

TEMENOS NEWS

Issue 6, January 2005

Vendée Globe Update

Some 80 days into the race and with at least a dozen more days before its conclusion, the TEMENOS, with Dominique Wavre at its helm, is currently in 4th position. This has been a tough and challenging competition for Dominique, as for all of the participants in this most gruelling of solo races, which represents the 'Everest' of ocean sailing.

This is not the first Vendée Globe for Dominique, nor is it his first experience of the southern hemisphere seas. On January 8th 2005 at 6.30am GMT, Dominique rounded Cape Horn for the sixth time and even he would admit that this latest Cape passage was one of his most memorable!

The 61 days, 18 hours and 28 minutes that separated Dominique's departure from the Sables d'Olonnes and his epic passage of the Horn have been eventful and the whole team at TEMENOS has followed his daily progress anxiously.

On the day of the departure, November 7th, the skipper of the TEMENOS seemed calm and collected amidst the excitement surrounding him.

Dominique started the race well, crossing the line in third position in good weather conditions (such a contrast to the departure of the last Vendée Globe in 2000 when adverse weather conditions forced organisers to push the departure back a day). Variable

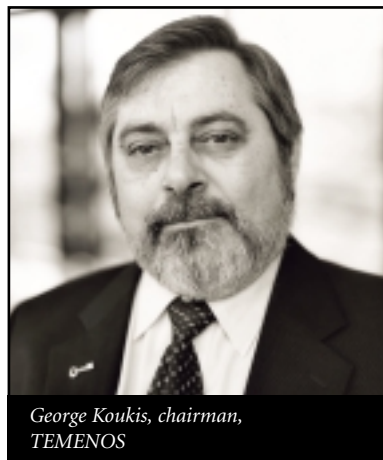
inshore winds and a desire to avoid collisions in the scrum of departure saw Dominique set out into the Atlantic in 15th position. However, after a night at sea, Dominique was back in tune with his environment and, in a few hours, had sailed back into eighth position.

The first leg of the epic journey was
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Approaching the Horn in furious seas

Chairman's Comments



*George Koukis, chairman,
TEMENOS*

All of my best wishes to you and to your families for a very happy and prosperous 2005!

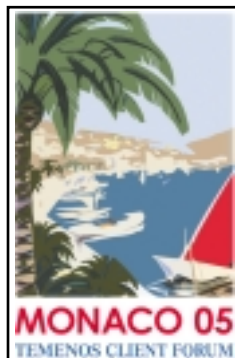
Here we are at the beginning of another new year and one which will no doubt hold as many challenges as promises!

I am delighted to be in the position of

being able to look back on the year which has just closed and report on another very good year for TEMENOS: a year when we both confirmed our position of leadership in the banking software industry and celebrated a solid financial performance - all against a fairly unsettled economic background.

We have continued to enhance our products in recent years and 2004 saw us reap the rewards of this investment: TEMENOS™ COREBANKING enabled us to add a number of tier one and tier two retail financial institutions to the TEMENOS family - Bank Thai and the Bank for Agriculture and Agricultural Cooperatives (BAAC) to name but two; we also signed contracts for TEMENOS T24™ with several new clients, such as Sacombank and the United Nations Federal Credit Union (UNFCU); we completed the

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New Year wishes from our CEO - Andreas Andreades



Andreas Andreades, CEO,
TEMENOS

The beginning of this new year has been overshadowed by the terrible events following the earthquake in the Indian Ocean. We can call ourselves fortunate that we have not suffered any direct losses within the TEMENOS 'family'. However, through our offices and our clients, we are very familiar with the places that bore the brunt of the tsunami and we are doing our best to support and offer our assistance to the people affected in those areas.

In retrospect, 2004 was a year in which TEMENOS continued to grow substantially. As Max Chuard tells you from his 'Hot Seat', our initial license fees (ILF) grew by more

than 20% and we are one of the few companies in the sector which has been able to report licence growth for that period. In the light of our overall strong results for 2004, we are maintaining the full year ILF signing target for 2005 at US\$80 million.

More importantly, the growth we have pursued is profitable and sustainable. As a result we have therefore been able to continue to invest significantly in our products and our organisation, and outpace the competition around the world. This was rewarded in 2004 by our first clients going live on TEMENOS™ COREBANKING (henceforth referred to as TCB) and TEMENOS T24™ - indeed we now have six clients who have chosen TCB, three of whom are now live. During the year, we were involved with a number of larger contracts as a result of the take up of these products. Median contract size continued to increase, with a value of US\$2.6 million for the year compared with US\$2.2 million for 2003 - an increase of 18%.

The growth in signings for 2004 has been driven by a very strong performance in Asia, where TEMENOS almost tripled signings compared to 2003 and in Europe and the Middle East, where signings grew at more than 20%. Our signings year on year in North America remained more or less the same.

As for 2005, all of the research analysts agree that banks will be focusing more and more on strategic IT spending, where replacement of core systems will be key to remaining competitive in an ever more aggressive market.

We are implementing our systems in more complex and demanding situations now and this inevitably presents a challenge to every single one of us. However, I believe that in the last twelve months we have risen to each and every one of these challenges and, as a result of our tenacity and the relentless TEMENOS pursuit of success, the dedication, loyalty and commitment of everybody has shown through.

As we mature and move forward, it is important to retain these elements that make us special and different from other suppliers. I believe that they are represented by our client and people orientation, our passion for success and our culture for innovation. At the same time, we must ensure that consistency in delivery, maturity and professionalism go alongside these. This is what I believe will take TEMENOS forward in 2005.

At TEMENOS, we are all looking forward to another great year and I would like to wish you all health, peace and happiness for yourselves and your families in 2005.

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successful migration of our first clients from TEMENOS GLOBUS™ to TEMENOS T24™ - Sri Lanka's Hatton National Bank providing a good example; and our TEMENOS eMerge™ product has continued its quiet success and now has some 46 implementations in over 30 countries. One of the privileges of my position in 2004 was to be able to welcome so many banks and financial institutions as new users of our systems. I had the opportunity to meet our new clients at a number of TEMENOS events during the year TEMENOS CLIENT FORUM - TCF™ in Prague, for example,

and at a special dinner in Athens to mark the opening of our new Greek office.

Apart from the business highlights, we will also remember 2004 for our association with Swiss skipper, Dominique Wavre. In his boat, the TEMENOS, Dominique had his own challenges to meet - in the course of the Transat race, where he performed magnificently to take second place, and from November, in the Vendée Globe round-the-world race, which is ongoing. This is a particularly gruelling race, requiring superlative levels of seamanship and personal stamina. As we go to press, Dominique is holding a creditable position,

not far behind the leading three boats. We wish him a safe return home.

If Dominique's battles against the natural elements in 2004 held us in awe, sadly this awe turned to grief as the year ended, with the earthquake in the Indian Ocean and the devastating tsunami which ensued. As the hundreds of thousands touched by this disaster try to get over such a cataclysmic event and rebuild their lives in 2005, all of our thoughts go to the victims and their families. This region is very important to TEMENOS and we have many friends there. Once again, all my very best wishes for 2005.

Looking forward to 2005

Predictions from IBS Journal, Celent Market Forecasts and TowerGroup



There is no doubt that, in many banks, 2005 will be the year of Basle II. The debates about deadlines are over; the nitty-gritty of compliance begins. This will have a major impact on systems, processes and departments. Some banks will opt for tactical solutions, some will be moving to a strategic approach, typically building a compliance data warehouse which will feed all current and future requirements. The risk and finance departments cannot remain as islands; lack of systems integration could be another hurdle. The strategic approach should bring significant benefits, with a single reconciled repository being put to lots of useful purposes beyond the regulatory.

On the back office side, the end of 2004 suggested that there were plenty of system replacement decisions in the pipeline, with the market looking relatively buoyant. Everyone is expecting Russia and China to be highly active; I would not be surprised if some international operations in the established financial centres also start to jettison their old systems, with ever increasing maintenance overheads being the driver. The trend of centralised operations is only likely to accelerate, with ever more banks moving this way for back office operations, payments and reporting.

A number of suppliers, including TEMENOS, enter 2005 with significantly revamped products either ready or on the way; by the end of the year, the market should have a lot more idea of which have succeeded and which have not.

The buzz-phrase for 2005? 'Services-oriented architecture'. Most people will spend much of the year trying to work out what it means!

Martin Whybrow, editor, International Banking Systems journal



North America

Technology is a crucial operating requirement for the banking industry. North American banks will spend US\$44.3 billion on information technology in 2005. This spending level is approximately 4% higher than 2004, a trend that will continue through 2007. Banks are also succeeding at reallocating IT resources away from maintenance to new projects, though maintenance costs still weigh heavily. This reallocation is crucial, given that the strategic IT investments of today are the competitive differentiators of tomorrow.

Europe

We expect IT spending to increase again in 2005 to EUR 46.6 billion, compared to EUR 44.6 billion in 2004. This represents a 4.5% increase over 2004. Moving forward, areas such as core replacement and multi-channel integration are expected to become top spending priorities.

Asia Pacific

Celent estimates that bank IT spending in the Asia Pacific region (including east Asia, south-east Asia, south Asia and the Pacific) will be US\$38.9 billion in 2005, a 10.2% increase over 2004. The Asia/Pacific region encompasses economies along the entire developing/developed spectrum. At one extreme, China's banks invested a relatively modest US\$4.5 billion in technology in 2001, but this has grown at a dizzying 23.6% a year and will reach US\$10.5 billion in 2005. After this we expect the pace to slow to a still brisk 12.1% growth through 2007. The mature banks of Japan, on the other hand, will invest a substantial US\$12 billion in IT in 2005, but spending will remain nearly flat, moving up a tick to US\$12.5 billion by 2007.

Celent Market Forecasts 2005: Jacob Jegher - senior analyst; Isabella Fonseca - senior analyst; Neil Katkov - senior analyst



TOWERGROUP

A Strategic Turning Point

As economies worldwide rebound from a recessionary cycle, banks will behave more strategically in 2005. A quest for operational efficiency and organic growth, together with an integrated enterprise dimension that supports customer, risk and financial management functions, will shape a strategic banking technology foundation for the next decade. Leveraging tactical and compliance imperatives, banks are introducing structural transformations to their IT infrastructure and business operations to achieve higher levels of business performance.

One Customer, One Enterprise

A relentless focus on customer service needs and value creation is unveiling additional revenue sources. Spurred by an incipient market recovery and a continuing wave of mergers and acquisitions, business lines like bank cards and wealth management stand out for their double-digit revenue growth. Beefing up responsiveness, behavioural attributes and service quality will help retail banks bridge the significant 15% gap in customer satisfaction between them and leading consumer industries.

There is an increasing need for integrated customer information to support personalised offerings and deepen banking relationships. Customer financial needs cut across functional and product silos, and reach out to a federated network of industry utilities and business partners. Similarly, risk management is a core competency that spans the entire enterprise spectrum. To compete in an increasingly interconnected world, banks must transform their legacy systems, so information may flow seamlessly and pervasively, almost in real-time.

The Power of Many

As advanced operational workflows and application systems encapsulate best practices in core competency areas, web services technologies will accelerate the emergence of specialised functions. Building on shared application and infrastructure models like image archiving, payments networks, continuous linked settlement, and loan origination, banks will step up the adoption of state-of-the-art utility services, both internally and externally. If banks hesitate in retooling their technologies to provide an efficient, fast and dependable service, other industries may step in.

TowerGroup research by Guillermo Kopp, vice president of financial services strategies and IT investments at TowerGroup



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Dominique - reporting from the TEMENOS

'comparatively' uneventful and Dominique had time to make an unexpected friend in the Doldrums (the equatorial belt of calms) - a heron, christened Alfred! To have company on the boat was a refreshing change from the solitude normally endured by skippers in this 90 day race.

By early December, things started to get a lot more intense as the leading boats approached the Cape of Good Hope and began their passage through the Southern Ocean. The infamous roaring 40s never disappoint with their ferocity and the TEMENOS made its entry facing depressions and wild seas. On December 14th, the TEMENOS faced 60 knot squalls. Dominique commented: 'I found myself in the centre of the northern depression the night before last and it was awful. I was close-hauled in wild seas with very variable winds. It came from all directions. It was a nightmare the whole night long. I succeeded in working clear of the centre for the first time and getting following winds, then the centre trapped me a second time.' In what are some of the most dangerous sailing conditions in the world, there is no sleep or peace for the racers.

A little later, as we hooked up with Dominique again to hear of his progress, things still hadn't calmed down. 'The seas are huge and the waves are providing excellent surfing, even though there are still some rogue waves... I had gusts of up to 45 to 50 knots. I haven't slept much - 45 knots of wind demands vigilance. I also found it hard to eat. The boat was being thrown around so much and I was a little worried by the strength of the wind.'

Ensuring that the boat remains undamaged is a prime concern, as the consequences could be disastrous in these conditions. At

the time of writing this article, six boats had already abandoned the race, as a result of damage that could not be repaired unassisted, forcing the skippers to head for safe haven.

In the roaring seas, Dominique managed to celebrate Christmas with a tree, presents and even calm seas: 'There are hardly any waves, so it's quite calm, almost surreally so.' However, as the winds sent the TEMENOS further south, the risk of icebergs was great and Dominique had to continue to be vigilant. At 5.30 am on December 26th, he spotted his first icebergs. The relative calm was short lived, however, as entering the New Year, Dominique sailed into hail, snow and stormy winds. He then had to contend with two storms within 24 hours.

The wind, averaging 40 to 45 knots, was already blowing up quite a storm but things became worse as the TEMENOS had to face violent squalls where the wind gauge measured more than 60 knots: 'I am really stressed and keeping watch all the time. I've just come in from the deck and am completely frozen and exhausted. I had to raise the staysail in 50 knots, which is never easy.' Back inside, Dominique had several more frights. 'The TEMENOS suddenly went surfing off, with the GPS showing 31.3 knots. It was never ending. The boat went over in every direction, as if it was being driven along at full speed...then the boat slammed into the next wave, like I've never seen before.

The wave broke over the deck with a hell of a noise, and the cockpit filled up. I just had time to close the door behind me, otherwise the wave would have flooded the interior.

Several dozen litres made it inside because the halyard and the sheet prevented the door from shutting.'

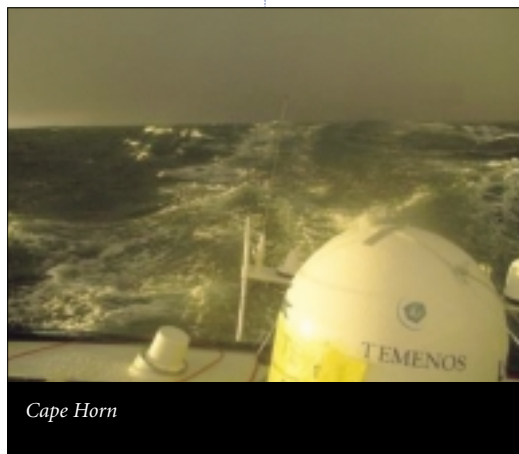
Soaked, frozen, exhausted and with huge icy waves breaking over him, Dominique

managed to remain upbeat and positive: 'Once again the boat behaved remarkably. Everything was in place thanks to the preparation work of my team. She remained stable and dealt with the breakers beautifully, in spite of the eight to ten metre troughs. Once again, Happy New Year to everyone.'

As can be expected, these horrific weather conditions were not without consequences. The TEMENOS sustained damage as the cover of the communications satellite antenna was ripped off by a wave, leaving the compartment below to fill with water. Constant repairs and the need for a watchful eye added to Dominique's physical and mental hardships.

Heading towards the Horn, Dominique reminisced: 'I'll retain some absolutely superb images of these two storms. This time around the south has been even more grandiose than ever before! It has been a Southern Ocean full of contrast with its calms and storms and I will cherish some very, very fine positive images of it.'

As night was falling on his approach to the Horn, Dominique got caught by another bit of nasty weather. The winds started rising and rising, eventually gusting up to 67 knots. He roared past the Horn with wind speeds of 55 knots and snow showers, praying that the boat would hold out during four hours of physical and mental exertion. During the night, the TEMENOS broke its own speed record, at one point reaching 33.9 knots!



Cape Horn

Dominique was still going strong as he passed Cape Horn in fifth position. He had proved that his boat was capable of performing among the fastest, having attained the second highest instantaneous speed (18.2 knots) on January 3rd. His goal now was to gain some miles on the leaders in the Atlantic, weather permitting.

So the race is on. Ahead, the three lead-

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Banco Sabadell to centralise processing

The Spanish bank will address the needs of its foreign branches by implementing TEMENOS T24™.

Banco Sabadell, the fourth largest bank in Spain, with assets of over EUR 44 billion, has selected TEMENOS T24™ (henceforth referred to as T24) to provide real-time, global banking to all of its foreign branches. T24 will be installed at Sabadell headquarters in Barcelona and then rolled out initially in Miami to support the retail, commercial, treasury and private banking activities for its Miami branch. Banco Sabadell has recently acquired Banco Atlántico, which also has a branch in Miami, and the implementation will include the integration of that branch's operations too.

'We conducted an in-depth evaluation of a number of suppliers over an eight month period and came to the conclusion that TEMENOS, with its strong track record and excellent reference sites, could support our network of branches and provide real-time global processing,' says Miquel Montes, technology and operations general manager of Banco Sabadell. 'Our objective is to centralise our processing for foreign branches, and handle the multiple local and regulatory requirements in all of our branches. TEMENOS has convinced us that by doing so, we can expect to dramatically reduce our operational costs.'

The implementation began in July 2004 with Banco Sabadell's full commitment. A strong in-house team is in place, with an expected go-live date of less than one year. T24 will run on a UNIX platform with an Oracle database and will replace legacy systems.

The selection of a leading edge system like T24 is really only to be expected of Banco Sabadell - a pioneer in bank computing in Spain. As early as 1968, the bank incorporated new technology into its accounting and administrative processes. In 1986, remote banking was introduced, incorporating the telephone and computer as new channels for communicating with and providing services to clients. This was followed in 1998 by the launch of BancSabadell Net, the first internet banking service in Spain.

In 2000, a multi-year programme for transforming its technology infrastructure was announced. This would increase the bank's efficiency, prepare it for future growth and manage client information across multiple distribution channels. In business terms, the programme would facilitate the development and management of new products and services, so reducing

time-to-market. It would also incorporate the planning and management of new areas of activity, such as leasing and insurance. In technology terms, the aim was to migrate the bank's multiple, geographically dispersed systems to a single platform, so facilitating access to information throughout the bank.

The process of upgrading the bank's IT platform is ongoing alongside a drive to reduce IT costs, in which T24 will play its part.

Despite having been around for more than 120 years (the bank was established in 1881), there is nothing old-fashioned about Banco Sabadell! Indeed, its current IT programme sets it firmly at the forefront of banking technology, with T24 being an important component.

Andreas Andreades, CEO, TEMENOS, comments: 'We have worked hard to ensure that T24 has the breadth and depth of functionality to service the most demanding of banking requirements and we look forward to supporting Banco Sabadell across all of its different markets.'

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ers of the Vendée Globe (Vincent Riou with PRB, Jean Le Cam on Bonduelle, and Mike Golding with Ecover) are battling it out with constant changes in the leader positions. Damage to the boats is very much an issue, with Sebastien Josse on VMI reporting engine problems and Golding having to climb the mast to repair his main halyard.

Dominique fortunately has not reported further damage. We hope that he and the rest of the skippers encounter better weather conditions on their way back up the Atlantic, as each day brings them closer to home.

TEMENOS' chairman, George Koukis, sums up the feelings of the company at this stage: 'It is quite humbling to witness how

the round-the-world sailors like Dominique can battle single-handedly through unpredictable and often totally hostile weather and sea conditions, drawing on every last reserve of energy and determination, day after day for 25,000 miles. We are so proud of Dominique. He has sailed magnificently and we wish him a safe return home with all of our hearts.'

NLB: Successful upgrade to TEMENOS T24™

Nova Ljubljanska Banka (NLB) in Slovenia has migrated successfully to TEMENOS T24™. This represents the first stage of a major project to move the bank's corporate business on to TEMENOS T24™ by third quarter 2006 and to prepare for the euro as Slovenia is scheduled to join the euro zone in 2007.

Nova Ljubljanska banka d.d., in Ljubljana is the largest and most important financial institution in the NLB Banking Group, accounting for over 78% of the Group's consolidated total assets. This is the strongest financial and banking group in Slovenia, with a dominant franchise in both retail and commercial sectors. It has aggressive growth plans, with the aim of becoming one of the leading, most competitive and financially sound financial institutions in south eastern Europe.

NLB has been a TEMENOS GLOBUS™ user since 2002 and, up until now, has used the system mainly in the dealing room for Forex and money market transactions, funds transfer and managing the nostro position of the bank.

So what prompted the decision to move to TEMENOS T24™ (henceforth referred to as T24)?

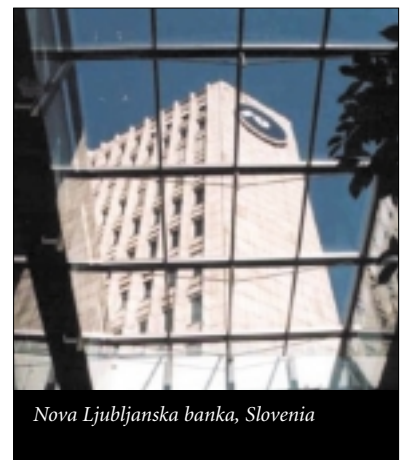
The bank planned to use TEMENOS GLOBUS™ to process transactions for its corporate and small to medium-sized enterprise (SME) customers. A gap analysis was carried out to identify the additional wholesale functionality required for this and the system implications. It was decided that the best way to move forward was to upgrade to T24 and a project to do this was kicked off in June 2004. A step by step implementation was planned, with the upgrade to jBase and to T24, taking place before the migration of the corporate and SME business was to be undertaken. It was felt that any implementation risk would be minimised if the basic IT infrastructure and the core system were established first, followed by the implementation of the new business functionality. To attempt both stages together would demand too many resources and would involve too high a risk. As it was, the first stage involved 22 technical people,

plus a further 15 from IT and user departments. Additional IT resources (five people) were also taken from a local strategic partner and TEMENOS. The migration itself was no easy task. Within each phase, NLB went through the usual steps for IT development projects: analysis, development, functional and integration testing, user acceptance testing, and implementation. For each phase, the bank performed one or more trial migration weekends on a copy of the production environment. The bank's project team and IT operations, together with TEMENOS, were required to work within tight deadlines and to speedily resolve any issues which arose. For example, the group had to resolve a number of performance issues on certain processes and enquiries which were the result of design differences between Universe and jBase. Happily, these were resolved within the timeframes.

Certainly, this thorough approach has paid off. All aspects of the migration were prepared and tested to such an extent that there was no disruption to the bank's business. The preparation included extensive testing of the disaster recovery procedures and, during the migration weekend, additional tests and checks were carried out to ensure a smooth transition.

So the focus now is to migrate the corporate business to the new platform. NLB is planning to do this in three phases:

- In phase one, approximately 60% of corporate and SME customers will be migrated. These will be the ones with simple products, such as transaction accounts, deposits and simple loans.
- In phase two, the migration of the 25% of customers with more complex products is planned. This will include foreign cur-



Nova Ljubljanska banka, Slovenia

rencies, more complex loans, collateral, international payments and treasury securities.

- In phase three, the migration of those customers with the most complex products (the most complex loans, cash pool facilities, trade finance and syndicated loans) is anticipated, as well as the conversion of the local currency into the euro.

NLB has now established a modern technology platform and created an environment which will allow its corporate activities to be supported effectively. While the bank does not have any plans to introduce the additional technical features of T24 (such non-stop processing) within the next two years' plans, it is very much aware that, having completed this migration, such facilities could be activated or introduced in a relatively short timeframe. There are already plans to introduce T24 to other banks within the Group, using the system's multi-company facilities.

We wish the bank every success with its project.



TEMENOS eMerge™ delivers the ‘bank in a box’!

In November, The First MicroFinanceBank (FMFB), one of the first banks in post-conflict Afghanistan, went live with TEMENOS eMerge™. Up until then, despite having more than 40 implementations in over 30 different countries, in publicity terms eMerge shared very little of the prominence of TEMENOS T24™ and TEMENOS™ COREBANKING. So we asked Russell Taylor, product manager for TEMENOS eMerge™, to tell us all about it!

Many people would say, ‘does TEMENOS really need another banking system?’

Let me start by saying that TEMENOS eMerge™ (henceforth referred to as eMerge) is not ‘another banking system’. It is a configuration of TEMENOS T24™ (henceforth referred to as T24) that provides a ‘ready to go’ banking system for micro finance institutions (MFIs) in emerging markets.

Basically, it provides a comprehensive, small-scale retail banking system, which is geared for micro finance lending models, such as group-based and village banking models. With minimum training, eMerge users can create and deploy new products and services without the need for outside technical assistance. The system also has the ability to track funds by donors and provides comprehensive management and financial information. eMerge is easy to set up and configure for specific customer requirements, without the need to develop new code or to get involved in costly and time consuming set up and configurations.

So is there no overlap with TEMENOS’ other banking systems - particularly with TEMENOS™ COREBANKING?

Not at all. As regards TEMENOS™ COREBANKING (henceforth referred to as TCB), cost is a big factor. TCB clients tend to have complex, high cost systems which are main-frame-based and have long implementation cycles. eMerge is a ‘ready to go’ banking system that has been pre-configured for the micro finance market and is deployed on smaller hardware systems running on Windows NT or 2000. Economics and available resources make for a natural distinction! As for T24, eMerge acts as an incubator for this system in some situations. Given that many eMerge users aspire to get their banking

licence one day, as their market develops and their business grows, so their needs will change and they will have the opportunity to move up to T24 without having to change their technology platform.

What were the origins of eMerge?

The original concept was the DBS vision of a ‘bank in a box’, which evolved out of years of experience of working in micro finance-related IT. DBS is the TEMENOS alliance partner for micro finance. The first iteration of eMerge was a FoxPro-based product available in the mid-1990s. This was replaced by a more robust system, based on Solace banking technology.

This market and product experience was key to the development of the eMerge build, which was financed by the International Finance Corporation (IFC) - the private equity arm of the World Bank. The IFC saw the investment as key to achieving its objective of ‘deepening financial markets’ and meeting its need for a truly international, secure, highly scalable, and proven technology that could be used to support World Bank efforts on every continent. TEMENOS GLOBUS™ provided a proven, world class banking technology that was already deployed in many parts of the world and so formed an ideal base.

The build of eMerge involved a scoping workshop where industry expert representatives from organisations such as the Consultative Group to Assist the Poor (CGAP), the World Council of Credit Unions (WCCU), Development International Desjardin (DID), Development Alternatives International (DAI), and Canada Cooperative Association (CCA) participated in the definition of the ‘bank in a box’. Incidentally, the system has since been evaluated by both the WCCU and CGAP.



Russell Taylor, product manager, TEMENOS eMerge™

Why does TEMENOS believe it is the right company to supply this market?

The size and cost of commercial banking applications result in a cost of ownership and a demand for technical and business management capacity that is simply not available to most of the micro banking market. Plus, most international commercial vendors do not have the market knowledge necessary for this particular sector. This presents a prohibitively high cost of sales for companies not oriented to this environment.

Prospective eMerge clients have typically had to develop their own software, or use a combination of spreadsheets and accounting packages. The products that have been developed for this market tend to be regional or very local and do not offer the functional and technical depth of a mainstream retail banking solution.

TEMENOS can offer ‘standard setting’ software for this space in the market. We have the market and product experience from DBS, we have a proven world class product as a basis, and we can offer an international distribution capability.



Can you describe the typical eMerge user?

This wide! We have small micro finance banks, credit unions, community banks, credit cooperatives and managed loans schemes using eMerge. Our biggest site has 100,000 customers and our smallest has around 3,000 customers. On the high-end, we have sites that have interfaced to ATMs and payment networks, as well as palm pilots and offline branch utilities. Our two biggest clients are Opportunity International and World Vision International, both of which are network organisations, currently rolling out eMerge to network partners across the world.

Is eMerge as up to date technically as T24?

No, we deliberately keep eMerge one full release behind the current T24 release. The reason for this is simple. eMerge clients are not looking for cutting edge technology - they want a system that is proven and stable. They tend to be situated in remote parts of the world, often with poor access to good communications for remote support, so stability there is crucial.

Is eMerge basically an inferior version of T24?

Definitely not! eMerge is aimed at developing markets and is an appropriately priced application for larger MFIs. Additionally, by virtue of its open systems platform and architecture, it offers great scalability from a single user micro bank requirement to a full, open, high-end banking system. A bank can upgrade by enabling modules that are already provided. As the needs of an organisation grow, new functionality can be enabled by the issue of a password key. eMerge customers can upgrade to T24 or can retain an eMerge platform but add a T24 module such as Treasury. Its inherent scalability is probably the most significant benefit of the system.

Are there any limitations?

eMerge does not currently have the multi-company facility enabled, so this is one limitation. Branches are handled through reporting and the use of the account officer fields. In terms of scalability, there are no limitations - the system can scale right up to T24!

How many eMerge implementations are there?

There are 46 in over 30 countries.

How quickly can the system be implemented?

In eight weeks.

How much specialist support is required from the bank?

The bank would need to have dedicated staff to run eMerge and, as with any system, they would need to acquire a strong working knowledge of the technology. In the ASP model, however, this would not be required, as the system would be run centrally.

Is eMerge supported directly by TEMENOS or by local partners?

Support is provided by DBS Global Solutions and TEMENOS.

How popular is the ASP service?

ASP is a huge requirement for this market space. There is a definite need to aggregate the cost of hardware, software and services among many organisations to ultimately reduce transaction costs for all micro finance institutions. The ASP scenario also offers a more controlled environment for governments trying to understand the significance of this market and the risks within it, as a precursor to regulating it.

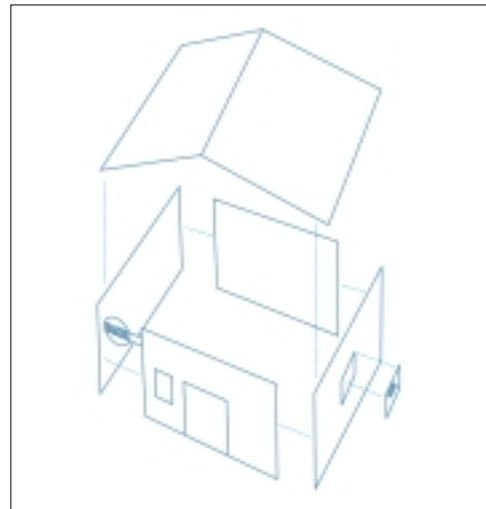
Setting up an ASP is costly and often requires commitment between vendors, governments and MFIs. We currently have one such arrangement in Mexico, where TEMENOS has entered into a joint venture with the Mexican Government to provide an ASP service to micro finance banks using eMerge. Discussions are currently underway for a similar service in the Philippines.

What about levels of security within the system?

The system has the full Security Management System, as found in T24.

...and regulatory reporting?

Generally, this industry is not very regulated. We have, however, adopted the World Bank's CGAP reports as a guideline for providing a full suite of both management and financial reporting. This provides the MFIs with comprehensive information to understand and manage their business. On implementation, any local reporting requirements are taken into consideration and can be built for the site.



The blueprint for a simple way to set up, manage and maintain an effective software system for your banking needs

Is TEMENOS working with the international agencies in this sector?

Yes, with many - the IFC, Aga Khan Development Network (AKDN), Asian Development Bank (ADB), USAID, and the UK Department for International Development (DFID), to name but a few.

Can you sum up the importance of TEMENOS' involvement in this sector?

We provide world class technology to financial institutions in developing markets. Technology is vital to these institutions in enabling them to support their growth plans and to attract investment by having a secure, fully auditable and proven banking system. This in turn provides the infrastructure needed for the 'deepening' of financial markets, which is key to economic growth in emerging economies. Our mission is to be the preferred provider of financial software to small banks, MFIs and financial cooperatives in emerging markets worldwide.

Can you point to some success stories?

We have many success stories. The Opportunity Banks in Montenegro and Malawi, for example; Ekonomska Kreditna Institucija - Bosnia (a World Vision site); The First MicroFinanceBank in Afghanistan; and Partneri Shqiptar nk Mikrokredi in Albania, to name but a few - and we hope to replicate this success many times over in the future!

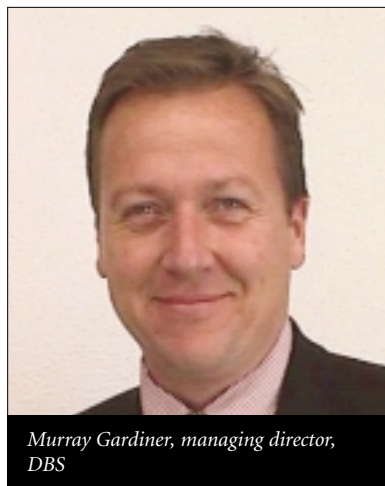
Making a difference with TEMENOS eMerge™

DBS Global Solutions (Pty) is a marketing, channel development and services company in the micro banking market and is also TEMENOS' worldwide strategic business partner for micro finance. MD of DBS, Murray Gardiner, is recognised as a leader and innovator in micro finance services and technology, with over 25 years' experience in this area. He is also the founder of the TEMENOS eMerge™ business concept. Mr. Gardiner explains why the micro finance market is different and discusses how TEMENOS, supported by DBS, can 'make a difference' with TEMENOS eMerge™.

I have been involved with credit unions for what seems to me like a very long time - initially in Canada, but from 1979, in southern and eastern Africa, and in the last few years in Asia and elsewhere. As far back as the early 1980s, international organisations were becoming much more aware of the importance of access to financial markets for the poor - it came to be seen as one of the fundamental planks of development, as well as the focus of World Bank strategic thinking. Various micro finance initiatives and forums followed and I became involved in a lot of the formative thinking about financial markets development strategy and micro finance business models.

Micro finance is a broad term, encompassing any financial services provider which targets the masses in an emerging market (and by this I mean a World Bank donor recipient country) and which usually has a focus on enterprise development. Many different kinds of financial institution are included - credit unions, thrift banks, joint stock banks (as in the Vietnam model) and rural banks (both cooperative and privately owned), as well as private lenders. These institutions tend to have a large number of relatively simple, comparatively low value transactions - typical loan sizes run between \$200 and \$500, for example. Some are quite large - in Kenya, for example, there are some sizeable credit unions, and they are numerous. One US-based international credit union organisation numbers some 37,000 individual credit unions among its members.

In the 1990s, technology developments meant that the actual delivery of micro finance business became more accessible. In 1996, I started DBS in Cape Town, with the aim of supporting the administration of micro finance institutions (MFIs), and of helping



*Murray Gardiner, managing director,
DBS*

them to reduce their per transaction costs. Because I was familiar with the requirements of micro finance, I became involved in defining standards for systems to support this sector. The end result of this work was TEMENOS eMerge™ (henceforth referred to as eMerge).

It is true to say that systems suppliers still struggle to satisfy the needs of MFIs. According to a recent study by the Consultative Group to Assist the Poor (CGAP), only 10% of MFIs use an off-the-shelf system, with 45% using either in-house or custom-built systems and 45% still using manual systems or spreadsheets. So why do I think that eMerge can make a difference in this market, where others have tried and failed?

I think that there are several reasons. First of all, we involved MFIs in the system's development. I already had a number of clients in this area so, when we did the original eMerge build on TEMENOS GLOBUS™ (henceforth referred to as GLOBUS), we invited them to attend a week-long workshop, along with representatives of international organisations who were involved in micro finance.

We based the specification on the results of these sessions.

Secondly, GLOBUS was the perfect base for the eMerge system. It is a release-based packaged system, based on very pliable technology, with an open, flexible architecture. We typically have an 'out of the box' functional fit to micro finance requirements of between 80 and 90% and the flexibility of GLOBUS made it relatively easy to adapt to meet the remainder. It is important to stress that what was developed was not a stripped down version of GLOBUS - rather, it was a micro finance implemented front-end.

The third crucial factor is an ability to scale. When a micro finance bank invests in excess of \$100,000 in an eMerge project, it does not end up in a technological dead-end - it has the potential to move up to full-blown TEMENOS T24™, as its business grows and changes.

Of course, the market served by eMerge is not homogeneous and we must recognise the differences within it. Our first aim is to empower the viable banking institutions - those with a strategy in place and the potential to achieve it. We can make a difference in these institutions by implementing eMerge in-house. For the much smaller institutions, the so-called 'barefoot bankers', we can offer a PC-based application to capture and forward transactions to eMerge hosted on a central server or, where communications permit, we can offer an ASP service. Incremental pricing is an important part of this model, allowing micro banks to pay for what they use.

Our whole approach to the micro finance market is different from the formal banking systems sales push. To begin with, we work very closely with the international organisations

which are active in this sector. Our reputation with them is an important way for us to find out about new business opportunities. So we work with some of the largest foundations in this sector - the Aga Khan Development Network, for example, which has recently completed a successful project with us in Afghanistan. Opportunity International and World Vision have between them over 25 eMerge implementations. We also work with the International Finance Corporation (IFC), which has taken a stakeholding in some of the newly formed micro banks. Then sometimes, the banks approach us directly - they have heard about us through word of mouth or through our local agents. Our agent network is another vital way for us to be introduced to banks in some of the more remote regions. The monetary value of the eMerge deal is low and would not support the usual approach of flying sales people from continent to continent to follow up enquiries. So, we often demonstrate the system remotely, via the internet, in conference sessions.

Recent technology developments have had a tremendous impact not just on the way we market eMerge but, more significantly perhaps, on the way we can deliver and support it. The growth in accessibility of the internet will have far-reaching implications for the use of IT in micro finance - we believe that the internet will become the de facto wide area network (WAN) for many MFIs. Recent changes have meant that, in many developing countries, MFIs are now able to connect at sufficient bandwidth, at an affordable price, to enable them to perform not just periodic updates, but to establish continual connections at reasonable cost. I referred earlier to our ASP model, which I believe will be key to the success of our business with the smaller banks. The internet is fundamental to this success. As long as the organisation has reliable internet access, our ASP service holds the promise of reaching much larger numbers of MFIs at a lower cost than traditional packages. While currently in its early stages, we have one ASP project underway in Mexico and two more we hope are about to start - one in South Africa and one in the Philippines.

Where eMerge is installed at the client site, we offer a totally different scenario to other banking systems suppliers operating in this market. We really do offer the 'bank in a box': pre-configured and requiring only a 70-80

person-day effort to be implemented if no enhancements are required. We can do this because of the release-based nature of the system underpinning eMerge. The 'traditional' approach, where banking systems are services-based, that is, having a dependency relationship with the suppliers' consultants, simply does not work in this market. The success of our clients, such as Opportunity International Bank of Malawi, reaffirms this view.

So I am convinced that we have the best system for the micro finance market, but how does DBS, the company, make a difference? DBS is the worldwide strategic business partner in micro finance for TEMENOS. Our role is primarily marketing and account management. As such, we are responsible for all implementations, either directly or through trained agents. We also handle first line support for new users, filtering out problems which are training issues rather than system problems, before they reach TEMENOS' main support area in Chennai. We also assist in the distribution of the software, performing

'health' and quality checks and reporting back on any issues.

We see our work as being important, rewarding and valuable for our customers. Of course, the numbers also need to be viable, but our objective is to run a quality services business in micro finance - to become the 'standards setting' solutions provider in this market space - and, in so doing, play our part in helping millions of people to gain a better life. Through this, together with TEMENOS, we believe we can make a difference.

Trading since 1996, DBS has over eight years' experience in developing and marketing enterprise level micro banking software in emerging markets worldwide. DBS brings together world class banking software, implementation services and an in-depth knowledge of the micro banking industry.

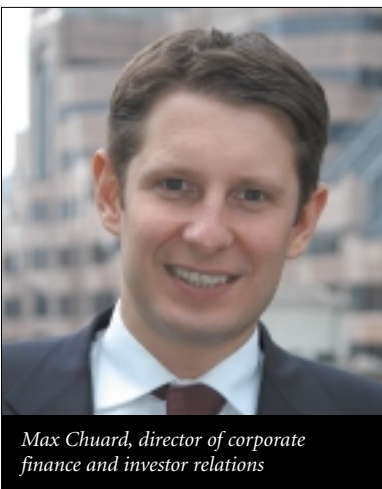


On November 18th and 19th 2004, TEMENOS hosted the first global TEMENOS eMerge™ client forum. Over 65 participants from sites as disparate as Mexico, Haiti and Bosnia joined with clients from African countries to share ideas and discuss future developments and the direction for the system.



In the Hot Seat!

As we look ahead to 2005, we put Max Chuard, director of corporate finance and investor relations for TEMENOS, 'in the hot seat' and asked him to review TEMENOS' performance in 2004.



Although 2004 has been a challenging year for most companies and markets, TEMENOS has continued to gain traction due to a strong business model, plus product superiority and distribution. Indeed, when most of our competitors were talking about 'deal slippage' or 'challenging market conditions', TEMENOS continued to grow its initial licence fees (ILFs) at 22% for the year, gaining US\$62 million in new signings! This performance was welcomed and rewarded by the market as the TEMENOS stock price increased by more than 20% in the course of the year, making it a very good per-

former on the Swiss market.

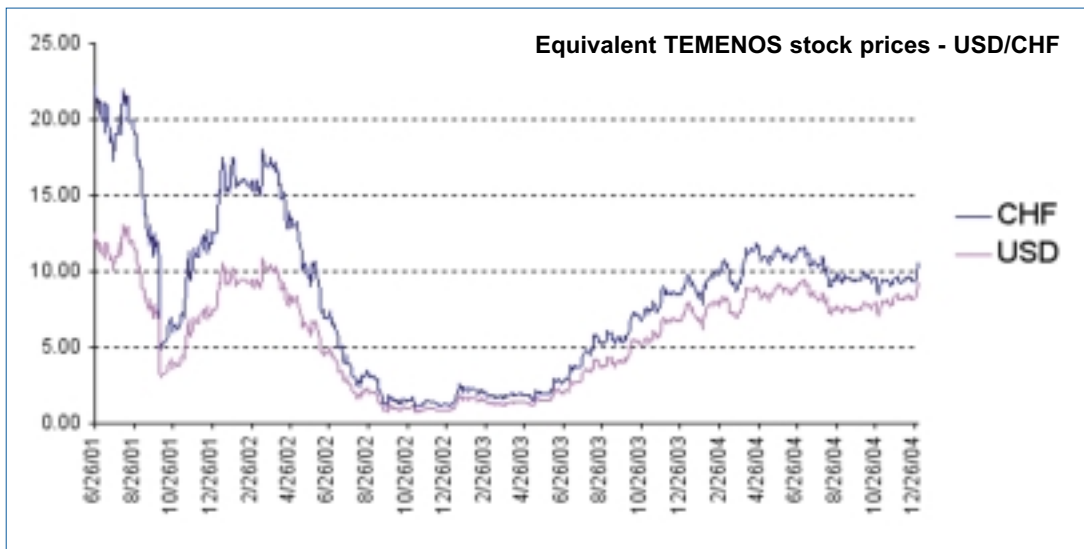
I should point out that the headline stock price has been affected by the Swiss franc's strong growth against the dollar. Given that our functional currency, results and hedging are all dollar based, there is a currency mismatch between the stock price and our results. The impact on the year is around 10% but when adjusted from the date of our IPO, the change over the past three years has seen the value of the dollar against the Swiss franc slide from US\$1.8 in 2001 (the year of our IPO) to US\$1.13 at the end of 2004.

As shown on the graph attached, the TEMENOS stock price was introduced at the Zurich Swiss Exchange at a price per share of CHF 23 or an equivalent of US\$13 at that time. We closed the year at a share price of CHF 10.5 or an equivalent of US\$9.3 which means that during that period of time we had a negative currency impact of around 40%!

During 2004, signings have shifted towards larger deals due to the take up of TEMENOS T24™ (henceforth referred to as T24), TEMENOS' flagship product, and TEMENOS™ COREBANKING (henceforth referred to as TCB). Median deal size continued to increase with a median deal size of US\$2.6 million for the year compared to US\$2.2 for the full year 2003 - an increase of 18%.

We have been able to attract top tier clients as a result of superior products in the form of T24 and TCB. In 2004, more than 40% of our signings were made with tier one and tier two financial institutions, compared with around 29% for 2003. In 2004 more than 73% of signings were with retail and universal banks compared to 55% for 2003, in line with TEMENOS' retail strategy.

Among our new clients were Union Bank of Switzerland (UBS), Banque de France, Anglo Irish Bank, Banco Sabadell



and the Bank for Agriculture and Agricultural Cooperatives (BAAC) in Thailand.

The growth in signings for 2004 was driven by a very strong performance in Asia, where we almost tripled our signings compared to last year, and the Europe, Middle East and Africa region (EMEA), where we increased signings at more than 20%. Signings year on year in North America were more or less level.

From a product point of view, growth for T24 was at approximately 10% compared to last year while growth for TCB almost doubled, year on year. We have been able to reach our target of two TCB deals for the year, the first one in the first quarter with the Bank for

Agriculture and Agricultural Cooperatives (BAAC) in Thailand and the second one during the last quarter of the year with an existing T24 client, Bank Thai. We now have six clients who have chosen TCB, with three of them live.

In October 2004, we organised our third investor day, which was very well attended by more than 50 participants, representing some 35 international banking houses. In the course of that event, we disclosed our ambitions for 2005: an ILF target of US\$80 million and a planned operating profitability of around 15%. Our plans are aggressive, in terms of actually delivering the results as well as in the investment required in product quality and people.

We continued to broaden our institutional investor base throughout Europe and in the US through regular road shows. We were also invited to more than nine Investor Conferences to present TEMENOS. During 2004, three new brokerage houses (Merrill Lynch, Lombard Odier Darier Hentsch and Neue Zürcher Bank) began to cover TEMENOS. Eight local and international brokers have a rating for TEMENOS, with more than 70% of them having a 'buy' recommendation on the company and a target price for TEMENOS in the range of CHF 11 to CHF 14.

We are very excited about our prospects for 2005, which we believe will propel TEMENOS to new heights!

CORPORATE GOVERNANCE: TEMENOS amongst the top companies!

We are very pleased to report that TEMENOS is in the top 15 of the 100 largest Swiss companies in terms of corporate governance, according to the 'Corporate Governance of Swiss Companies in 2004' study published by the ethos. Foundation.

Corporate governance, as defined by the Organisation for Economic Cooperation and Development (OECD), is 'the system by which business corporations are directed and controlled. The corporate governance structure specifies the distribution of rights and responsibilities among different participants in the corporation, such as the board of directors, managers, shareholders and other stakeholders, and spells out the rules and procedures for making decisions on corporate affairs.' The chief aim is to enhance the company's long-term value for shareholders and all the other stakeholders.

TEMENOS is fully committed to meeting good corporate governance standards and actively enforces transparency, shareholder rights and accountability.

The ethos. study analysed and rated 100 companies according to their levels of compliance with:

- **TRANSPARENCY - SWX Directive on Corporate Governance: TEMENOS 95%-100% compliant.**

This Directive specifies the information that companies must henceforth disclose in their annual reports regarding corporate governance.

- **BEST PRACTICE - ethos. Corporate Governance Rating 2004: TEMENOS 77% compliant (rank between 12 and 20).**

The ethos. Rating evaluates corporate governance in Swiss companies against principles of best practice standards at an international level.

The ethos. Foundation is convinced that good corporate governance has a long-term positive impact on company performance. As an institutional investor, it intends to assume its responsibility as a shareholder in over 300 Swiss and foreign corporations and pledges to actively 'promote the application of the principles of good practice for corporate governance'.

The full study is available in French or German at www.ethosfund.ch.

For more information, please contact Ariel Boussiba, TEMENOS company secretary, at email: aboussiba@temenos.com.



TEMENOS™ COREBANKING delivers IBK's next generation banking system

Industrial Bank of Korea (IBK), one of Korea's leading banks for small to medium-sized enterprises (SMEs), has gone live with the TEMENOS™ COREBANKING (henceforth referred to as TCB) solution. The new system will provide IBK's 391 branches throughout Korea with 24x7 non-stop processing. IBK has a strong retail presence - its branches and its network of more than 2,300 ATMs and cash dispensers serve 10 million customers, with 15 million active accounts, generating some 10 million transactions per day on average and 15 million at peak times. At such times, more than 390 transactions per second will be processed through TCB!

This was a major project in a top-end retail environment. Nonetheless, the full implementation was completed on budget in just over two years - a deployment far ahead of other similar projects in progress! The IBK project also represents the first successful 'next generation banking system' implementation based on an international banking software package.

So what prompted IBK to embark on this project?

At a national level, the economic crisis in Asia in 1997 was followed by radical reforms to the banking sector in Korea. The supervisory framework was reformed and banking regulations substantially strengthened. Banks had to comply with the stringent capital coverage and risk management policies set forth by the Korean banking authorities. The deployment of next generation banking systems was seen as a key element in strengthening the banks to enable them to support these structural reforms in the



financial markets.

At an organisational level, it was strategically important to IBK to replace its outdated legacy system, which was failing to deliver the high level of service expected by customers and was not allowing the bank to make best use of its customer base. With almost 158,000 SME loan customers, IBK was the number one bank in the SME sector - but it needed to be sure it would be able to retain its competitive edge into the future. It had also

developed a strong retail presence for deposits, loans, money transfers, trust accounts, electronic banking and venture capital, and these areas had to be supported. The old system could not be re-engineered any further, so the decision was taken to select a new system to move forward. After a thorough evaluation of potential systems, TCB was selected as having the best fit for the bank's business requirements.

continued on page 14...



Inside Industrial Bank of Korea

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The system was jointly implemented by IBK and IBM Korea. The hardware on which the system is based is impressive - three IBM mainframes in parallel sysflex mode for fail-safe operation and scalability. A number of additional systems were incorporated, including a metadata program, an enterprise application integration tool and an integrated software development tool. The latter would allow the bank a degree of platform flexibility in the future, should the need arise - an aspect viewed purely as future-proofing by the bank.

Major projects on this scale normally involve a high degree of customisation - often to the detriment of timescales and budgets. A reasonable amount of localisation was required by IBK and was carried out but, in the end, the bank opted

not to make any changes to the fundamental architecture of the system.

Now live, TCB can begin to deliver the benefits of a next generation banking system and, already, IBK is reaping the rewards of its investment. 'TCB has enabled us to meet the critical requirements of the next generation banking systems mandate,' says Sir Jai-Hoa, IBK's general manager. 'It brings functional richness, combined with a flexible data model and component-based architecture. In practical terms, we can have non-stop processing and shorter product development times - our product development cycle has been reduced from 30 days to only three!'

This is not the end of the bank's plans, however, and the next project is to integrate TCB into a four layer banking systems strategy developed by IBK. The

bank has created discrete categories, with separate roll-out schedules, which will ultimately culminate in a unified IBK IT system.

Mr. Jai-Hoa explains: 'The first layer is the channel integration system - the customer contact point. The second is the transaction system and this is where TCB comes in. The third consists of various departmental systems - each banking department is responsible for these - and the fourth comprises the analytical system, where data can be collected and presented from the transaction system.'

To date, the second and third layers have been implemented, with TCB at the heart of the former. The fourth layer is expected to be rolled out at the end of the year, with the implementation of the channel component being accorded a longer period, in line with its importance as the 'customer-facing' element.

About IBK

Industrial Bank of Korea (IBK) is one of Korea's leading banks, with the public policy role of promoting growth among Korea's small and medium-sized enterprises (SMEs). Established in 1961 under the Industrial Bank of Korea Act by the Korean Government, IBK is involved in many business areas including SME lending, household lending, deposit taking, credit card services, electronic banking, venture capital and trust account management. IBK has eleven regional headquarters and 391 branches located in Korea. Internationally, the bank has operations in New York, Tokyo, Hong Kong, Tianjin and Qingdao. One of Korea's largest banks with \$5.3 billion in revenues, \$2.88 billion in capital and \$59.8 billion in assets (2003 year-end figures), its stated aim is to be among the top 50 banks in the world by 2010. IBK has earned excellent credit ratings relative to its domestic peers and is regarded as one of Korea's premier financial institutions.

J2EE option for TEMENOS™ COREBANKING

We asked Martyn Allez, senior vice president, technology and research, some fundamental questions about the J2EE project and its implications for prospective TEMENOS™ COREBANKING clients.

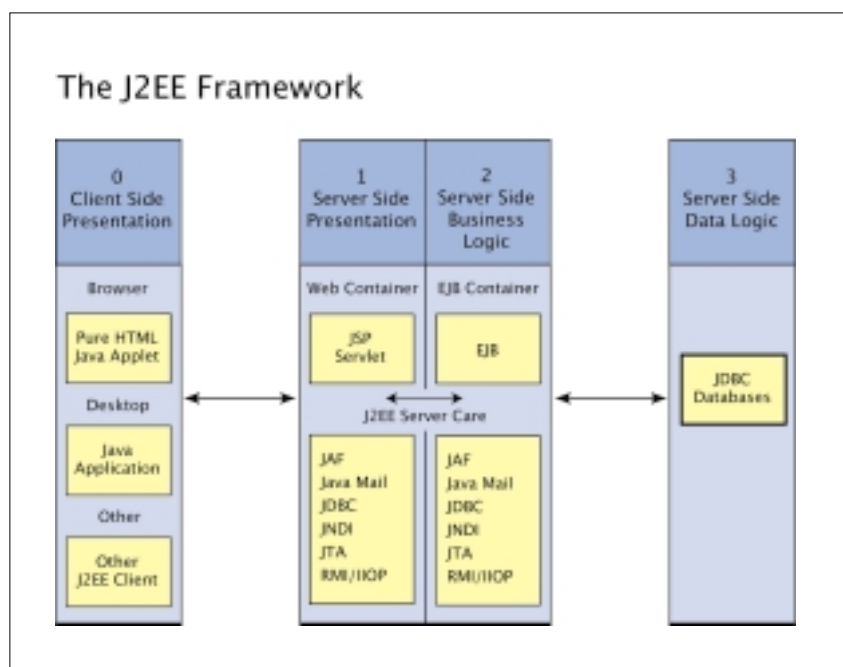
TEMENOS™ COREBANKING (henceforth referred to as TCB) is an established product in the IBM mainframe (z-series) sector of the market and, in its classic form, it uses all of the elements that would be expected in a large scale transaction-based system - a software platform based on a COBOL host, a DB2 database and CICS as the TP monitor. Traditionally targeted at the larger retail banks (where mainframe processing forms an integral part of the overall systems strategy), the system is now being made available within the J2EE framework. This will provide a scalable and portable solution across a much wider range of hardware and software platforms. TEMENOS' J2EE strategy is based on choice and the philosophy that the application software should not dictate either the choice of hardware or operating software environment.

In simple terms, what is J2EE?

J2EE provides an open and widely understood framework for the delivery of software solutions. Executed effectively, the use of the J2EE framework allows the application software to be insulated from both the hardware and systems software environments, providing true portability and scalability across platforms and technologies.

Why J2EE for TEMENOS™ COREBANKING?

Currently, TCB requires a mainframe host for the core of the application. On completion of the J2EE programme, we will be able to deploy this application on platforms other than the mainframe, as well as opening up the product further to new



technologies. This will make the system accessible to a far greater number of banks which, for reasons of size, cost or technological choice, would not choose a traditional mainframe.

Furthermore, the choice of J2EE gives us enormous flexibility. It effectively isolates the application from the choice of hardware, operating system and database, thus reducing the cost of development, support and deployment. There is only one TCB application, irrespective of the environment in which it is deployed.

Collaboration and discussions with IBM, in the light of market knowledge and market expectations, led us to choose the J2EE framework as being the right vehicle to enable us to make significant technological advances with TCB and to make

the system available to a far greater number of potential customers.

Has the project been driven by existing TCB clients?

It has been driven more by prospective clients and market expectations, although we do expect existing clients who use the 'classic' COBOL variant to consider moving to the J2EE variant in the future. They would then also benefit from increased scalability outside of the mainframe world and greater flexibility of choice over platforms, topologies and databases.

Will J2EE be applicable to TCB clients of all sizes?

Yes, from the AIX version to the z-series mainframe.

Is this in line with the way the industry is moving?

Without a doubt!

Are there any alternatives to the J2EE route?

There are none that would allow us the flexibility and scalability required with a single common code base for our system. The alternative would be to have multiple variants of the application.

How does J2EE relate to Microsoft's .NET?

The two are similar in philosophy though different in technology. At the moment, .NET does not have the scalability that we require for TCB.

How is the J2EE project progressing?

J2EE is a broad framework and it would be wholly inappropriate to use all of the available facilities in a banking system - in fact in any system at all. We have selected appropriate elements of the J2EE framework and there are five key project steps that will allow us to embrace these for TCB. These are:

- The creation of the Java host
- The migration of the batch controls to IBM's TIVOLI Workload Scheduler
- The use of JDBC to give database independence
- The use of flexible options for the TP monitor
- The use of flexible options for the client communications layer

All of these stages are under way. There are also benefits for the current 'classic' version of the system. For example, the introduction of TIVOLI into the batch process. The project is very much on track. We will have a version of the J2EE system for proof of concept by Q3 2005 and the first deliverables are already available - we were able to demonstrate the first transaction thread on the mainframe in November.

There have been reports that, while J2EE is the preferred foundation of strategic IT architecture, the migration to J2EE has been slowest in the area of core systems. Does this mean a slow uptake for the new J2EE variant TCB?

We will have a J2EE variant by the end of 2005. One reason behind the slow market adoption of J2EE solutions has been a perceived issue over throughput and performance. We believe that IBM's advances, with the Websphere Application Server in particular, will help to overcome these perceptions and, through benchmarking, we will be able to demonstrate the suitability of the TCB J2EE solution for a high volume retail banking environment.

How would an existing TCB client move to this new 'variant'?

The bank would need to implement the technological framework for J2EE. The most significant change would be the implementation of the IBM Websphere Application Server. The TCB J2EE host system would then need to be deployed. Since this is functionally identical to the current system, no database migration would be involved.

How much effort would be required?

That is difficult to estimate since it would depend on the client and the topologies involved. Certainly the client would expect to run a full User Acceptance Test cycle or parallel run before switching over to the J2EE version.

What will the new J2EE variant TCB offer clients in practical, strategic and business terms?

Clients will gain many options and will not be constrained by the application in supporting their business and strategic goals. For example, migration from the mainframe to UNIX could be achieved without a change to the host system. A number of prospects have already

expressed an interest in the new variant of TCB.

What is IBM's role in the J2EE project?

We have collaborated with IBM from the very beginning in forming our overall strategy. IBM has also provided specialist consultancy to validate our plans and to help us to make the correct technology selections. We use IBM's Websphere as our application server.

Are any other partners involved?

Yes, we have technical partners such as Sun.

Will J2EE ultimately be the only TCB variant available?

We have no plans to withdraw the 'classic' COBOL version of TCB. In reality, commercial demand will dictate whether the J2EE version eventually becomes the only variant in the market.

What would happen if TEMENOS did not go down the J2EE route?

We would be turning our backs on a significant route into future technologies and would be denying ourselves an efficient entry route into non-mainframe markets.

For further information about the TCB J2EE project, please contact Martyn Allez on tel: +34 91 343 2003.



TEMENOS strengthens commitment to Greek, Cypriot and Turkish markets



Panos Varouxis, business development manager, TEMENOS Hellas

TEMENOS has strengthened its position for its products and services in the eastern Mediterranean markets by setting up a new subsidiary there - TEMENOS Hellas - and by opening a new office in Athens. TEMENOS will retain 100% ownership of the new company.

TEMENOS' business in the area was previously supported via a joint venture agreement with distributor, Informer. Panos Varouxis, business development manager for TEMENOS Hellas, explains why the change was felt necessary. 'TEMENOS believes that there is much more to gain by approaching the market directly. In the markets we are involved in, our customers and prospects need to have confidence in the supplier of their core systems - after all, we are supplying systems which are at the heart of their business. It is essential for them to have a supplier based locally and able to provide more dedicated products and services.'

TEMENOS currently has eight customers in the region, but Panos' role is to create further opportunities among other Greek, Cypriot and Turkish banks, plus those which have expand-

ed into the Balkans.

The provision of post-implementation support is also a key part of the Athens office's role, which will house a number of TEMENOS' consultants.

Greece has seen a considerable amount of merger and acquisition activity in recent years and more is expected in the next two or three. There is a widely held belief that the five major banks in Athens today will be replaced by three 'megabanks' - but firm details as to when and how are as yet unknown. This would have implications for core systems replacement.

Turkey is also seen as offering a potential opportunity, in the light of its negotiations to join the European Union (EU). As a precursor to this, all banks in Turkey would have to conform to EU standards, a fact which would necessitate investment in new banking systems and IT generally. 'We feel that we are well-positioned to handle this potential business,' says Panos. 'We already have a customer, Turkish Bank, which will soon be live with its three

branches in London running TEMENOS T24™ and it is planning to implement the system in Turkey and Cyprus, too.'

In terms of product interest in the area, this would be a mixture of TEMENOS T24™ and TEMENOS™ COREBANKING, with the former more appropriate to the Greek market, as it offers advantages over the systems currently in place (especially in the retail sector), and the latter more relevant to the opportunities in Turkey.

Local bankers are certainly aware of TEMENOS, which enjoys well-earned respect among them. At a reception dinner to mark the opening of the new Athens office, some 50 bankers attended, along with George Koukis, Andreas Andreades and the local team.

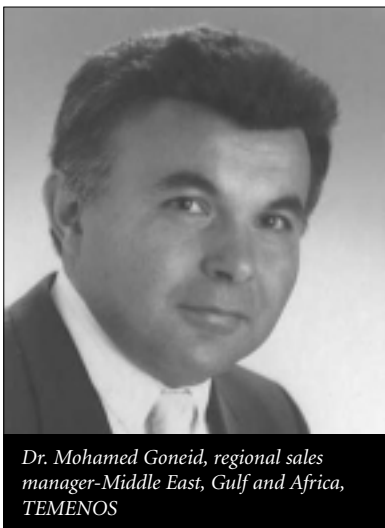
Panos is confident that he will meet his objectives for the region. 'We have a very good product, an excellent company, a strong customer base around the world and we offer banks in the region an unsurpassed value proposition!'



From left to right: Chris Nikolaou, Asimo Konstantinidou, Fulya Tezkosar, Panos Varouxis, George Roussos and Yiannis Antypas

TEMENOS provides *real* support for Islamic banking

While Finance House will begin with an implementation of TEMENOS T24™ in a conventional banking environment, this will be closely followed by support for Islamic banking, that is, provision for handling financial products which are fully Shariah-compliant.



The principles of Islamic banking have existed for hundreds of years, but the adoption of an Islamic approach in modern financing was piecemeal before 1973, when the Conference of Finance Ministers of Muslim Countries issued a Declaration of Intent to establish the first Islamic Development Bank. The bank was opened in 1975.

In the post-9/11 world, the Islamic finance market has become increasingly important and the Islamic Development Bank now has 55 member countries. However, the number of conventional banking systems' suppliers who can also support Islamic banking has not grown at such a pace. In addition, there has been speculation that some among those, claiming to be Islamic banking-compliant, have simply gone through an exercise of renaming their systems in Islamic banking terms.

So where does TEMENOS stand in this context and how does TEMENOS T24™ (henceforth referred to as T24) handle

Shariah-compliant products? To find out, we asked Mohamed Goneid, regional sales manager for the Middle East, Gulf and Africa for TEMENOS. He is well-qualified to know, having been involved with Islamic finance since 1981, when he helped to develop an Islamic banking system for Dar al Mal al Islami (DMI), whose headquarters are in Geneva.

TEMENOS' involvement in Islamic banking dates from 1993 and the development and refinement of Islamic banking support has been going on ever since. At that time, a major Saudi banking group was looking for a system to support its Islamic banking operation. At that time also, Mohamed was that bank's strategic systems consultant. Aware that the system would need to be very flexible to handle Islamic banking requirements, Mohamed advised

the bank to look at TEMENOS GLOBUS™ (henceforth referred to as GLOBUS). Recognising the significance of this area, TEMENOS was keen to be involved and worked with the bank to develop an Islamic banking module (IS) within GLOBUS. The system ran all of the bank's wholesale and treasury Islamic banking and some retail banking investments, mutual funds (Mudaraba) and Islamic commodities trading (Murabaha).

Functionality was later extended to cover Islamic private banking with the GLOBUS model operating on a profit and risk sharing basis, rather than on the calculation of interest, for all functionality. The beauty of the TEMENOS system was its ability to handle new products very quickly. 'Once the prototype had been approved, new products could be launched within

TEMENOS AND SAUDI BUSINESS MACHINES JOIN FORCES TO DELIVER CORE BANKING SOLUTIONS IN SAUDI ARABIA

Saudi Business Machines Limited (SBM), an information technology and professional services provider, has become a systems integrator partner for TEMENOS in Saudi Arabia. SBM staff trained by TEMENOS will be able to implement TEMENOS T24™ core banking software and provide post-implementation services to TEMENOS' customers in that country.

The Gulf States, broader Middle East and north Africa region, have seen a strong growth in the financial service sector, with resultant increases in IT investments and spending.

Thomas Tattis, SBM country manager, professional services, comments: 'We are proud to partner with TEMENOS. The combination of SBM's regional experience in system implementation, integration and support services, with the strength of the TEMENOS T24™ universal banking solution, will give us a leading position in the financial industry in Saudi Arabia.'

Jean Michel Hilsenkopf, regional director, EMEA for TEMENOS, adds: 'TEMENOS T24™ is currently being used by seven banking organisations in the Kingdom, making it the dominant integrated banking system. Our alliance with SBM, which has a strong professional services organisation in Saudi Arabia, is in line with our strategy to strengthen our position in the Middle East region. Our existing and prospective clients in Saudi Arabia can now benefit from a Saudi based implementation and post-live service.'

one or two days,' adds Mohamed.

The new investment and private banking system was also sold to two further Saudi banks. One of these wanted to offer new products to retail banking customers so the GLOBUS core was further enhanced, to enable it to support the retail Islamic functions efficiently. So, from its beginnings as a wholesale and treasury system, Islamic support was extended to the private banking and retail areas and, based upon rich Islamic functionality, the system was also acquired by a recently created Islamic bank in Saudi Arabia, which offers universal Islamic banking products to a large customer base.

This portfolio of business coverage will now be extended further with the Finance House implementation in Abu Dhabi. This is an ambitious new high calibre financial services institution, which is planning to offer a range of new banking services, not currently being offered by any other com-

petitor in the market. While Finance House will begin with an implementation of T24 in a conventional banking environment, this will be closely followed by the provision of a full suite of Islamic banking products for its customers. Recognising that managing the customer relationship is key in these aspirations, Finance House is planning to integrate a leading CRM package, Talisma, with T24, offering it essential business and marketing information, plus enabling a 360 degree view of customer holdings, assets and liabilities, so it can mitigate both risk and exposure. The resulting operation will be 'state-of-the-art' from both a technological and business perspective.

'Finance House is very much looking to T24 to provide the ability for differentiation, both in terms of the services the bank can offer and in the leading edge technology used,' says Mohamed. 'TEMENOS' ability to really understand and provide both conventional and Islamic banking support

has been fundamental to its success in the Middle East and Asia. We have developed the basic concept of IS within the system and each bank then adapts it to its specific needs, with the approval of its own religious board.'

'Islamic banking is undergoing fantastic growth and popularity currently,' continues Mohamed, 'and TEMENOS is very committed to supporting its customers in this area.'

For further information about the Islamic banking support provided by T24, please contact Mohamed Goneid - email: mgoneid@temenos.com

TEMENOS T24™ to support Finance House in Abu Dhabi

Abu Dhabi-based start-up, Finance House (PJSC), has signed an agreement to take TEMENOS T24™ and branch automation software to support its operations, following its intended launch in March 2005. With a capital of AED 200 million (United Arab Emirates dirhams), Finance House will operate as an integrated finance company, offering consumer and commercial financing services, including Islamic finance, from its headquarters in Abu Dhabi and from an intended network of branches in the major cities of the UAE.

The major founders of Finance House are amongst the most prestigious financial institutions in the UAE: Abu Dhabi Investment Company (ADIC) was established in 1977 as the UAE's first investment company, while National Investor (NI) is also a leading private investment company. The new company, whose IPO in 2004 was oversubscribed by a record 75 times, expects to break even in the third year of operation.

Finance House is considered the first fully integrated finance company in the UAE and the first finance company based in Abu Dhabi. The activities of the company will include taking deposits from corporates and public institutions in addition to providing retail and commercial financing for medium-sized corporates and individuals, plus issuing letters of credit and guarantees.

'Our stated aim is to provide high quality and unique financing and investment products and services that meet the requirements of a cross segment of society, by employing the best financial expertise

and using modern technology in a way that will achieve high returns for investors,' affirms Mohammed Alqubaisi, chairman of Finance House.

It is in the latter area that TEMENOS can help!

Finance House selected TEMENOS T24™ after an extensive and thorough evaluation of the market, led by external consultants. Says Mr. Alqubaisi: 'We wanted a detailed and rigorous selection process, so that we could select the most suitable vendor to help us to achieve our business goals. Out of the top twelve vendors in core banking and branch automation solutions, we chose TEMENOS. The company's wealth of experience and the proven excellence of its technology, which is both modular and scalable, means that the solution can grow with our business to ensure world class business efficiency and unrivalled customer satisfaction.'

The implementation will begin with conventional banking, for both corporate and retail products. This will be followed by Islamic banking, at which point TEMENOS will implement fully Shariah-compliant products. Thereafter, Finance House intends to offer internet banking to all of its customers.

George Koukis, chairman of TEMENOS, was delighted to welcome Finance House as a client. 'It is a new organisation, with high standards and high quality processes and procedures and we are honoured to be selected as its strategic IT partner. We look forward to helping Finance House in its goal to be one of the most professional and solid financial institutions in this region.'

EVENTS DIARY

Financial Times Business - Core Systems Replacement Strategies

17 February 2005,
London

SUN Banking Summit

15 March 2005,
Geneva

TowerGroup 2005 Financial Services Business & Technology Conference & Exhibition

25-27 May 2005,
Boston, MA, US

TEMENOS CLIENT FORUM - TCF 2005

13, 14, 15 June 2005,
Monaco

Sibos 2005

5-9 September 2005,
Copenhagen



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