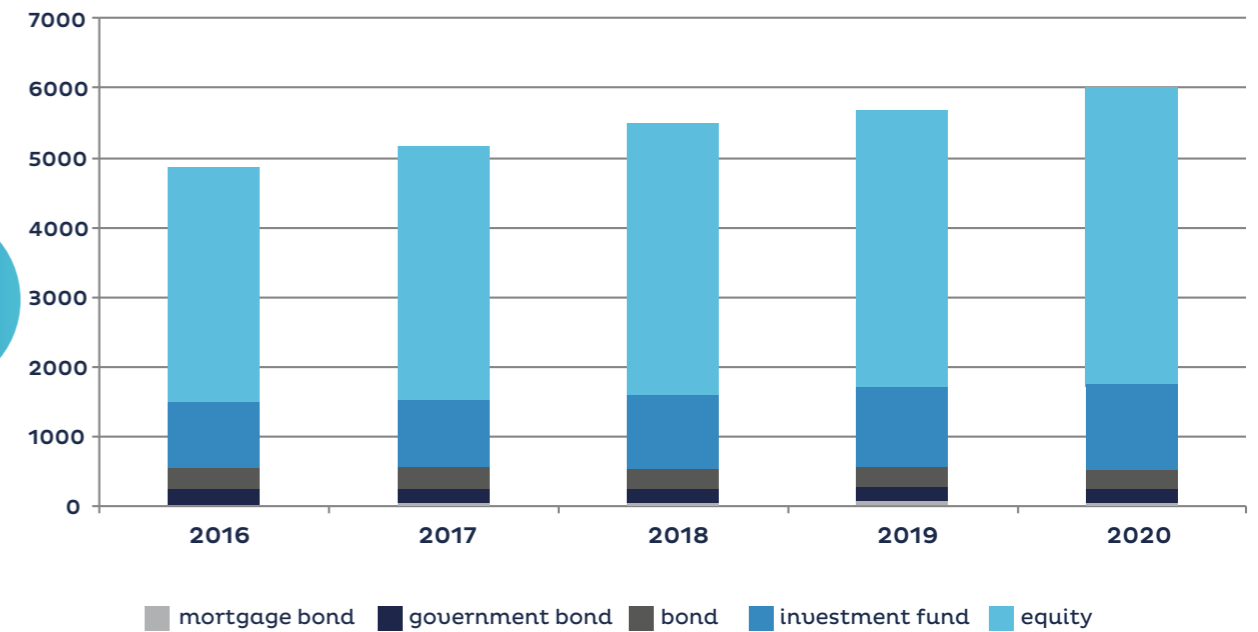
### Central Depository Services

#### Dematerialised securities series

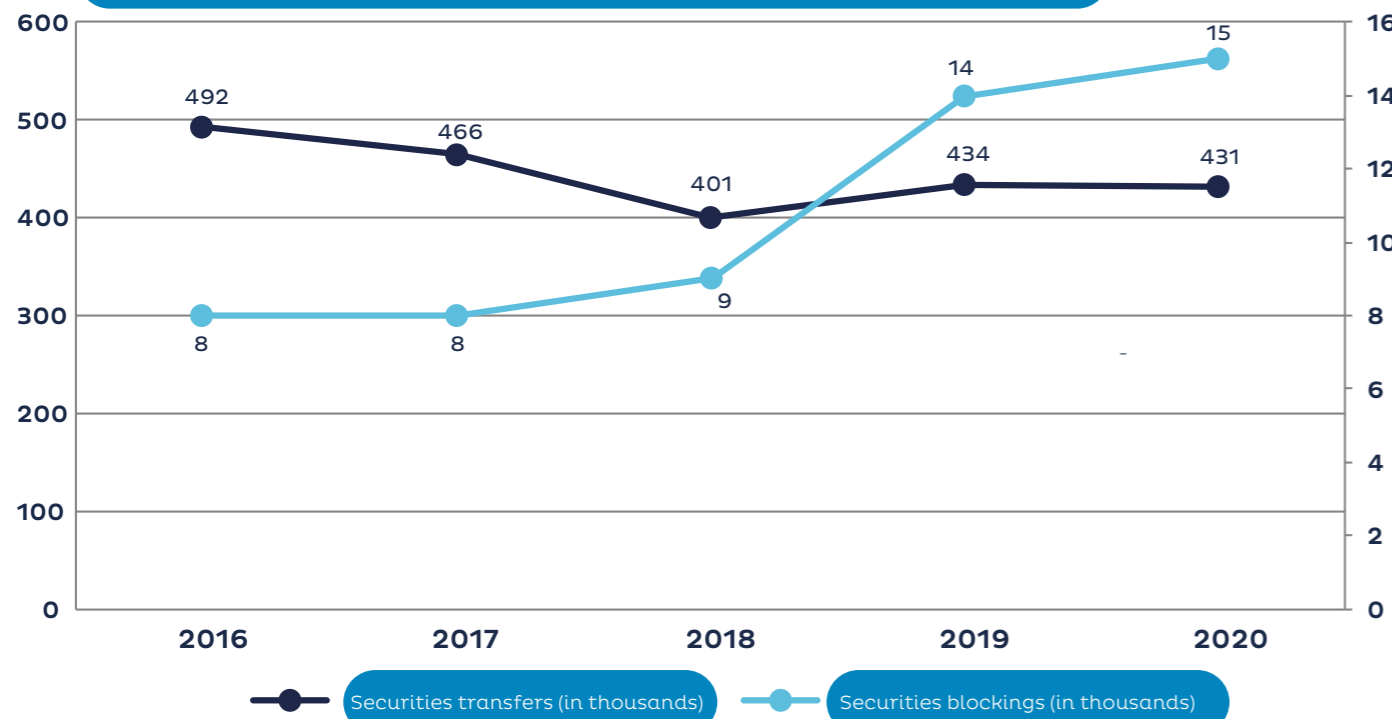
There were 6,067 dematerialised securities series registered in securities accounts managed by KELER as of 31 December 2020, up 7.3% compared to 5,655 series reported on

31 December 2019. The increase of the state bond series was also followed by the issue of new investment notes and securities series.

### Number of demat securities series by securities 2016 - 2020



### Number of other securities transactions 2016 - 2020





## Portfolio of dematerialised securities in central securities accounts

The portfolio of securities worth HUF 45,960 billion as of 31 December 2020 kept on central securities accounts reflected a growth again compared to HUF 40,960 billion at the end of 2019. Beyond the increase of the number of state bond series kept on central securities accounts, the portfolio of state bonds grew by 13.2 % that was the result of the issue of new Hungarian State Bond Plus (MÁP+), the issue in securities of

the related interests at the time of the origination, furthermore the secondary issues on the existing long-term series. The significant growth (45.2%) of the portfolio of bonds was caused by the Growth Bond Program (NKP), while the significant growth of the investment bonds portfolio (15.1%) is a result of the nearly identical increase of the number of series.

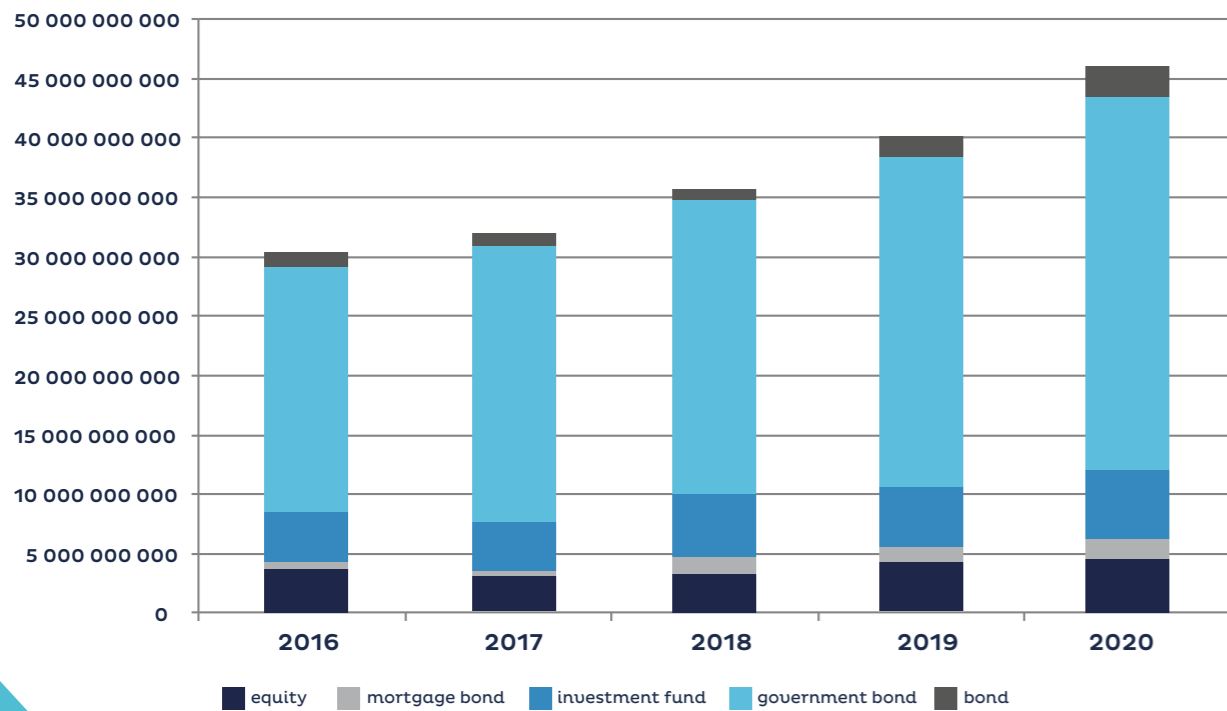
## Issue of securities codes

Compared to business year 2019, KELER received 10.18 % more ISIN applications from issuers in 2020 (1,493 versus 1,355 ISIN applications).

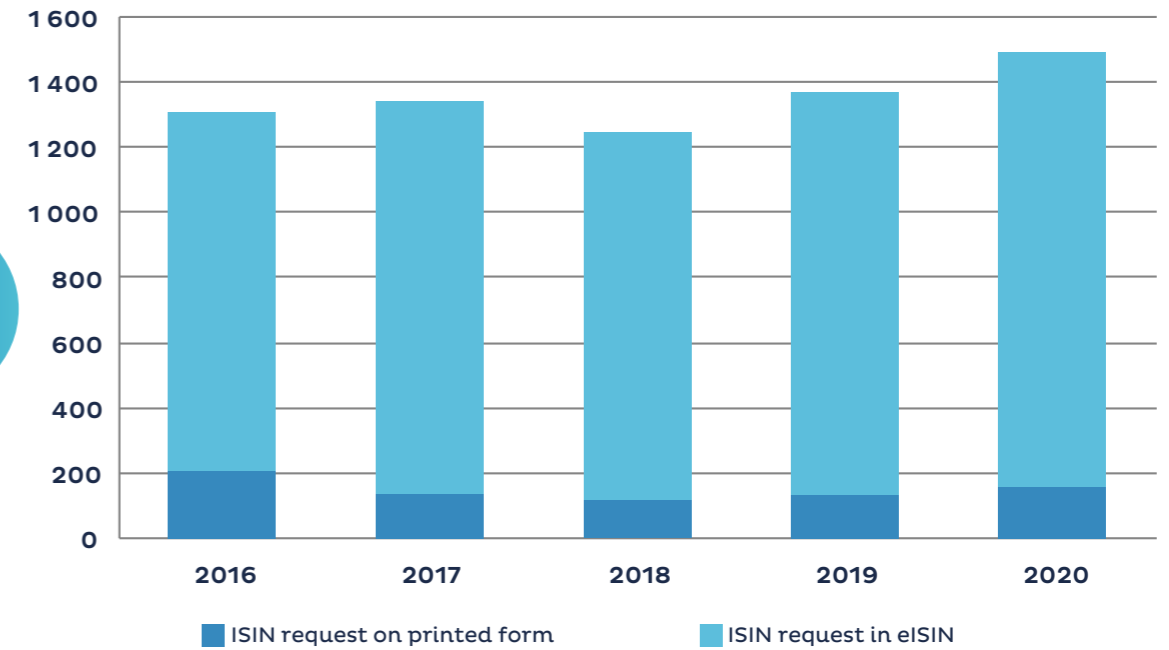
The number of ISIN requests initiated through the eISIN system accounted for ca. 90 % again in 2020, similarly to the previous year (89.4%).

By the end of 2020, ISIN numbers had been allocated by KELER for 30,840 securities in total, out of which 14,166 active securities were recorded in the central securities registry as at the end of the year. The number of ISIN identifiers for active derivative instruments is 14,259.

Demat securities volume by securities type (in THUF) 2016 - 2020



ISIN applications by channel 2016 - 2020



## Investment notes – WARP

The trading figures of the investment notes of open-end investment funds showed a moderate increase in 2020, as well, compared to the previous year and the transaction orders grew by more than 4 % to ca. 820,000 transactions throughout the year. In March 2020 the system processed more than 90,000 intra-year instructions. These constitute new records for the WARP operation thus far (both annually and monthly levels).

Despite the above the number of settlements on securities accounts rather stagnate, only an increase of 0.7% was experienced in the number of cancellations and issuing actions in comparison of the previous year. (The number of daily orders for a single ISIN kept on increasing.)

There was no substantial change in the number of market actors: 25 traders operated at the end of the year and the number of fund managers grew by one, so we had 38 service providers registered in the system by the end of the year.

The number of active securities series tradable in the system increased by 11 %, amounting to 895 active ISIN numbers by the end of 2020 compared to 805 in 2019.

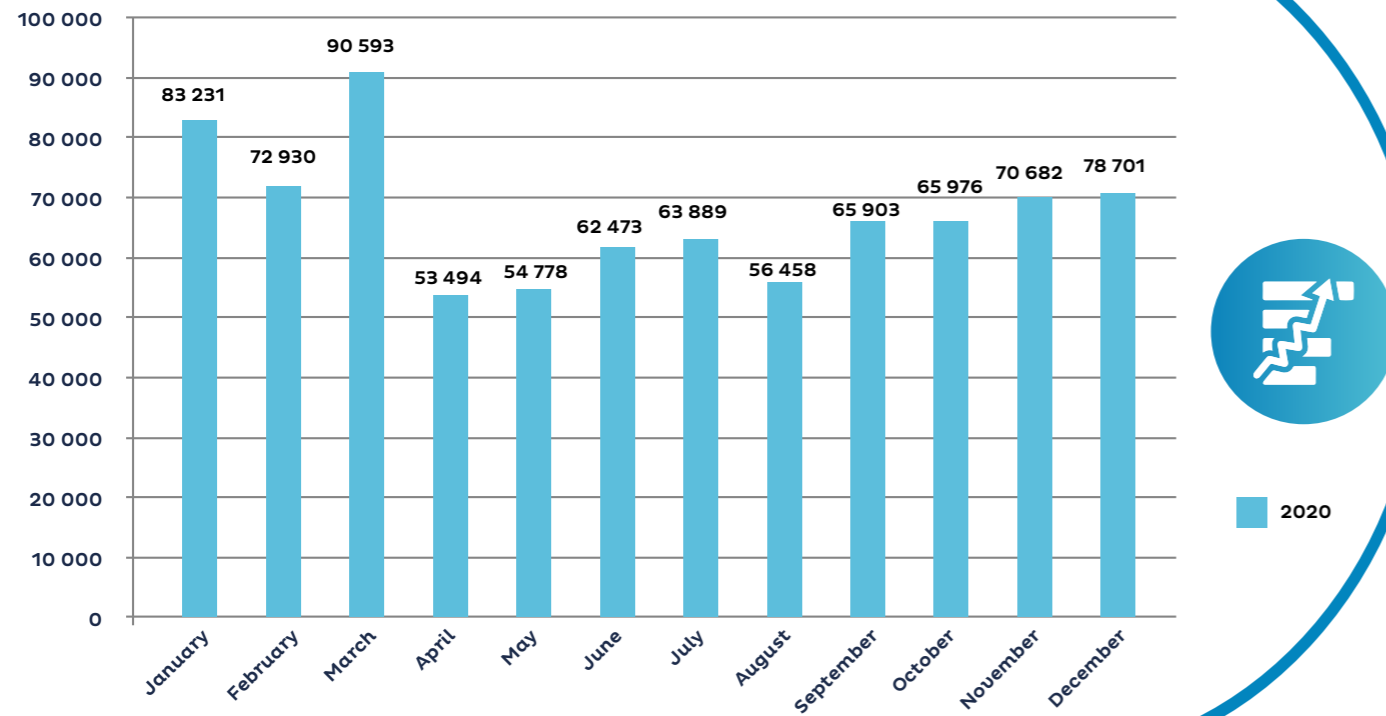
Distributors' networks and the number of traded funds also expanded somewhat: there were 1,940 ISIN live distributor relations shared by 25 trading customers at the end of December 2020, which had increased to 2,035 relations by the end of 2020, i.e. ca. 4 more securities series were available for traders on average (81 pcs of ISIN/ trader).

## Issue of LEI codes<sup>1</sup>

KELER has ensured for market players the opportunity to apply for Legal Entity Identifier (LEI) codes since February 2014. Similarly to previous years, the number of Customers using our services increased in 2020, as well.

<sup>1</sup>LEI is a 20-digit international identifier code that ensures the clear global identification of actors of the capital and energy markets concerned by financial transaction primarily.

Number of completed WARP instructions (pcs) 2020



The new version that went live in Q1 shall be highlighted among the system developments of 2020 that based all screens and functions on new foundations due to the replacement of the web framework ensuring the operation. Some other troubleshooting, security updates and developments

serving user experience and efficiency were introduced at the beginning of the year, such as the forgotten password function was made available that helps decreasing the burden of the Service desk colleagues.

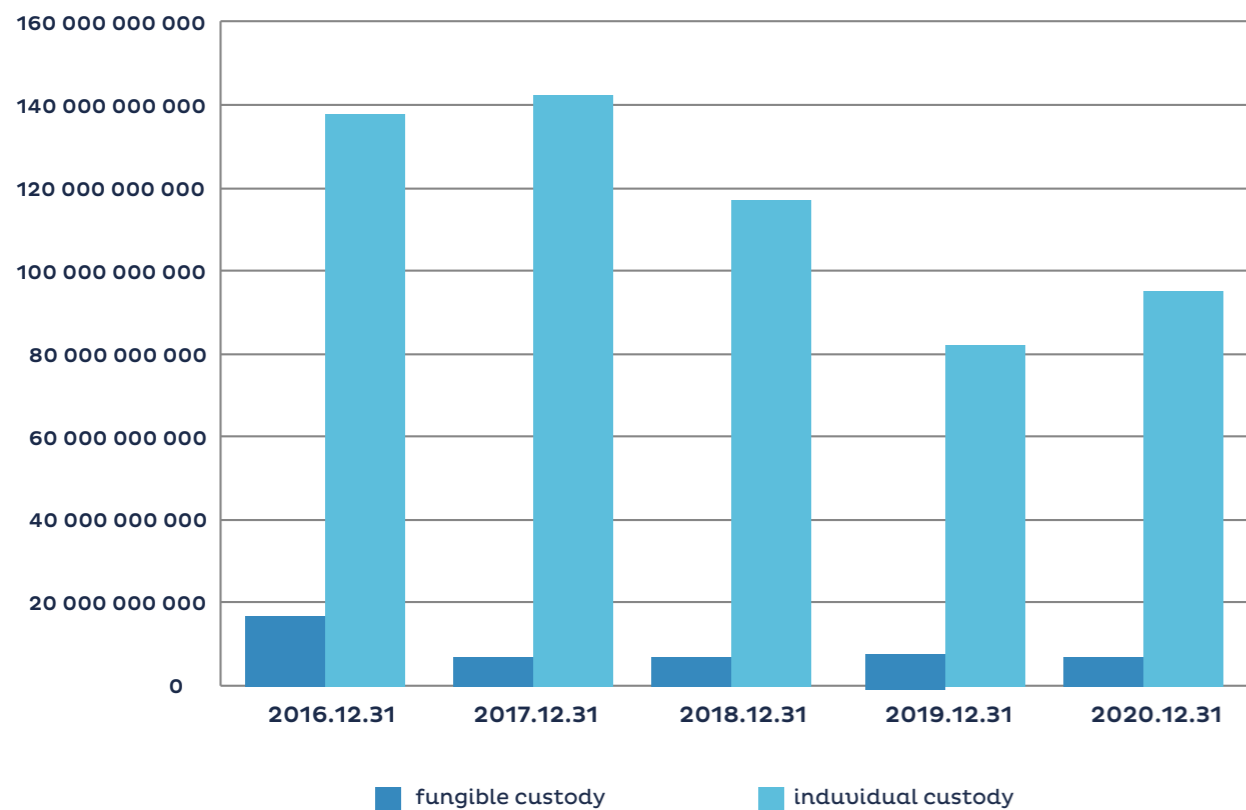
## General depository services

### Safekeeping of physical securities

The number of printed securities deposited with KELER for safekeeping did not change significantly by the end of 2020 in comparison to the previous year, while their total nominal value increased by 18.11%.

The portfolio of securities managed in fungible safekeeping did not change, while the assets in individual safekeeping decreased by under 1% (0.24%) in comparison to the previous year. On 31 December 2020, KELER was managing 301,760 physical securities in depository safekeeping

Depository of print securities 2016-2020

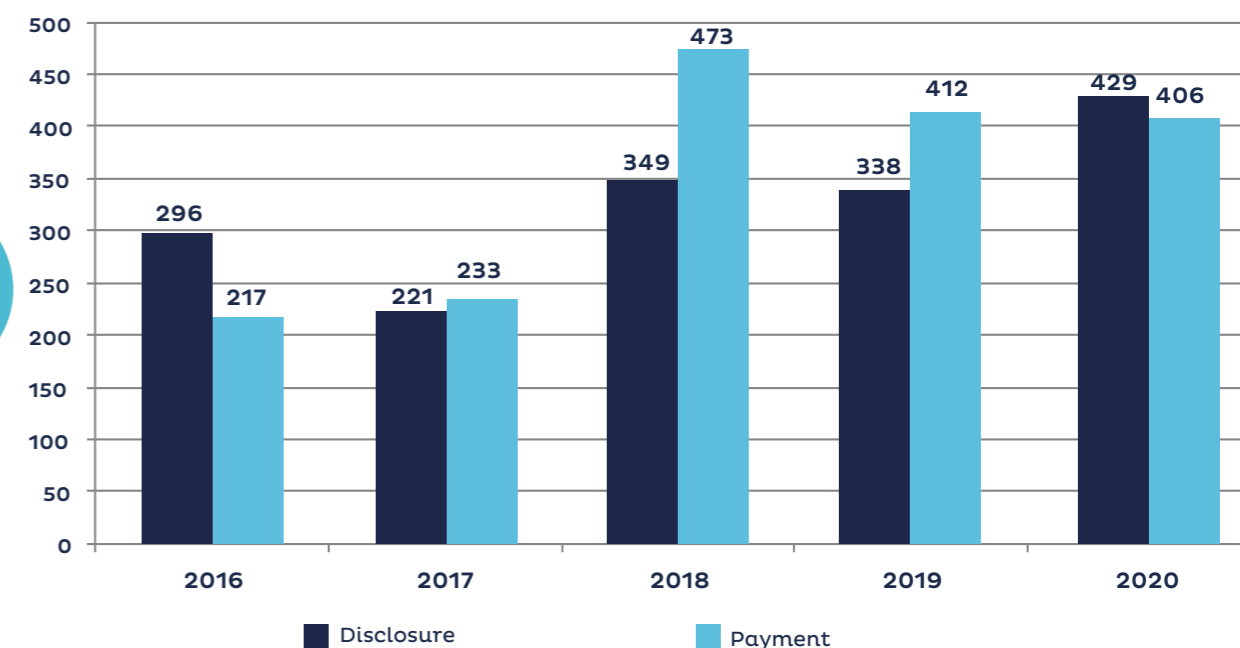


## Management of corporate actions

As part of its central depository activity, KELER provides corporate actions services, including share registry keeping, preparation and implementation of General Meetings, as well as carrying out payment orders in addition to shareholder

compliance and dividend payment services. The traders requested inclusion declarations in 2020 for 258 foreign securities series from KELER for the purposes of the introduction to the Budapest Stock Exchange.

Corporate actions 2016 - 2020



### Trade reporting

KELER has operated the Trade Reporting (TR) service since 2014 that is continuously developed and solutions are introduced that comply with the reporting obligations introduced by newly adopted EU laws.

KELER's objective is to cover as much of the reporting obligations pertaining to clients in the capital and energy markets as possible. For this purpose, KELER continuously monitors the changes of the international regulations and the current market trends.

Currently KELER's TR system is ready to prepare reporting under EMIR (European Market Infrastructure Regulation - 648/2012/EU), REMIT (Regulation of wholesale Energy Market Integrity and Transparency- 1227/2011/EU), MiFIR (Markets in Financial Instruments Directive - 2014/65/EU) and SFTR (Securities Financing Transaction Regulation - 2015/2365/EU). Trading data is forwarded to the recipient (trading database, EU and national authorities) through the own infrastructure that enables the use of several services in one platform.

The number of clients using an element of the service package is ca. 150, while the number of our partners subject to reporting obligations is more than 200. We can welcome more and more foreign market actors among our clients. The service generated a turnover of more than HUF 190 million in 2020.

## PRIORITY PROJECTS AND SERVICE DEVELOPMENTS



### KELER Service Development Program

KELER prepares primarily for the full transformation of securities settlement process and the automation of the message-based communication between KELER and T2S through the KSZP program.

We placed great emphasis on the realization of the program in 2020. After the closing of the definition of the business requirements and the IT architecture last summer also the business descriptions and interface documents supporting the developments by the clients were announced.

In August 2020 due to the effect of the pandemic influencing market actors and infrastructure regulating projects and IT developments ESMA postponed the entry into force of the Commission regulation no. 2018/1229/EU constituting the professional content of KSZP (RTS on settlement discipline) to 1 February 2022. With a view to this and for the purposes of a more thorough preparation and of a longer market test the KELER BoD approved the postponement of the commencement of the program to the end of 2021.

A significant part of IT supplies (with the exception of some integration developments) were delivered at the end of the year. 2021 is primarily devoted to testing: KELER is conducting internal functional and process tests and the preparation for business user and market acceptance tests has been started.

Despite the long stretching pandemic situation KELER has been and is continuously and actively taking steps to ensure proper information of the clients regarding KSZP: we support the preparation of the participants by providing materials supporting the developments and business tests, we ensure bilateral discussions and we created an inbox for KSZP-related matters in order to ensure the participation in mandatory tests and to facilitate going live to be a success story.

### New settlement bank model regarding the settlement of energy market clients

The Hungarian National Bank as oversight authority set out as a requirement and also as a pre-condition for KELER's CSDR licensing that KELER shall cease to keep money and securities accounts and to provide collateral management services for clients active in energy market trading.

The cash-flow services connected to the clearing services of KELER CCP significantly changed when the commercial banks have been involved as partners and these banks ensure the keeping of the money accounts and the settlement of financial transactions for KELER CCP clients after the successful commencement of the project on 1 December.

The newly introduced model received the approval of the licensing authorities (Hungarian National Bank and the Panel).

### SFTR compliance

The Securities Financing Transaction Regulation no. 2015/2365/EU of the EU Parliament and of the Council (SFTR) obliges the contracting parties of securities financing transactions: they shall report the concluded securities financing transaction, any amendment thereto, furthermore its termination to a trade database (that is registered or acknowledged). This reporting shall be made on the working day following the conclusion of the transaction, the amendment or the termination at the latest. The SFTR obligations pertain both to KELER and KELER CCP. SFTR requires a type of report that is very similar to EMIR reports, including the clientele, as well. Beyond the obligation to comply with the above, also KELER's strive to provide a full scope Trade Reporting service also made it necessary to make developments in the system so that KELER can provide a solution and assistance to market actors regarding this reporting obligation. The realization of this project also required the development and modification of the concerned IT systems. The service went live on 13 July 2020 in line with the compliance deadline required by ESMA.

### Licensing for the issuing of LEI codes

European regulatory authorities keep on urging the use of LEI codes in more extensive ways. The Global Legal Entity Identifier Foundation (GLEIF) promotes in its business strategy that in the period until 2022 the number of active LEI codes might triple. With a view to this KELER set up the necessary infrastructure and efficient processes to keep up with the market demand and obtained the LEI LOU status, i.e. a license for independent code issuing.

Minor modifications took place to comply with the requirements of LEI code issuing and the original scope was successfully tested in the beginning of Q2 2020. The system presentation required by GLEIF (SWT) took place on 5 and 26 June 2020 in two stages that was a precondition of the accreditation. After the presentation GLEIF required further development to the system in two stages. One of the changes was aimed at the handling of the document registry and the other one was aimed at the inclusion of the Pre-Check Data Quality API function into the LEI code issuing system. GLEIF approved of the accreditation process on 25 September 2020 and also the Data Governance Pre-Check API process could be successfully closed. After the successful accreditation process the GLEIF issued KELER's LOU license in early December 2020 so KELER turned into an independent LEI code issuer.

After the tasks of the introduction of the new function of the independent code issuing and the related system started on 1 February 2021.

### CSDR

Regulation no. 909/2014 of the European Parliament and of the Council 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 requires every depository in the EU to have its operation licensed again in line with the EU regulation. KELER took the initial steps to obtain the license back in 2014 and filed the application for re-licensing on 29 September 2017 under the CSDR (Central Securities Depositories Regulation) with the Hungarian National Bank as competent authority.

Simultaneously with the licensing process KELER implemented some IT developments in 2020 that were necessary for the CSDR compliance, including changes regarding the central account management and developments for CSDR reporting and reconciliation.

As a result of the jointly conducted preparatory work the Hungarian National Bank issues on 26 June 2020 its statement on completeness and on the basis of this KELER Ltd. obtained the CSDR licence on 16 December 2020.

This licensing meant that KELER reached a long-awaited goal: as a result of the efforts KELER became a depository operating in compliance with the unified EU regulation, ensuring its clients efficient and secure services to facilitate the activities of the securities market.

**SRD**

The main objective of the project is to ensure that KELER complies with SRD 2.

The Shareholder Rights Directive II (SRD 2, Directive no. 2017/828/EU) is a directive of the European Union, the purpose of which is to strengthen the position of shareholders and to ensure that corporate decisions serve long-term corporate stability. SRD 2 amended the original SRD that entered into force in 2007 with the purpose to improve corporate management in companies domiciled in the EU and the securities of which are traded in EU regulated markets.

In July 2019 the domestic implementation act of the Shareholder Rights Directive II (SRD 2) was announced, namely Act LXVII of 2019 that prescribes minimum requirements for several corporate event-related services to unify the flow of information among the participating market actors with a deadline of 3 September 2020.

Commission Implementing Regulation no. 2018/1212 of the EU contains the implementation rules for SRD 2 and the Hungarian implementation law. The regulation was aimed at improving of the communication of publicly traded companies towards their shareholders, with special focus on the information transmission down the intermediary chain and requires intermediaries to facilitate the exercising of the shareholders' rights.

The purpose of the Regulation is to ensure the uniform interpretation of SRD 2 and of the implementing legislation and to motivate commonly used data and message formats for the purpose of the efficient transmission of information necessary for the exercising of the shareholder's rights, ensuring the efficiency and the reliability of data processing and the interoperability among intermediaries, issuers and shareholders, guaranteeing a more efficient operation of the EU capital market of securities.

In the project the primary goal was to ensure the statutory compliance by the statutory deadline as much as possible, i.e. by 3 September 2020. KELER was successful in this and the newly developed CAPS system was made available to the clients. Nevertheless, SWIFT communication is not available yet as the messages that would be used by CAPS, SWIFT did not publish by the given deadline (with reference to the COVID-19 pandemic). KELER managed to find a solution with SWIFT and now the system works with the whole range of services since 29 March 2021.



**CLIENT RELATIONS**

**Domestic client forums in 2020**

**NSG session**

Established in December 2017, T2S Hazai Nemzeti Érintetti Csoport (Hungarian National Stakeholder Group; HU-NSG) held three sessions in 2020. The session in September was held physically, while the sessions in July and December were held online. In the NSG sessions that are held after the AmiSeco sessions, the Hungarian National Bank reported on the events of the AmiSeco sessions, while KELER updated its clients on T2S news and the status of pending developments and projects. In the NSG sessions in 2020 KELER updated its client on the status of KSZP, the CSDR licensing tasks, on developments concerning the SDR and SRD.

**User Committee**

KELER's User Committee held its 5th session on 23 September 2020. The Committee provided its opinion on the changes of the Recovery plan of KELER and accepted same also required for KELER CSDR licensing and was informed about the changes of the Fee Schedule and on the Availability.

**Domestic client meetings**

KELER informed its clients in the client meetings held in July and September 2020 (KSZP workshop) about the status of KSZP and its foreseeable timing.

KELER held a workshop for suppliers on 5 November 2020 where the IT developer companies of its clients could discuss development-related topics.

KELER held three client meetings in 2020 regarding SRD:

- 11 June 2020 – 1st SRD workshop,
- 23 July 2020 – 2nd SRD workshop,
- 13 August 2020 – SRD issuer workshop.

In these client meetings the domestic implementation of SRD and the CAPS system were introduced.

## Representation in international professional organizations in 2020

### ECSDA

The European Central Securities Depositories Association (ECSDA) is a representative and professional organization providing a platform for European central depositories with 40 depository members from 36 countries. The purpose of the organization is to provide a common forum for the European depositories for professional discussion and to facilitate projects in the CSD industry and joint projects, with special focus on regulatory changes. The organization actively represents the interests of the CSD community and has an ongoing dialogue with European authorities and other professional organizations in order to create an efficient and secure infrastructure for the European financial markets. The ECSDA held its annual general assembly on 26 November and the session of the BoD where KELER participated and KELER delegated experts throughout the year in the professional work groups.

### ANNA

The Association of National Numbering Agencies (ANNA) is a global organization present in ca. 120 countries (98 ordinary members and 19 members with partner status). The members include national banks, central depositories, stock exchanges, data providers and regulatory organizations, so organizations acting as the national code issuers in their respective countries. The objective of the organization is to make it easier, standardize and motivate the use of global standard identifiers, especially ISIN, CFI and FISN codes. Due to the Covid-19 pandemic the annual general assembly was held online.



## INFORMATION TECHNOLOGY

Just like every year also in 2020 the primary successful result of the Information technology department is the high-level availability of the system. The annual rate for KELER was 99.968% in 2020.

The department considers as a highlight of last year that once the government measures reacting on COVID-19 entered into force, in the middle of March the KELER Group was immediately able to ensure the services required by the market in such way that KELER colleagues moved into home office without any hiccups in the usual standard of our services.

### Developments

Last year was all about the support of the KSZP Program and the development tasks necessary for the obtaining of the CSDR license.

The CSDR-related developments for the central securities account management took place regarding the account management systems, the core information of foreign securities have been expanded for the purpose of reporting and the central securities account management function was created: the developments went live in November 2020 and the application has been operating ever since successfully without any downtime or critical errors.

### Beyond the priority projects and service development the following took place in 2020:

- the prompt payment system (AZUR project) went live on 2 March 2020,
- the majority of the data consolidation work after the modernization of the Database was carried out and
- KELER was successfully connected to the SimplePay replacing the bank card payment method of OTP.

We strive to stick with the timing of the annual developments because the available sources can be used better this way and this leads to improved quality.

### Steps to maintain and enhance operation security

Several experts of the IT Directorate work to ensure that the IT department comply with all internal and external audits, with special focus on supervisory and oversight examinations and the HunGuard certification that took place successfully in 2020.

The graphic interface connected to the monitoring system used since 2018 and working perfectly keeps on supporting the prompt localization of unforeseen errors, facilitating a more efficient troubleshooting. The development of the automatic monitoring, the fine tuning of the alarms, the expansion to deeper layers and the control of the new application and other elements of the infrastructure belong among the tasks of the IT Directorate.

The department ensured the version control of the core IT systems in line with the timing in the update policy.

The IT Directorate carried out the annual DRP tests in December successfully and it is now ensured that in a crisis either the individual applications or the whole IT environment can switch to the reserve data centre. The moving of the reserve data centre appears among the short-term plans and the feasibility is currently evaluated. The purpose is to increase operational safety and to increase the quality of the connection between the two data centres.

The test environments created in 2019 lived up to the expectations, so their maintenance and operation remains to be a core task.

As a result of the efforts of the recent period KELER managed to come close to the realization in compliance with ITIL and by fine-tuning the incident handling procedure the IT department strives to reach full-scope services to please our clients.

The expansion of the “first line support” tasks came to an end and according to the feedbacks we managed to reach full compliance with the new requirements of the data supply regarding extraordinary events as modified by the Hungarian National Bank.

In line with the Service Level Agreements concluded with the partner units now KELER Group uses monthly measuring and reporting for IT services.

## What to expect

The IT Directorate as a provider of services both to internal and external clients, including its expert team will keep on striving to ensure the usual quality or to increase the quality of its services.

The department currently works with the Hungarian National Bank to elaborate a new method for the determination of the availability indicators and the goal is to maintain the current standards and hopes to increase the accuracy of the availability indicators owing to the more accurate and more detailed new methodology.

Even next year we will strive to operate in an audit-ready mode and to keep the IT architecture serving business needs up-to-date.

The most important task of 2021 in terms of development will be the successful integration of the new system elements and related developments in the KSZP Program into the live system, of course next to the developments made necessary by changes of the legal and regulatory environment or requested by the business departments.



# RISK MANAGEMENT

The risk management strategy is always based on the current business strategy. KELER set up its risk management strategy, including its methods, processes and built-in controls based on conservative and prudent risk management principles. Beyond the owners and the BoD KELER has several committees (e.g. Risk management Committee, Asset-Liability Committee, User Committee) that are responsible for the management, tracking and providing opinions on a defined part of the risks. Furthermore, the Hungarian National Bank as oversight and supervisory authority controls the operation of KELER from time to time. KELER is basically a transparent infrastructure with low risk levels. In KELER the Risk management Department is directly supervised by the CEO. The Risk management Department is responsible for the operative risk management and the risk control function as per § 111 Hpt. The Risk management Department is managed by the Chief Risk Officer who also acts as a Risk management executive in line with CSDR.

The Risk management committee is a body dealing with the comprehensive risks of KELER. Its purpose is to reveal any risks in its competence and to make proposals for their management. The committee reports on its activities to the KELER BoD and informs the KELER CEO. The Risk management Committee can articulate its opinion the current and future comprehensive risk tolerance and strategy of KELER and can submit proposals. The Risk management Committee convened four times in 2020.

All risk management policies of KELER were reviewed in 2020.

KELER supervises its risk exposures if necessary but at least annually and presents any changes to the risk profile in a detailed report to the BoD.

## Credit and partner risks

As opposed to a classic commercial bank, investment risks in the case of KELER are not considered complex or decisive. The treasury portfolio largely consists of Hungarian government securities, complemented mostly by interbank disbursements and repo transactions. On the assets side, the shareholding in KELER CCP and the credits provided to KELER CCP are to be highlighted among risk exposures in terms of its order of magnitude.

KELER's key partners include treasury partners (credit institutions and branches in Hungary) in addition to foreign depository links and foreign currency account keeping institutes.

Treasury partners, depository links, and intermediary institutions were rated in 2020 as well on the basis of data available, and a proposal was prepared for the Assets-Liabilities Committee regarding counterparty risks. No major changes occurred in the scope of treasury partners, or the type and magnitude of the transactions established.

KELER is less active at the foreign exchange market, participating in forex conversion transactions only by customer request and predominantly in low amounts, at that.

Management and aggregation of partner risks is carried out in line with requirements on the level of customer groups in all relevant cases. Noteworthy among risk management instruments is the preference of repo deals over depo transactions and application and daily monitoring of a counterparty limit system based on the aforementioned partner rating by the Risk Management Department. Similarly to partner risks, the daily monitoring of country risk limits is also carried out.

### Market risks

Risks to forint yields are the most significant for KELER among market risks. In the daily calculations, interest risks related to the trading book and the banking book as well as KELER's own exchange rate risks are reported. In addition to daily monitoring of the asset portfolio, regularly stress calculations are prepared by Risk Management Department to the extent defined by law. The size of impairment calculated with the stress parameters remained below the limit stipulated by law throughout the year. The VaR ratio of the government securities portfolio is calculated every other day with both stressed and historical volatility.

KELER's special activity, particularly ensuring uninterrupted ability to execute settlements, makes it necessary for the Company to have liquid assets at all times that may be mobilised swiftly. Partly stemming from this requirement, the scope of assets to be held by KELER is strictly regulated even by laws. In addition to legal obligations, KELER seeks to select financial instruments to keep that could be sold swiftly when necessary and also to use them to create daily liquidity. Measuring, monitoring, and managing liquidity risks are carried out daily.

### Operational risks

Due to the critical role of KELER in the financial and capital market, KELER is extremely exposed to operational risks. The operational risk management framework operated by KELER KKO includes all losses originating from operational errors and events almost leading to losses.

The purpose of the operational risk management framework is to enable that KELER is continuously aware of its own risks and can be in the position to monitor, analyse and after all mitigate same. Accordingly, the data on losses in the past are collected and expert's evaluations are made.

The Risk Management Committee is responsible for handling operational risks. The Committee reviews the indicators of operational risks quarterly and discusses the occurred events, makes proposals concerning operational risk management, risk handling and risk mitigation.

KELER Board of Directors are briefed comprehensively annually about the work of the Risk Management Committee.

### Business, liquidation and reorganization risks

KELER pays special attention to the management of business risks. The evaluation and definition of risks take place by preparing the business plans in accordance with the strategy in several scenarios.

Beyond the above KELER also has plans for mitigating risks and losses resulting from an incidental liquidation or reorganization situation and also capital requirements are defined. The plans for liquidation and reorganization are detailed in KELER's recovery plan also with a view to CSDR requirements.



## HUMAN RESOURCES POLICY

In terms of human resources policy, in addition to day-to-day operation and statutory compliance, KELER's focus in 2020 was ensuring HR resources. On 31 December 2020 the staff consisted of 181 colleagues, while the KELER management consisted of 6 colleagues as of December 31.

A priority project for the HR policy was last year the substantial amendment of the Remuneration Policy and of the Remuneration Regulation and the elaboration of the Eligibility evaluation policy. Furthermore, the pandemic had to be managed at the workplace, organizational developments had to be made and the human resource had to be ensured due to fluctuation. The primary objective for recruitment purposes remained to hire qualified people and to integrate them into the KELER organization and operations.

The new By-Laws of KELER entered into force on 1 October 2020.

As a result of the optimization of the processes and the efficiency of the operation the Strategy and Client Relations has been reformed that continues as a directorate that is also supported by the Process management field. After the position of Deputy CEO responsible for development was created and now the Project office is directly managed by the Deputy CEO.

The Cabinet as an organization unit ceased to exist and the Secretariat is now under the direct supervision of the CEO.

The Risk Management Department has been operating since 1 January 2020 with three colleagues as an independent organizational unit under the Chief Risk Officer.

The IT Directorate and the Bank Operation Directorate was not concerned by any transformation in 2020.

### Other HR tasks in 2020

- KELER Group uses the NEXON HR system to support HR administration since 2019.
- To integrate new colleagues, to inform and support them from 2019 complex introduction days have been organized where they could learn the operation of the different departments of KELER. In 2020 two complex introduction days were held.
- To facilitate home office work online presentations were organized for the colleagues around topics like time management, motivation and devotion and stress management.
- The English courses started in 2019 were completed by March 2020.
- The complex corporate development diagnosis started in the spring of 2019 analysed the efficiency of the company from the aspect of the executives and employees and the effect of same on corporate culture. The survey that is planned to repeated in 2021, will examine effects of the measures on the organization and all reports contain Hungarian benchmark data to enable realistic goal-setting.



• Based on the organizational diagnosis the organizational development started with the inclusion of the management and in the long-term a harmonized vision is expected that is based on consensus and that is elaborated with clear priorities. Beyond the existing strategic directions the critical goals necessary for these directions have been also determined that serve as a basis for the team-level vision of the organizational units and for the goal-setting.

2020 challenged the whole KELER Group. Due to the COVID-19 pandemic reigning 2020 the KELER Group had to adjust to the changed environment. Online presentations were held to support the colleagues and there were some teambuilding events held during the course of the year in small groups and online.

The conditions for home office work for the whole KELER Group were realized. The colleagues were continuously informed during the pandemic by the management about the current situation and the pending tasks. Shifts of "A" and "B" weeks were introduced and the physical conditions of entry into the building were also set out.

HR continues to strive to flexibly adjust to the circumstances, to ensure the necessary HR mix and to ensure the training or even retraining of the colleagues.

The assistance of the new colleagues to blend in, the motivation and retention of the current workforce and the provision of adequate HR are all priority tasks and keys to successful KELER projects.



## INTERNAL AUDIT

Internal Audit carried out its responsibilities in 2020 as well in accordance with its annual work plan based on risk assessment and risk analysis, as approved by the Supervisory Board, and also in line with the operational regulations of the internal audit system in effect. In the definition of audit tasks, the audit of the operation of risk-bearing, high-priority activities, and controls constituted an essential aspect. Mandatory review activity of new or amended regulatory documents was also carried out by the internal audit organisation.

In 2020 7 IT banking security audits and 10 other audits that focused outside the scope of IT were carried out at KELER. Within the audits 10 topical, 1 follow-up and 6 targeted audits were performed.

### Topical audits involved the areas listed below:

- Depository services for physical securities
- Remuneration policy
- Arrangement of corporate events, organization of general assembly
- Risk management activities
- Internal evaluation processes of capital compliance and liquidity compliance
- Examination of SFTR reporting services
- Access management
- Project management
- Outsourcing of IT activities
- Internal and external communication

Targeted audits were focusing in subjects like the adequacy of deductions, approval of payments, management of the risks of shares, emergency recovery tests, data supply concerning IT incidents and the escrowing of source codes.

The follow-up audit focused on the realization of measures introduced in 2019 due to an incident.

The audits were targeted particularly at compliance with stipulations laid down in laws and internal regulations and directives; operability of controls; enforcement of security aspects, with special view to carrying out reviews regarding the implementation of measures and recommendations deemed necessary on the back of deficiencies identified in previous audits.

Beside the aforementioned, KELER CCP was subject to 1 additional audit by Internal Audit on the basis of outsourcing agreements.

## SECURITY MANAGEMENT



A security strategy was elaborated in 2018 and the Security management continued to implement same last year. Even though the pandemic significantly influenced the advancement of the project, but the department continued with the consolidation activity started out earlier. The goal reminder the same: a user friendly environment with higher security level that comply with the current cybersecurity requirements. Our business-focused and supporting activities were continued and we kept on supporting the business strategy.

As a result of the continuous internal competence improvement we managed to reach a higher protection level in several security areas by modifying some processes. As a result of this the cybersecurity resiliency level improved. For the improvement of the current work method we started to review the opportunities for further developments in several areas.

- The group-level BIA survey was updated in 2020.
- This business continuity system used so far was reviewed this year based on which a new, group-level unified strategy was set up in order to ensure that the business can manage the BCP and DRP processes more efficiently and flexibly both for planning and testing. Just like in every year, also in 2020 the DRP plans of the BCP and of the supporting IT systems have been updated in line with the new strategy that can be used in the case of interruption of the critical business processes. Due to the pandemic the work in alternative workplaces was not tested but it has to be emphasized that in March, still prior to the lockdown, the whole group shifted successfully to home office work smoothly. In the preparatory phase the colleagues conducted a group-level call tree test.

- The Security management tested occasionally the security awareness of the employees and continued the role training started in 2019. Beyond the general trainings two focused security trainings were introduced: for the enhanced security of the SWIFT system and the home office work.
- The department continued to enhance the security incident management capabilities in 2020 and expanded the use of the SIEM system. Another security service has been engaged for a more efficient protection against attacks from the internet.
- The IT security controls are regularly supervised to comply with risk-proportionate protection and external expectations. As a part thereof continuous vulnerability examinations took place continuously through the year with more depth this time due introducing scenarios that have not been used so far.
- The Security management continued the significant use of internal competence in the field of penetration tests, mostly in the field of development processes. External experts were also engaged for the annual tests to review the systems accessible from the internet.
- Another step was taken in the field of the user management of the IDM system by creating the technical user development that enables the workflow-based management of technical users.
- The regular regulatory supervisions were carried out in line with the security regulations and risk analysis was carried out in several areas for compliance purposes.

The department started two major technology development in 2020 that were aimed at the enhancement of network security.



## ENVIRONMENT PROTECTION

Due to its activity, KELER Group's environmental responsibility is not substantial as it is unlikely that the company would cause harm to the environment. KELER Group does not use hazardous materials that require licence.

It is the objective of KELER Group's own Green Office Programme to ensure long-term embeddedness of environment-conscious approach into our corporate culture and to reduce group-wide energy and paper consumption and establish a system of selective waste collection. The corporate group pursues the principle of responsible thinking, prioritising to establish a healthy workplace.

KELER Group has been headquartered in R70 Office Complex in Budapest (70-72 Rákóczi Rd.) since April 2014. Key aspects in the selection process was to ensure a liveable and enjoyable work environment for our employees while using environment-conscious equipment and solutions. The principle that office areas should be able to continue and operate the Green Office Programme, which had been functioning well, was also observed. Moreover, the continuous supervision of the central printers and the analysis of the data ensure a lower rate of paper use for printing purposes.

An environment protection expert assists KELER with the identification of statutory obligations and to comply with air protection, waste administration and other data supply obligations.

The Organization and Procurement department ordered the accredited noise test of the generator located on top of the HQ and the impact area was determined (areas to be protected against the noise of the generator). There is no facility in the impact area that should be protected against the noise and the noise emission of the generator is in line with the requirements.

After the emission measurements KELER received the new operation license for the generator as an emissions point from the Government office of Pest County until 15 December 2025. The Government office determined the thresholds for air pollutants originating from the generator and this shall be controlled every fifth year by accredited measurement company under the then current standards.

## REPORT OF THE SUPERVISORY BOARD OF KELER LTD. FOR 2020



### Report of the Supervisory Board of KELER Zrt. on the Company's separate financial statements prepared under IFRS, in accordance with Hungarian Act C of 2000 on Accounting

In 2020, the Supervisory Board held 4 ordinary meetings, 1 extraordinary meeting and on 7 occasions, decided on matters by means of a resolution outside of a meeting. In accordance with the previous practice, the 2020 Internal Audit Work Plan was developed as a result of the risk assessment and risk analysis workflows, ensuring that the audits conducted by the Internal Audit Organisation are focused on the activities and processes that carry the highest risks. The Supervisory Board approved the Company's Internal Audit Work Plan and was continuously informed of the implementation thereof at its meetings throughout the year. The Supervisory Board was informed about the agendas discussed at the meetings of the Board of Directors of KELER Zrt. and was represented at those meetings by its Chairman. On a quarterly basis, the Supervisory Board discussed the reports of the Board of Directors of KELER on the management, financial position, and business policy of the Company.

In the course of 2020, the Internal Audit Organisation examined the following topics in order to ensure KELER Zrt.'s compliance with the legal and internal rules and regulations and requirements of the competent authorities:

1. Internal Capital Adequacy Assessment Process (ICAAP) and Internal Liquidity Adequacy Assessment Process (ILAAP)
2. Remuneration policy
3. Haircut adequacy
4. Securities inventory, examination of CSD activity

5. Risk management activity
6. Remittance
7. Organising corporate events and general meetings
8. Examination of reporting services
9. Follow-up of the Group Mineralix case
10. Management of risks arising from participations

The Internal Audit Organisation performed the following audits in the fields of IT and security:

1. Examination of IT data provision
2. Annual check of business continuity and alternative-site testing
3. Examination of outsourced IT activities
4. Project management
5. Examination of authorisation processes
6. License management, checking the depositing of source codes
7. Performance and supervision of internal and external communication

The Supervisory Board discussed and approved the completed reports at its meeting. Internal audit reports and related action plans included the shortcomings identified during the audits, the tasks proposed to address them, the designated persons responsible addressing them, and the deadlines for implementation.

The Supervisory Board of KELER Zrt. has continuously monitored the performance of the measures required as a result of the internal audit reports, based on reports submitted by the Internal Audit Organisation.

At its meetings, the Supervisory Board regularly discussed the periodic reports on the business and financial management of KELER Zrt.

In order to continuously monitor the risks affecting KELER Zrt.'s financial management, the Supervisory Board received updates on the information provided by the Internal Audit Organisation on a quarterly basis to support the measurement of operational risks, and regularly received the minutes of Risk Management Committee meetings.

In a report, it was informed about the Compliance Officer's work in 2020 and their work plan for 2021.

The Supervisory Board approved KELER Zrt.'s Remuneration Policy and Remuneration Regulations, and in addition, based on the adopted concept, set the performance management objectives of the Internal Audit Organisation and evaluated the performance of the Internal Audit Organisation in the previous year.

Based on the internal audit reports and other submissions discussed by it, the Supervisory Board finds that, essentially, KELER Zrt.'s operational processes are properly regulated, its financial management is orderly, and the Board of Directors and management make continuous efforts to maintain safe operation.

The Supervisory Board is convinced that KELER Zrt. has all the personal and material conditions needed to meet the challenges of the coming years, as it did in the past.

The capital structure and capitalisation of KELER Zrt. are adequate, which provides high security for operators active on the money, capital and energy markets that use the Company's services. In addition, we are convinced that KELER Zrt. has the infrastructure necessary for the provision of high-quality services.

The Supervisory Board established that the Company's executive management had duly managed the financial resources entrusted to it. The Supervisory Board reviewed the Company's financial statements for the year prepared under IFRS and the auditor's report. Based on these documents, the Supervisory Board proposes to the General Meeting to approve the separate financial statements of KELER Zrt., which show a balance sheet total of HUF 95 264 million, where the value of total assets equals that of total liabilities, a pre-tax profit of HUF 1 301 million, an after-tax profit of HUF 1 064 million (profit for the year), and a total overall profit of HUF 1 066 million. The Supervisory Board agrees that KELER Zrt.'s after-tax profit for 2020 (HUF 1 064 million) should be retained (transferred to retained earnings).

Dated in Budapest on 4 May 2021

**Mr. Róbert Taczmán**

Chairman of the Supervisory Board

# INDEPENDENT AUDITOR'S REPORT

## Deloitte.

Deloitte Auditing and Consulting Ltd.  
H-1068 Budapest,  
Dózsa György út 84/C, Hungary  
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P.O.Box 471, Hungary

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www.deloitte.hu

Registered by the Capital Court of Registration  
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 statement of financial positions as at December 31, 2020, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended ("summary financial statements") that are presented on pages 40-43 in the annual report for 2020 of KELER Ltd. ("Company"), are derived from the audited separate financial statements of KELER Ltd. for the year ended December 31, 2020.

In our opinion, the accompanying summary financial statements are consistent in all material respects with the separate financial statements for 2020.

#### **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 separate financial statements of Company and auditor's report on those. The summary financial statements and the audited separate financial statements for 2020 do not reflect the effects of events that occurred subsequent the date of our report on the audited separate financial statements.

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

We expressed an unmodified audit opinion on the audited separate financial statements in our report dated May 3, 2021. The auditor's report on audited separate financial statements also contains the key audit matters identified during the audit of separate financial statements for 2020.

#### **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 2020 in accordance with relevant information included by audited separate financial statements.

#### **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 separate financial statements for 2020 based on our procedures, which were conducted in accordance with National Standard on Auditing "810 Engagements to Report on Summary Financial Statements".

Budapest, October 28, 2021

*The original Hungarian version has been signed*

Molnár Gábor  
on behalf of Deloitte Auditing and Consulting Ltd.  
and as a statutory registered auditor

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

Registration number of statutory registered auditor: 007239

## SEPARATED STATEMENT OF FINANCIAL POSITION

STATEMENT OF FINANCIAL POSITION FOR THE YEAR ENDED 31 DECEMBER 2020  
(ALL AMOUNTS IN MHUF)

	31.12.2020	31.12.2019
Cash and cash equivalents	15 037	15 164
Placements with other banks	15 406	72 817
Mutual deposits	129	96
Financial assets at fair value through profit or loss	40 408	16 446
Debt instruments measured at fair value through other comprehensive income	9 674	19 392
Income tax - Current taxreceivable	0	19
Income tax - Deferred taxassets	96	118
Receivables from depository activities	836	788
Receivables from repurchase agreements	3 430	0
Lease receivable	21	25
Other receivables	443	560
Interests	6 546	6 546
Intangible assets	2 386	1 139
Property, plant and equipment	852	1 105
<b>TOTAL ASSETS</b>	<b>95 264</b>	<b>134 215</b>
Deposits from customers	36 940	99 238
Income Tax - Current tax liability	42	49
Other taxpayables	174	191
Deferred tax liability	0	0
Trade payables	553	701
Provisions	272	248
Liability from repurchase agreement	3 430	8 944
Loans	28 027	0
Lease liability	302	360
Other payables	369	395
<b>TOTAL LIABILITIES</b>	<b>70 109</b>	<b>110 126</b>
Share capital	4 500	4 500
Retained earnings	20 167	19 209
Statutory reserves	477	371
Reserves of financial instruments measured ad fair value through other comprehensive income	11	9
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>25 155</b>	<b>24 089</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>95 264</b>	<b>134 215</b>

## SEPARATED STATEMENT OF COMPREHENSIVE INCOME

STATEMENT OF COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2020 (ALL AMOUNTS IN MHUF)

	01.01.2020 - 31.12.2020	01.01.2019 - 31.12.2019
<b>Income from depository activity</b>	<b>6 038</b>	<b>5 401</b>
Income from infrastrucutre	346	381
Interest incomes for items measured at AC	1 173	1 030
Interest income for items measured at FVTOCI	42	101
	1 215	1 131
Interest expenses	-405	-271
<b>NET INTEREST INCOME</b>	<b>810</b>	<b>860</b>
Gains on securities, net	0	0
Expected credit loss (ECL)	5	1
<b>Income from the principal activity</b>	<b>7 199</b>	<b>6 643</b>
Bank service fees	-300	-233
Personnel expenses	-2 651	-2 547
Depreciation and amortization	-823	-686
Services and support for infrastructure	-775	-629
Professional fees	-550	-626
Telecommunication services	-93	-94
Insurance fees	-12	-11
Materials, supplies	-55	-52
Rental fees	-19	-18
Marketing fees	-3	-3
Education	-12	-21
Taxes and levies	-337	-179
Operational services	-204	-209
Fees and levies paid to regulatory bodies	-112	-31
Legal fees, procedural fees, costs, levies	-22	-21
Other cost of risk	0	-220
Other sundry operational expenses	-17	-15
<b>Operating expenses</b>	<b>-5 985</b>	<b>-5 595</b>
Impairment of non-financial assets	0	-2
Other income and expenses	87	91
<b>Operating income</b>	<b>1 301</b>	<b>1 137</b>
Income taxes	-237	-87
<b>PROFIT OR LOSS FOR THE PERIOD</b>	<b>1 064</b>	<b>1 050</b>
Other comprehensive income, net:	0	0
Remeasurement gains/losses of financial instruments measured at fair value through other comprehensive income	2	-17
Income tax of other comprehensive income	0	-1
<b>OTHER COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>2</b>	<b>-18</b>
Of which later to be reclassified to net income:	2	-18
Of which later not to be reclassified to net income:	0	0
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>	<b>1 066</b>	<b>1 032</b>

## SEPARATED STATEMENT OF CHANGES IN EQUITY

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 31 DECEMBER 2020  
(ALL AMOUNTS IN MHUF)

	Issued capital	Fair value through other comprehensive income reserve	Retained earnings	Statutory reserve	Sum
<b>Balance on 1st January 2019</b>	4 500	27	22 263	267	27 057
Total comprehensive income	0	-18	1 050	0	1 032
Dividend declared (13th May 2019)	0	0	-4 000	0	-4 000
Transfer to statutory reserve	0	0	-104	104	0
<b>Balance on 31st December 2019</b>	4 500	9	19 209	371	24 089
Total comprehensive income	0	2	1 064	0	1 066
Transfer to statutory reserve	0	0	-106	106	0
<b>Balance on 31st December 2020</b>	4 500	11	20 167	477	25 155

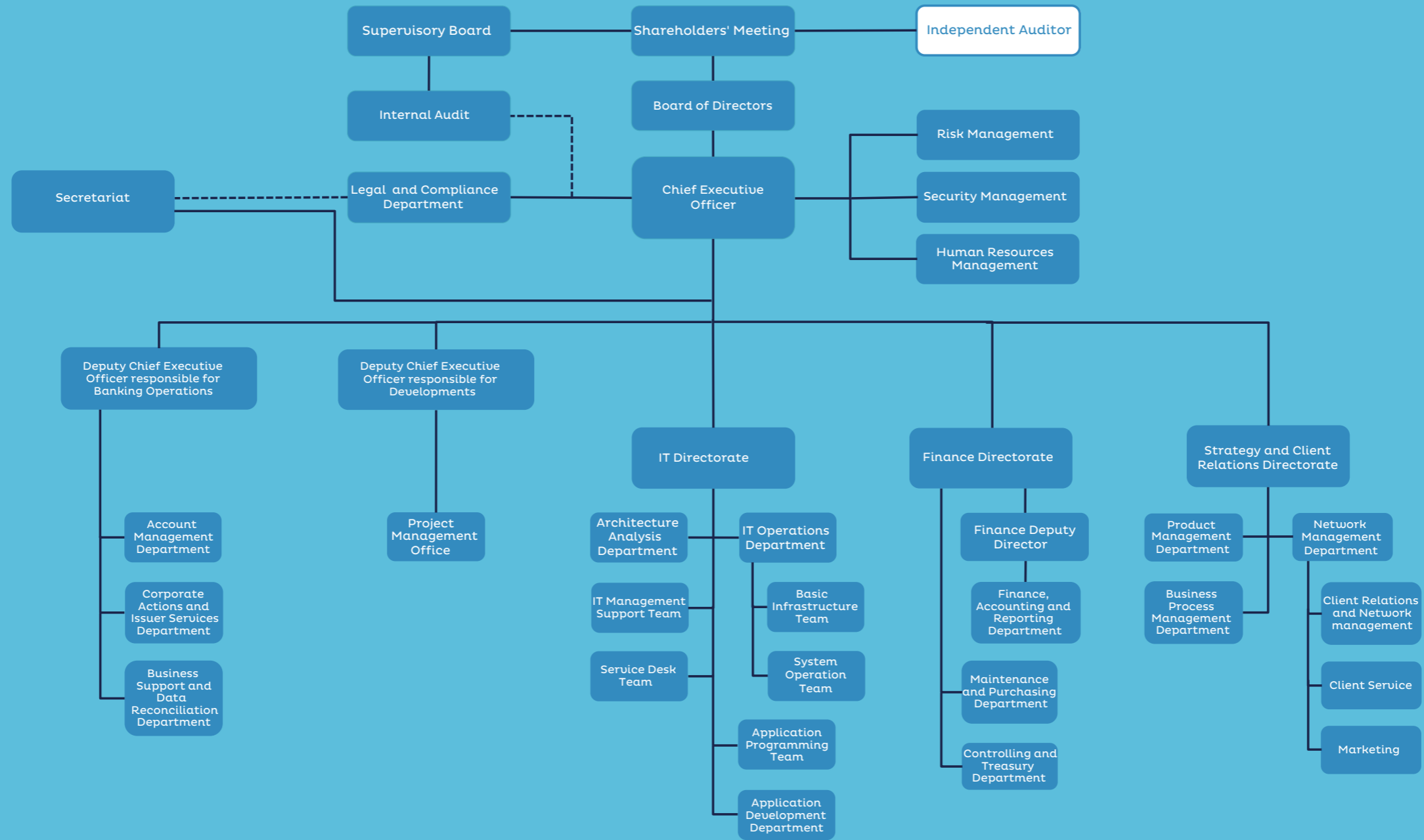
## SEPARATED STATEMENT OF CASH FLOWS

STATEMENTS OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2020  
(ALL AMOUNTS IN MHUF)

	01.01.2020 12.31.2020	01.01.2019 12.31.2019
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
<b>INCOME BEFORE INCOME TAX</b>	1 301	1 137
Interest expense	405	271
Interest income	-1 215	-1 131
	-810	-860
<b>Non-cash items - adjustments</b>		
Depreciation and amortization charged	823	686
Impairment loss / reversal	0	0
Recognition / release of provision	24	220
Unrealized gain on cash and cash equivalents	-24	0
Impairment of intangible assets	0	2
Gain on disposing property plant and equipment	-1	2
<b>Operating cash-flow before working capital adjustments</b>	1 313	1 187
Changes of the deposits of clients, net (loro accounts)	-62 298	19 870
Changes in trade and other receivables	-54	205
Changes in trade and other payables	-126	144
Cash proceeds/cash paid from financial instruments	829	10 604
Net increase (-) / decrease (+) in placements with other banks, net of allowance for losses	57 378	-22 868
Interest paid	-404	-266
Taxes paid (-/+)	-203	-138
<b>Cash generated (+) / used (-) in operation</b>	-3 565	8 738
<b>CASH FLOW FROM INVESTING ACTIVITIES</b>		
Acquisition of property, plant and equipment	-100	-184
Acquisition of intangible asset	-1 654	-512
Capital contribution	0	0
Cash proceeds from disposal of property plant and equipment	4	10
Cash proceeds from/cash spent on financial asset held for investing purposes	-24 073	0
Proceeds from interest	1 338	1 024
Receivables from settlement day differences	0	0
<b>Cash generated (+) / used (-) from investing activity</b>	-24 485	337
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>		
Dividend payment	0	-4 000
Lease payments	-100	-83
Acquisition of loan	28 003	0
<b>Cash generated (+) / used (-) from/in financing activity</b>	27 903	-4 083
<b>Net increase (+) / decrease (-) in cash and cash equivalents</b>	-147	4 993
Opening cash and cash equivalents	15 164	10 152
Foreign exchange rate difference on cash and equivalents		
Expected credit loss balance on cash and equivalents	2	-1
Closing cash and cash equivalents	15 037	15 164
Unrealized gain on cash and cash equivalents	22	18
<b>Net decrease (-) / increase (+) in cash and cash equivalent</b>	-147	4 993

# ORGANIZATIONAL STRUCTURE

(AS OF 31 DECEMBER 2020)



# MANAGEMENT



**Mr. ZSOLT DEMKÓ-SZEKERES**  
Chief Executive Officer



**Mr. LÁSZLÓ BERÉNYI**  
Deputy Chief Executive Officer  
responsible for Developments



**Mr. GÁBOR HORVÁTH**  
Deputy Chief Executive Officer  
and Director of Operations



**Ms. TÍMEA BARTAL**  
Director of Strategy  
and Client Relations



**Mr. RICHÁRD KREUTZER**  
Director of Finance



**Mr. JÁNOS TÓTH**  
Director of IT

## Management in 2020

### Chief Executive Officer

Mr. Attila Mónus  
until 24 February 2020

Mr. Bence Marosi  
from 16 March 2020  
until 31 July 2020

Mr. Zsolt Demkó Szekeres  
from 31 July 2020

### Director of Operations

Mr. Zsolt Demkó-Szekeres  
Deputy Chief Executive Officer  
and Director of Operations  
from 16 February 2019  
until 31 July 2020

Mr. Gábor Horváth  
from 1 September 2020

### Director of Strategy and Client Relations

Ms. Tímea Bartal  
from 1 October 2020

### Deputy Chief Executive Officer responsible for Developments

Mr. László Berényi  
from 1 November 2020

# GENERAL INFORMATION

Effective between 1 January 2020 and 31 December 2020

## Ownership structure

Shareholders	Financial contribution	Ownership ratio
Central Bank of Hungary	2 400 000 000 HUF	53,33 %
Budapest Stock Exchange	2 100 000 000 HUF	46,67 %
<b>TOTAL</b>	<b>4 500 000 000 HUF</b>	<b>100,00 %</b>

## BOARD OF DIRECTORS

### Chairman:

Mr. Zsolt Selmeczi-Kovács dr.

### Members of the Board of Directors:

Mr. Csaba Kornél Balogh

Mr. Zsolt Kuti  
from 8 October 2020

Mr. Richárd Végh

Mr. István Máté-Tóth

Mr. Zsolt Demkó-Szekeres

Mr. Gábor Horváth  
from 9 September 2020

Mr. Márton Nagy  
until 30 June 2020

Mr. Marosi Bence  
from 14 March 2020  
until 31 June 2020

Mr. Zsolt Demkó-Szekeres

Mr. Attila Mónus  
until 24 February 2020

## SUPERVISORY BOARD

### Chairman:

Mr. Róbert Taczmán  
from 26 March 2020

Mr. Lajos Bartha  
until 25 March 2020

### Members of the Supervisory Board:

Mr. Klára Pintér

Mr. Lóránt Varga

Mr. Balázs Visontai  
from 26 March 2020

Mr. Bálint Ádám Gergely  
from 27 March 2021

Mr. Attila Varga-Balázs  
until 25 March 2020



# CONTACT

**CONTACT:**  
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 E-mail: [KELER@KELER.HU](mailto:KELER@KELER.HU)  
 Home page: [WWW.KELER.HU](http://WWW.KELER.HU)

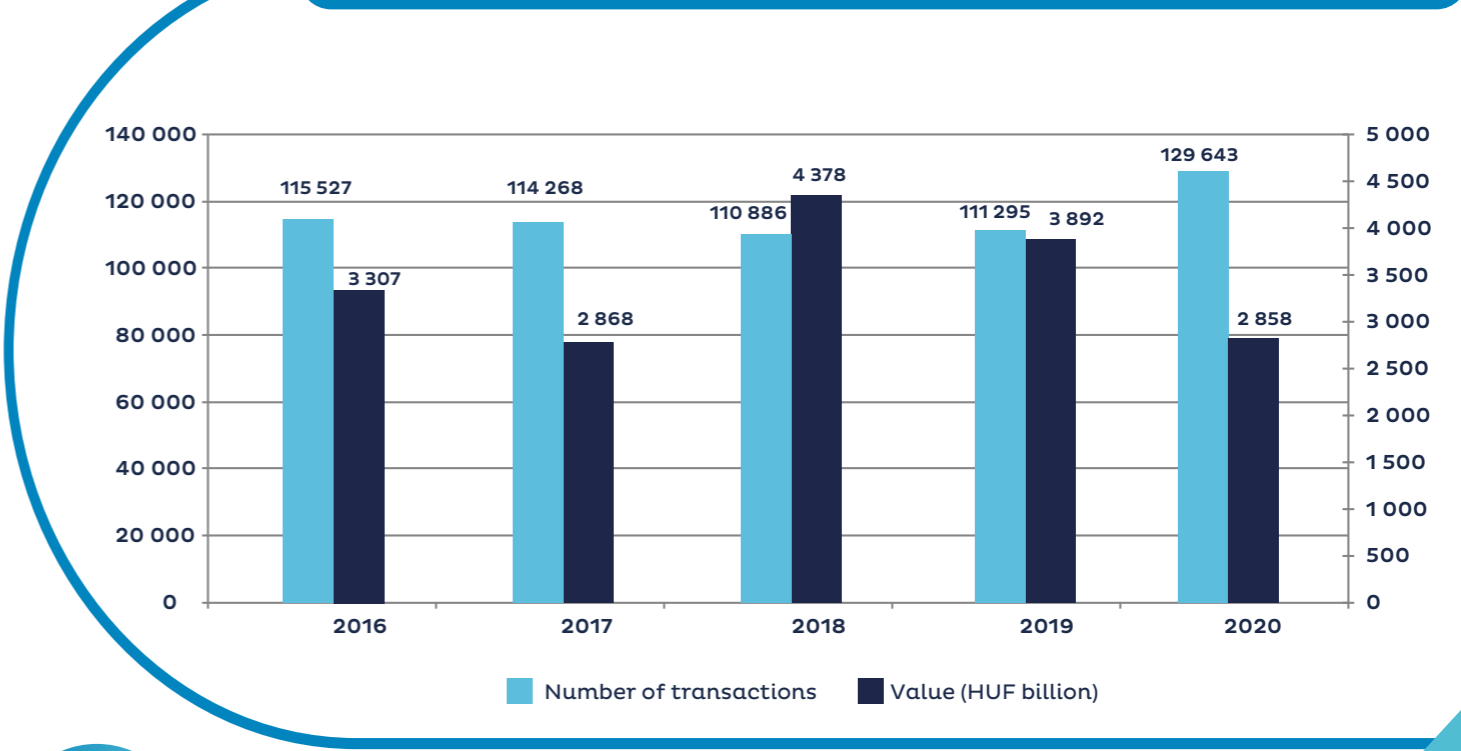
**CENTRAL CLIENT SERVICE:**  
 Monday to Friday from 9.00 until 15.00  
 Phone: +36 1 483 6240  
 +36 30 481 4331  
 E-mail: [ugyfelszolgalat@keler.hu](mailto:ugyfelszolgalat@keler.hu)

**SERVICE DESK:**  
 Available from 7.00 until 20.00  
 (Monday - Friday)  
 Phone: +36 1 483 6228  
 Phone: +36 1 483 6120

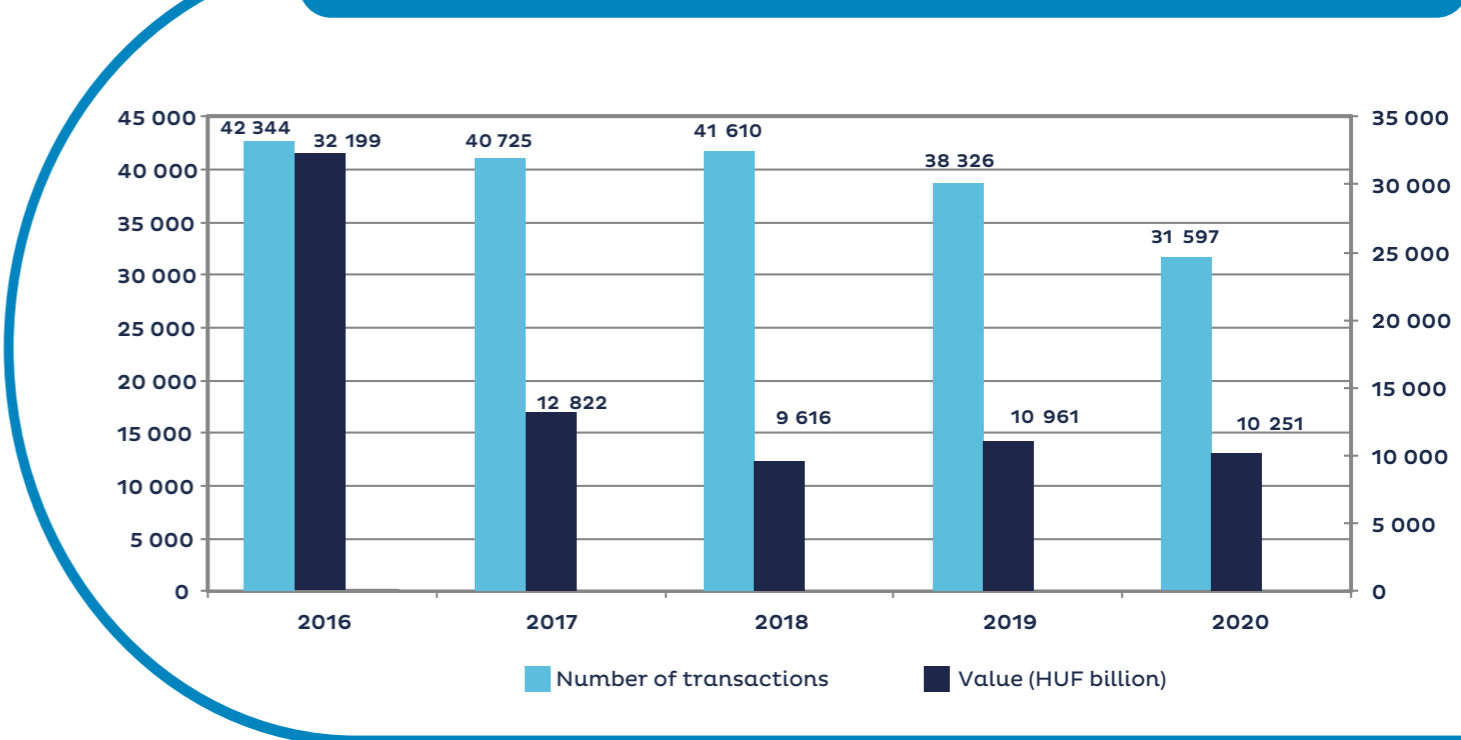


# MISCELLANEOUS STATISTICS

Outgoing and incoming payments from/to client cash accounts with KELER 2016 - 2020

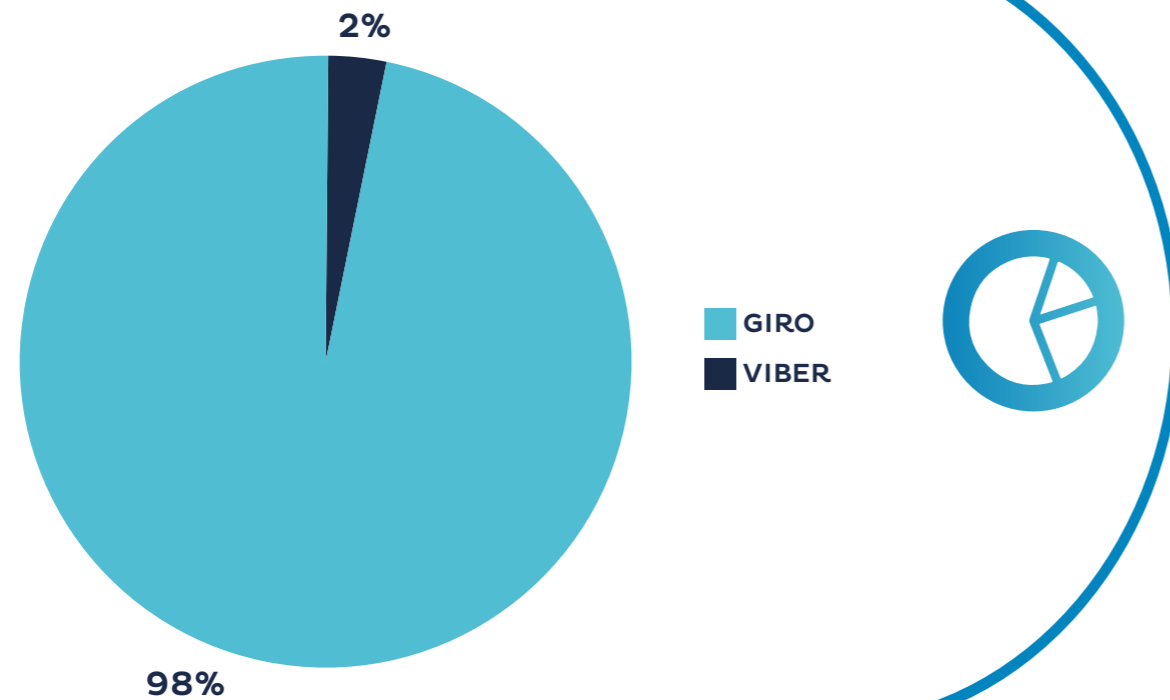


In-house credits and debits on client cash accounts with KELER 2016 - 2020

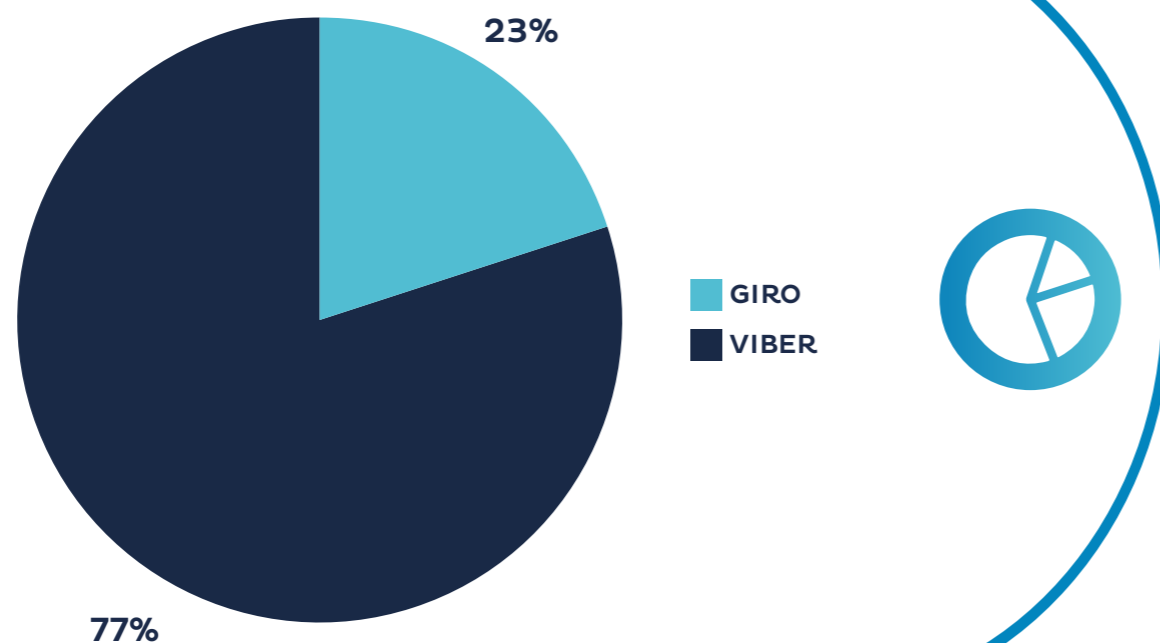


## MISCELLANEOUS STATISTICS

Number of GIRO and VIBER transactions 2020



GIRO-VIBER payments at value 2020



*Securities. Solutions. Success.*

KELER LTD.

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