

TEMENOS NEWS

Issue 7, June 2005

A strong start to the year!

Six months into 2005, Andreas Andreades, CEO of TEMENOS, gives an update on how TEMENOS' business is progressing.

I am delighted to report that we had a strong start to the year, right across the business, with TEMENOS T24™ (referred to as T24) in particular having an especially good start: we managed to grow our T24 business by 58% compared to last year and I am comfortable with the trends I see for T24 around the world. The uptake has been good, by both new and existing clients: we have 39 clients live now and the remaining TEMENOS GLOBUS™ clients will be migrating over the next 18 months. I speak to clients and prospects in every region and I get the same, consistent feedback: 'This is the best product in the world and nothing in the marketplace today can compare with it!'

continued on page 17...



TEMENOS™

TEMENOS congratulates Industrial Bank of Korea (IBK) on becoming a world class bank through using TEMENOS™ CORE-BANKING.

IBK is delivering world class performance by:

- Introducing 168 new products in the last three months;
- Creating the first 'Dok-do' product in a world-beating ten hours;
- Achieving 1 trillion Won in 'Dok-do' deposits in the first 15 days;
- Experiencing no downtime since the launch of the product; and
- Processing over 500 transactions per second in an average day.

The results at IBK prove that a modern, scalable banking system makes a real difference to the bottom line. That's why IBK chose TEMENOS™ COREBANKING as part of its strategy to become a world class bank.

Chairman's comments

When you read this newsletter, I will be welcoming many of you to this year's TEMENOS Client Forum - TCF™, which is taking place in Monaco from the 13th to 15th of June. The theme for this year's event is 'Time for Growth' and since last year's event in Prague, there does indeed appear to be a renewed optimism in the economy and the financial markets, both of which are showing strong signs of growth.

continued on page 11...



Dominique is welcomed home!

- 3 Compartamos - working for the people
- 5 Dual currency trading for TEMENOS
- 6 Jean-Michel Hilsenkopf is 'In the hot seat'
- 10 Results of the 'Banana Skins Survey 2005'
- 12 Dominique Wavre and TEMENOS finish 4th!
- 14 An integrated solution for Basel II
- 16 Product news: TEMENOS Financial Reporting
- 18 OI - partners as well as clients
- 20 ALUBAF International Bank live on T24
- 23 A view from the markets - the IBS Sales League table



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Q2



Q3



Q4

Solutions for the adaptive enterprise.





Working 'for the people and through the people' with TEMENOS T24™

Financiera Compartamos was launched in 1990 as a pilot project of the Mexican non-governmental organisation (NGO), Gente Nueva. Its mission was to provide financial services to enterprising people who lived in disadvantaged conditions. Since 1990, Compartamos has grown into the largest micro finance institution (MFI) not only in Mexico, but in the whole of Latin America, with some 120 branches in Mexico and more than 300,000 clients. It is also one of the most profitable MFIs. As a result of this success, in 2000, Compartamos was able to change its status from NGO to a regulated finance institution.

Compartamos' clients were originally concentrated in rural areas in two of the poorest regions of Mexico, Oaxaca and Chiapas, although the company's presence is much more widespread now. The vast majority of its clients are women - 98.9% to be exact! The reason for this is that the men tend to either have moved away to find work or be employed in agriculture. Compartamos' loan products are also designed for short cycle, home-based enterprises - the production of garments, crafts and foodstuffs, for example - and so are most applicable to women, who form solidarity groups of about 30 people.

Says Enrique Ramos O'Reilly, regional manager for TEMENOS: 'Compartamos has seen incredible growth, way beyond that of the typical MFI, and it has become a sophisticated, leading institution in its field. Compartamos welcomed our experience in the micro finance sector, and although we started the sales process with TEMENOS eMerge™, our solution for MFIs, we ended up offering a full TEMENOS T24™ (referred to as T24) solution to cater for the size and complexity of this organisation.'

However, as an MFI, Compartamos is

restricted to offering small, enterprise-linked loans. It currently offers a savings-linked loan, but the savings element has to be lodged with a commercial bank. If it could offer its own savings products, it would be able to fund its loans internally, enabling it to increase the number of loans it could offer. So, Compartamos has devised an aggressive plan to diversify its portfolio and transform itself from a credit provider to a fully-fledged financial organisation.

'Our motivation to become a bank is driven by the fact that we have over 300,000 clients and we would like to be able to offer them the additional financial services that they need: savings, particularly, but also life insurance and different kinds of loans - mortgages and consumer finance, for example,' says Carlos Labarthe Costas, CEO of Compartamos.

The process of acquiring the banking licence will probably take another year, the aim being to achieve it before the Mexican General Election, which is scheduled for July 2006. The introduction of the new financial products will be phased. An easy first step is to take back into the organisation those loan-linked savings accounts which had to be placed with other banks. The next stage would be to open new savings accounts for other people within those communities who have surplus funds. Life insurance would then be similarly introduced.

Supporting the new areas of business will be beyond the scope of the systems currently in

place. Compartamos has invested heavily in technology, but the systems focus on lending rather than savings. 'We were aware that we would need to implement a new system to support all of the products we planned,' adds Mr. Labarthe. 'So, in addition to having tight timescales to get the banking licence before next July, it is very important for us to have the new system in place too, to demonstrate that



(From left to right): Federico Hernandez, Compartamos; Enrique R O'Reilly, TEMENOS; Carlos Labarthe, Compartamos; Carlos Danel, Compartamos

we will be able to support the new business.'

Compartamos reviewed more than a dozen systems, before short-listing four, from which T24 was selected. 'We were impressed by the functionality of T24 and TEMENOS' reputation in the banking sector,' says Mr. Labarthe. 'We also felt that TEMENOS showed commitment to the market: they have an office in Mexico City and could provide local support - this was particularly important in view of our tight deadlines.'

There was also a further, less tangible reason for electing to work with TEMENOS. Mr. Labarthe explains: 'We were impressed by George Koukis' commitment to us - we felt that he really understood our business. We like to partner with people who have similar



New appointments strengthen Americas team

TEMENOS' successful Americas team is to be further strengthened by the appointments of Alex Groenendyk and Greg Green to the roles of president and senior vice-president, respectively.

The new appointees both arrive at TEMENOS from Fiserv, where Alex was president and Greg chief operating officer, for the Fiserv CBS Worldwide division. TEMENOS' operation in the Americas has expanded considerably in recent years, with offices in Ecuador, Mexico City, Miami and New York, along with a growing client base.

In the course of his 13 years at Fiserv,



Greg Green, senior vice-president, Americas, TEMENOS

Alex successfully grew his division's client base in both the international and American markets, particularly in the medium to large sized banking segments in North America. He is optimistic about the opportunities for TEMENOS in the Americas. 'For many years, core banking vendors have been building function on top of out-dated technology platforms. TEMENOS is arguably leading the industry by deploying the latest technology and system architecture for both TEMENOS T24™ and TEMENOS™CORE-BANKING. The proof is in the incredible sales success of both products. I am very excited by the opportunity to help to continue this momentum in the American market.'

Greg, who has operated in the North American banking software market for much of his career, having been president of CBS USA, prior to his appointment as COO for the global operation, is looking forward to working with the existing team in the Americas, who, he says have excellent industry and product knowledge, along with an unmatched desire to provide their clients with superior solutions.'

Andreas Andreades, CEO, TEMENOS, regards the appointments as a 'major step for TEMENOS and one which will help us to significantly drive forward our American efforts'. He adds, 'Alex and Greg make a very strong team, with the market knowledge to significantly accelerate our revenues and position in the region.'



Alex Groenendyk, president, Americas, TEMENOS

continued from page 3

business cultures to ourselves. TEMENOS is the same kind of company as we are - we both want to make a difference in the world. This is not the case with every supplier.'

Compartamos has taken a licence for about 1000 users. Its branches, which are not currently on-line, will need to become on-line before the banking licence is granted, to facilitate reporting and relationship management, for example.

This is a very important project: not in

terms of a financial institution arming itself with the latest technology to enable it to increase the size of its balance sheet and its scope for profits, but rather, in the support T24 can offer Compartamos in its mission to help disadvantaged people to change their lives and their communities.

Mr. Labarthe explains how Compartamos can make a difference: 'We exist to give poor people the opportunity for development. Our core value is the 'person'. We work for the people and through the people. We are not giving aid, we are offering people choices: they choose

what they want to do with their loan. In turn, this gives them responsibility. When you see the development of the women who receive our loans and the way they can change the culture in their families and communities, it is most encouraging. They become agents for change.'

The implementation of T24 has already begun and the system is expected to be live in January 2006.

We wish Compartamos every success in this project and in the new business.



Dual currency trading for TEMENOS

TEMENOS has become the first Swiss company listed in the main segment of the Swiss Exchange (SWX) to be allowed to trade and to be listed in both Swiss franc and US dollar currencies. Max Chuard, director of corporate finance and investor relations for TEMENOS, explains the significance.

We filed the application for dual currency trading because TEMENOS' stock price is denominated in Swiss francs for a business which is mainly dollar-based, is hedged in dollars and has its reporting currency in dollars too.

The reasons for this are historic. If we look back to 1993 when the business began, most of our sales were in US dollars and our price list was in dollars. Even now, most of our revenues continue to be dollar-based. While we can manage new sales in local currencies, the recurring part of our revenue, our maintenance revenue, is still dollar-based. With some 70% of our revenue dollar-based - we really are a dollar business!

When TEMENOS decided to go public in 2001, we decided to launch in Switzerland because this was our home market and our corporate headquarters were in Geneva, plus it brought added value - the association with banking, as well as a high quality, client-centric service and so on. However, it was from this point that we gained a mismatch between our business and reporting currencies - US dollars and our listed currency - Swiss francs.

When we went public, our stock was valued at 23 Swiss francs per share. That was in June 2001 and at that time the exchange rate between the dollar and the Swiss franc was 1.8. At the end of 2004, our stock price was 10.5 Swiss francs, but over the same period, the dollar/Swiss franc exchange rate dropped from 1.8 to 1.13 - a 40% decrease over three years. To get an idea of the impact of this movement on our share price, if



Max Chuard, director of corporate finance and investor relations, TEMENOS

we convert it to a dollar equivalent, the price change from launch to the end of 2004 would be a decrease from 12.7 to 9.3 US dollars. This is nowhere near as significant a drop as in the Swiss franc values and demonstrates that the underlying currency exposure between Swiss francs and

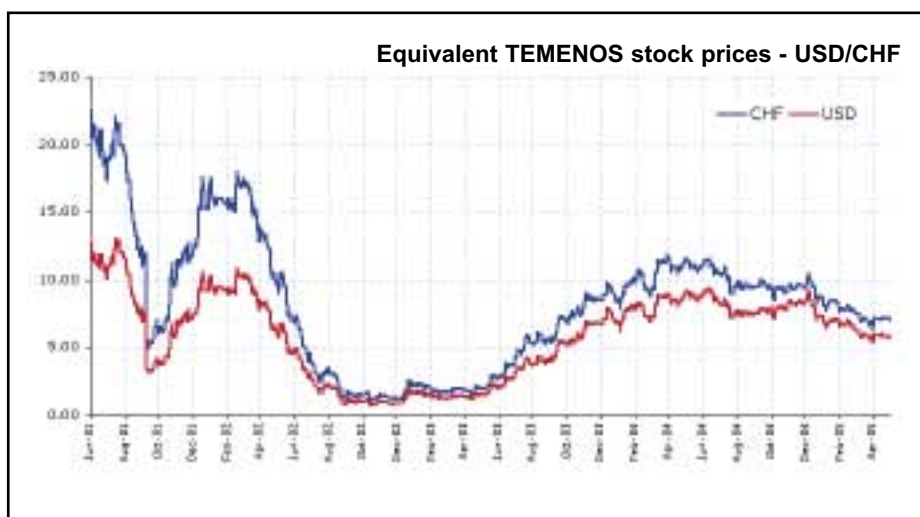
US dollars is masked by the share price movement.

Why is this significant? First of all, we are very proud to be the first Swiss company in the main segment of the SWX to be allowed to do this. Other companies here are facing the same challenge and may well choose to follow the route we have pioneered.

From a corporate governance point of view, this is an important development as it will improve transparency and fair view, especially for investors and the analyst community. It will bring the stock price in line with our business and reporting currency, as we are a dollar business. We should no longer have the situation where a change in the exchange rate can affect the TEMENOS share value, without us having done anything to bring about the change.

Investors will notice very little change initially: the stock will retain the same

continued on page 7...





In the Hot Seat!

*J*ean-Michel Hilsenkopf sits on the TEMENOS executive and operating boards and has two roles: worldwide marketing director and director for Europe, Middle East and Africa (EMEA), the largest of TEMENOS' three geographical regions (the other two being the Americas and Asia Pacific). While TEMENOS is now very much a global player, the company was born in Europe so, for historical reasons as well as the more recent expansion into Russia and the CIS, Eastern Europe and large areas of Northern and sub-Saharan Africa, EMEA still represents about 60% of the TEMENOS business. We asked Jean -Michel what was happening across this huge region.



Jean-Michel Hilsenkopf

Jean-Michel, what do you see as being the main developments across the region?

If I start with Europe, which is a very mature market for us, there are lots of different regional developments. There is a lot of activity from the new countries which have recently joined or are preparing to join the EU, for example. There is a considerable amount of merger activity in Eastern Europe, resulting in the creation of new 'megabanks'. There is also the prospect of the new EU tax as well as compliance requirements, which are taking up a great deal of the banks' time and attention. Then there is the move towards Islamic banking in the Middle East and Africa.

How many clients does TEMENOS have across EMEA?

There are some 200 clients today across EMEA.

Which markets has TEMENOS entered

most recently?

We have been involved in Africa and the Middle East for a long time, especially in Saudi Arabia, but we are now beginning to get involved in Iran, which is beginning to open up to foreign suppliers. We signed our first contract there last year with Post Bank of Iran. It is quite a challenge to operate in Iran because of its rather special political and economic situation. We chose to work with a

local partner - a company called DPI. It is very important to be guided into a country of this kind by a local specialist which understands the culture and the new market thoroughly. One thing which has greatly helped us is the fact that TEMENOS T24™ (referred to as T24) already incorporates an Islamic Banking module. The Islamic movement is having a considerable impact on banks,

whose clients are demanding an Islamic approach to banking. TEMENOS won its first Islamic banking client in Saudi Arabia ten years ago - Al Rajhi Bank, one of the biggest Islamic investment banks in the world at the time. Since then, we have further developed the module with them.

Eastern Europe is also a relatively new market for us. We have also been active in the CIS

over the last three years and have a very good sales pipeline there. Of course, there is a lot going on there, with the restructuring of the banking industry, so we are very busy.

As for other new markets, Turkey is definitely a country where we are trying to increase our activity. We have a few Turkish banks as clients and we want to have much more of a presence there. About six months ago, we took the decision to really make a push into the market, to ensure that we were perceived as a credible supplier there. Initial reaction has been very positive.

How has TEMENOS responded to the drivers influencing the EMEA markets - particularly those affecting the whole region like Basel II?

This is obviously a very important subject for TEMENOS. We already have a Basel II solution through one of our partner applications: TLC's barracuda®. Basel II is a specialist area and we are pleased with the value and expertise TLC is adding to our systems. A more integrated solution is also under consideration.

'Last year, ILF growth in EMEA was 22%, and revenues from EMEA represented more than 60% of total TEMENOS revenues.'

Is T24 or TEMENOS™ COREBANKING (referred to as TCB) more appropriate in EMEA?

Our two products focus on different market segments and in EMEA, both products are experiencing significant success. As regards T24, the first few months of 2005 have been very busy, with eight existing clients upgrading successfully. We have also seen a number of new signings, mainly in universal banks.



In fact, I am delighted to announce that we have recently signed a very prestigious bank in Monaco: Compagnie Monégasque de Banques - CMB. As for TCB, we have a growing pipeline and contacts with big retail banks.

How many clients in EMEA are now running on T24?

We have eight clients live on T24, plus a further twelve who are currently implementing. MeesPierson was the most recent client to go live, in the middle of March. There is a lot of interest in upgrading to T24 and this increased with the launch of Release R.05 in March - six banks are currently upgrading.

What about the results for the EMEA region?

Last year, International Licence Fee (ILF) growth in EMEA was 22% and revenues from EMEA represented more than 60% of total TEMENOS revenues.

What is the outlook for 2005?

We can't compete for growth with the newer markets of the Americas and Asia Pacific, which saw a fantastic 200% increase in ILF revenues in 2004. However, TEMENOS' goal is to continue to grow in EMEA, while also continuing to develop the Asia Pacific and Americas regions so that the contributions from each of the three are more balanced. TEMENOS has always been aggressive in its approach - we always go for growth. If you do not go for growth, then you shouldn't be in the market.

In terms of specific product plans for the

EMEA region, our focus will be on 'packaging' a solution for the CIS market where there are some very specific requirements. We will be continuing with the Islamic developments and we are working on a pure French platform. This is being driven by one of our major French clients. Software to meet the EU tax requirements is already being implemented and, of course, we are keeping abreast of Basel II and of the Single European Payments Area (SEPA) too.

In terms of support, we have 15 offices across EMEA now and, from these, we can handle the service requirements of our existing clients. Obviously these decisions are driven by the needs of the local clients, so we monitor them continually.

You have recently announced changes to your financial reporting. What prompted this?

TEMENOS has always been very transparent in its reporting. This was recognised last year when we were declared among the top companies in Switzerland for corporate governance. We used to announce how we were performing in relation to our new quarterly signings targets. None of our competitors did this. However, the danger is that, if the conclusion of a deal in which we are involved slips by a day or week, possibly into the next financial quarter (as happened last year), we are penalised for this by the market. Decisions about core systems are huge matters for the banks and so if contracts cannot be signed exactly when anticipated, this is quite normal and often encountered in the software market. Timing is difficult to pre-

dict. Market analysts, however, don't like surprises! So from now on, we will not pre-announce our signings as this can work against us. It's not a big change anyway and, as I have already said, our competitors already take this approach.

Finally, with your marketing director hat on, what about key events in 2005?

The highlight for me will undoubtedly be the TEMENOS Client Forum - TCF  which this year takes place in Monaco, in June. This is a unique event in our industry. About 500 people attended the event last year - prospects, clients, partners, analysts, investors and press. For three days, delegates have free access to everyone at TEMENOS, including the most senior people. It's an invaluable event for us. It is challenging too sometimes, as people tell us exactly what they think! We have long relationships with many of our clients and it is very important for me to meet them at TEMENOS Client Forum - TCF  and to listen to what they have to say, so that we can understand what we need to do better. So, on a final note, I



w o u l d
r e m i n d
everyone to
reserve the
13th to 15th
of June in
their diaries
and I look
forward, as
always, to
meeting
them in
Monaco!

continued from page 5

symbol and ISIN number. The only difference will be that they will have the opportunity to buy or sell in Swiss francs or US dollars. This gives them much greater flexibility.

'We should no longer have the situation where a change in the exchange rate can affect the TEMENOS share value, without us having done anything to bring about this change.'

From TEMENOS' perspective, we still have our Swiss listing but we now have a

mechanism to enable us to balance our currency exposure. The aim is not to change our share price, but to provide a better correlation between our business and share value. The removal of the currency risk may also make TEMENOS' stock of greater interest to US investors as they

can make an investment in their own currency, without currency risk.

In practical terms, how will this work? The first dual currency trading day will be the 15th of June 2005. The evening prior to this, the SWX will align a US dollar value to TEMENOS' shares, based on the latest exchange rate. From then on, investors will be able to buy or sell in whichever currency is appropriate for them. In conclusion, the new facility will be fairer for everyone.

For details of the next TEMENOS investor day, please refer to the TEMENOS web-site: www.temenos.com



Congratulations to banks which have recently gone live on TEMENOS' systems

Sacombank, Vietnam

Sacombank, the largest commercial joint-stock bank in Vietnam, has successfully completed the implementation of TEMENOS T24™ (referred to as T24) in its main branch in Ho Chi Minh City in just eight months - an impressive achievement for the implementation of a universal banking system.

In addition to core functionality, a range of additional components was taken. One of these was a customer information system, to provide a single view of all customer accounts and provide integration with the bank's legacy systems, thus enabling the bank to manage customer exposure outside the core banking system. In addition, credit and deposit management modules were taken, with their user-friendly application screens and provision for the flexible definition of new products.

As a result of the implementation, Sacombank is able to integrate T24 with its other applications, benefit from a single view of all of its customer accounts and generate new products quickly in response to market

and customer forces.

The success is largely due to the commitment of the project teams from TEMENOS and Sacombank, supported by FIBI, TEMENOS' local partner.

Sacombank implemented the latest release of T24, R.05, which was only made generally available in March of this year. The system was installed on IBM servers, using J2EE multi-tier architecture and Oracle database software.

Bank Leumi, Switzerland

Bank Leumi in Switzerland, a private banking division of the Israel-based Leumi Group, has gone live with T24. The bank has implemented the system in its Zurich head office and Geneva branch, following the completion of a pilot project for Leumi in Panama. The integrated approach of T24 will enable the bank to better meet the demands of modern private banking, and will replace its legacy system, Midas. In addition to the T24 core account, plus customer and delivery functions, Bank Leumi has

implemented the asset management front end module. This will help the bank's relationship managers to manage their customers' affairs more effectively and enable them to provide customers with a more complete view of banking and brokerage activity. T24 was implemented across IBM servers,

with the jBASE™ 4.0 database.

Bank of Botswana

The list of central banks using TEMENOS' systems has been augmented by the Bank of Botswana, which has successfully gone live on T24. The system has been implemented in all of the bank's branches, including the head office, main and satellite branches. T24 has been integrated with the other applications running in the banking, accounting and financial markets departments. It is also being used to help the bank with the complexities of customised reporting and transaction back-dating, as well as with its back-up procedures. Some 5000 accounts will reside on T24, which was implemented across IBM servers, with a jBASE™ database.

Julius Ghanie, IT director for the Bank of Botswana, says: 'We selected TEMENOS because it has proven experience in the central banking market, having implemented central bank solutions in countries such as Swaziland, Zimbabwe, Zambia and Pakistan. In addition, T24 is able to increase our overall efficiency, particularly by eliminating the need to capture information manually into different systems.'

The Bank of Botswana, which was established in 1975, was previously using Bankmaster but, as the bank's requirements grew, it needed a more sophisticated and flexible system. The bank has implemented T24 core functionality, and a range of modules including funds transfer and standing orders, open financial server, teller, document management, plus securities and portfolio management. The bank also selected TEMENOS to supply a new currency vault management system as part of the new solution.



Sacombank project team



A new face for TEMENOS training in EMEA!

Jon Parry talks about his aims for TEMENOS training.



Jon has joined TEMENOS to head up training for the Europe, Middle East and Africa (EMEA) region. He comes to TEMENOS with some 25 years' experience in the IT industry, spent in various training and technical roles. Jon is passionate about the importance of training, not just during the implementation of a new software solution, but on an ongoing basis thereafter.

'I think training has traditionally been

seen as a necessary evil. It means "time off the job" and has even been perceived as "wasted time off the job". This is just the opposite of what it represents. The better the staff are trained at the beginning of an implementation, the easier it will be to progress. Moreover, banks will have much more motivated people, better able to respond to challenging situations should they arise. One of the key competitive advantages for a bank is its staff.'

Fortunately, Jon has noticed that attitudes are beginning to change and that the more enlightened organisations do appreciate that training is an integral and ongoing part of any software implementation.

'People are at the heart of any organisation and skilled people are integral to that organisation's success, particularly in today's fast-moving markets when business, regulatory and technology change is occurring at an ever more rapid pace.'

When asked about his objectives for training over the next year, Jon is clear, 'I want to consolidate what we are currently doing but, at the same time, actively develop new courses to ensure that we continue to meet client needs. I will also be looking at the

development of bespoke training programmes for our clients. Our aim is to be the preferred supplier of quality, professional training solutions to our clients, partners and prospective clients across EMEA.'

Jon is supported by a small core team of full-time trainers, supplemented by client services consultants with specific skills. Consultants in the various countries of the EMEA region are also brought in, particularly when local language skills are required. 'Developing strategic partnerships with third parties will enable us to extend our scope and coverage,' he adds.

Jon's appointment follows a revamp of TEMENOS' existing training programme. This has been updated to take account of enhancements to TEMENOS T24™ and has been supplemented by new courses on syndicated lending and derivatives. Workshops and tests have also been improved and the team will also soon be offering soft skills courses such as 'train the trainer.'

To find out more about the TEMENOS training programme, please contact Jon Parry on +41 22 855 1600 or email jparry@temenos.com

continued from opposite page

This will interface with the bank's clearing, financial markets and accounting systems.

Schroders Bank, Zurich

Schroders Bank in Zurich, part of the Schroders Group which in 2004 celebrated 200 years in banking, has successfully completed the migration from TEMENOS GLOBUS™ G12.2.06 to Release 4 of T24. The system is running on Sun Solaris, with the jBASE™ database. 'We are pleased that Schroders has concluded this migration and will now focus on the implementation of the

European Union Savings Directive (EUSD),' says Jean-Michel Hilsenkopf, EMEA regional director for TEMENOS.

World Vision International

World Vision has been rolling out TEMENOS eMerge™ to manage its business, and so far has successfully installed the system in 15 countries. Recent successes include 'go lives' in Ghana and Swaziland. The systems are implemented with the assistance of Delisys Delivery Systems, based in Toronto Canada

World Vision's Micro enterprise development programme transforms the lives of the

poor - economically, socially, and spiritually. In 2004, the organisation distributed more than \$127 million in loans to more than 300,000 hard-working entrepreneurs. Loan sizes vary from \$50 to \$5000, most typically in the \$100 to \$2000 range. Usually, loans are given to groups of five to 30 micro business operators who band together for self-administration, mutual encouragement, and accountability. This ensures that even the poorest of the poor can have access to credit because these entrepreneurs cross-guarantee each other's loans and support each other's businesses.



'Too much regulation' tops 2005 Banana Skins Report!

Excessive regulation, and in particular Basel II compliance, has been cited as the main concern of the 440 respondents to the biennial survey into banking risks from the Centre for the Study of Financial Innovation (CSFI). The survey, aptly named 'Banana Skins 2005', gathered responses from 54 different countries, across banking and related industries.

'The rise of regulation as a concern has been a steady, clear trend since 1998,' according to David Lascelles, co-director of CSFI and author of the report. 'However, the message this year is overwhelming and dominates the concerns of virtually all respondents.'

With the countdown to Basel II well under way, is this not just a whinge from organisations which are perhaps not quite so well prepared as they should be? Mr. Lascelles thinks not: 'The complaints are widely held and go well beyond issues of cost and resources. There is a feeling that excessive regulation is stifling innovation and could hamper competition, particularly for new market entrants and for smaller firms.'

Of course the huge cost of regulatory compliance is raised as an issue which is eating into the profitability of the banks. Moreover, it is seen as unproductive work by the banks. It isn't just the quantity of regulation that is at issue, but the quality, or rather the lack of it. Basel II is seen by many respondents as a vast bureaucratic exercise that is too complicated to be delivered effectively.

It is even felt to be dangerous, in that by relying too heavily on regulatory requirements to manage their risk, banks could actually be lulled into a false sense of security. As Mr. Lascelles explains: 'High levels of regulation create a different sort of mentality - one that is procedure-driven rather than focusing on real business risk. Thinking that all risks are covered, things could slip through the cracks.'

The potential effect on the market is also raised as a concern, particularly the uniformity that could be introduced with Basel II, as banks move to very similar risk models and risk management systems, which are approved by the regulators. This could

reduce diversity in decision-making and could lead to an increase in systemic risk.

There is, however, some variation in the feelings expressed, depending on the role of the respondents and the markets in which they are operating. Bankers, 'non-bank' businesses (eg. insurers and fund managers) and 'outside observers' almost unanimously put 'too much regulation' at the top of their list. Unsurprisingly, regulators placed it 20th!

As a group, bank chairmen, CEOs and directors gave 'too much regulation' the highest score ever accorded a Banana Skin in the ten years the survey has been conducted!

There are geographical distinctions too, with concerns being most marked in the G7 countries, particularly the UK. In emerging markets, while Basel II and the like are seen as an 'entry ticket to respectable markets' and a 'badge of respectability', concerns are expressed about the ability of both banks and regulators in these markets to implement Basel II properly.

However, excessive regulation is not the only concern of bankers. Among the top 20 Banana Skins, corporate governance, hedge funds, fraud (specifically electronic fraud) and currencies (particularly in the light of US dollar fluctuations) also featured prominently. Even technology raises two broad issues: its ever-rising cost and concerns as to whether banks are really on top of it, plus worries that the banking industry is highly vulnerable as the result of an over-dependence on technology.

So bankers have a lot on their minds at present!

Nonetheless, Mr. Lascelles has noticed a difference in attitude from the previous report. 'This has been a much more positive survey than the last one we conducted in



2003, which was very pessimistic. Perhaps because the immediate outlook is quite good at a macro level, concerns are less sharp and banks have felt able to give vent to some of the deeper undercurrents.'

Whatever the concerns expressed, Basel II is not going to go away and it will be interesting to see if concerns about this year's top Banana Skin have materialised in practice by the time the next poll is carried out in 2007.

[The full report 'Banana Skins 2005' is available at www.centralbooks.co.uk](http://www.centralbooks.co.uk)



continued from page 1

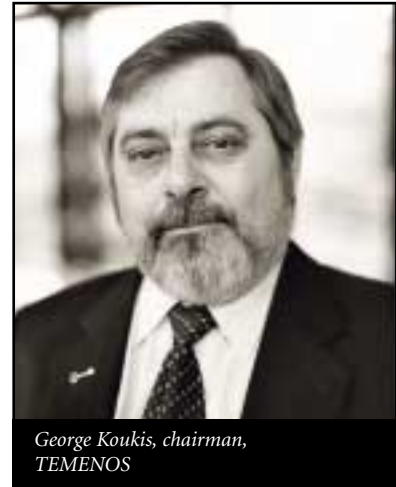
In recent years, financial institutions have reacted to the unstable economic background by cutting costs and reducing risks. Today, many of these companies are reporting strong results and there are signs that things are starting to take off!

This optimism is reflected in our own company's results: TEMENOS is still growing and, once again, what a strong start to the year across all of our regions! We are seeing solid progress in Europe, Middle East and Africa (EMEA), the largest of our three geographical regions and a mature one in banking systems terms. In this issue, Jean-Michel Hilsenkopf, director of EMEA, gives us an idea of what is happening there from the 'Hot Seat'. We are also strengthening our presence in the Americas region, with the appointments of Alex Groenendyk and Greg Green to senior positions, to drive forward our efforts in those markets. In Latin America, in particular, TEMENOS is expanding in terms of new clients, new partnerships and new offices. Meanwhile, news

from Asia Pacific is equally encouraging and we are reminded of the major implementations which began last year in that region and which are already bearing fruit: Industrial Bank of Korea (IBK), for example, which is delivering a world class performance supported by TEMENOS™ COREBANKING, and Sacombank, which has implemented TEMENOS T24™ in just eight months.

So, already half way through the year and I can look back over a very successful few months, and not just in the area of banking systems! Earlier this year, I had the honour to go to Les Sables d'Olonne to welcome Dominique Wavre back from the Vendée Globe round the world solo race, in which Dominique and 'TEMENOS' achieved an impressive fourth position. Just to hear about Dominique's experiences was amazing and moving. Like TEMENOS, Dominique is driven by the next challenge and we look forward to watching his progress in this year's Transat race.

I hope you enjoy this issue and for those of you who will be in Monaco, as always, I look forward to meeting you in person.



*George Koukis, chairman,
TEMENOS*

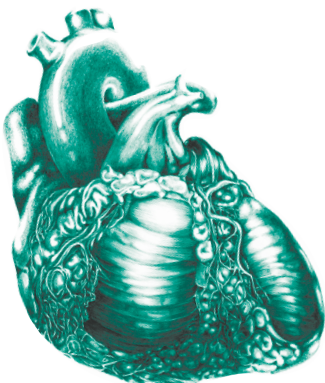
TEMENOS Client Forum - TCF™ really is an excellent way of keeping up to date with what is happening in the market and in the TEMENOS world and, equally as important, it gives you the opportunity to 'network' with your peers, industry specialists and senior TEMENOS representatives. You really can't afford to miss it!

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Dominique Wavre and 'TEMENOS' finish the Vendée Globe in fourth position!

Congratulations to Dominique for a superb performance in this most gruelling of races. He crossed the finish line at just after 5.15 am on Tuesday the 8th of February, some 92 days, 17 hours, 13 minutes and 20 seconds after his departure from Les Sables d'Olonne. We caught up with Dominique some weeks later to hear his reflections on the race and to find out how he is adjusting to life on dry land!



George Koukis welcomes Dominique home

First of all, Dominique, how did it feel to cross that finish line?

I was very, very happy to meet my family, my friends and also George Koukis again and it was wonderful to see how pleased everyone was to see me and the boat return home safe and sound! It was a euphoric feeling - I didn't feel tired at all. Mentally, I was in amazingly good shape! The race was hard work, but I did my best. I perhaps missed some opportunities at the beginning, but I made very few mistakes after that. I felt like I was in harmony with my boat and with the weather. Everything was done in the right place at the right time.

How do you feel now?

I feel really well. I have had enough rest - I

suppose I have come back down to earth. I feel that I have done my job!

How did this race compare with the Vendée Globe 2000?

This race was more difficult, both technically and in terms of the conditions: there were more storms, more calms - everything was a little bit more extreme than in the last race.

What about the competition?

This is always a tough race, but the main competitors know each other very well and we have worked together for many years to make the race better. There is a solidarity between us. We have all returned from a difficult and dangerous challenge. If anything went wrong during the race - in the middle

of the Pacific, for example - if there was a problem, the only people who could help us would be the other competitors. It's a bit like mountain-climbing: we develop feelings of solidarity and we look out for each other. Vincent Riou and Mike Golding, who finished first and third respectively, came on board 'TEMENOS' when I crossed the finish line - they were very happy for me too.

What were the highlights of the race for you?

Undoubtedly, the best bit is the finish line and the arrival home! Such feelings of euphoria!

However, when I emerged from the storm in the Southern Ocean, I was very happy then too. I had been under such stress and it was so difficult - a really worrying time and then I came through it. It was a great feeling, although still not so euphoric as crossing the finish line.

And the worst bits?

When I was becalmed in the South Atlantic and I realised that the five leading boats were going to the south and I was stuck without wind. This was around St Hélène. I felt guilty because mistakes I had made two weeks earlier meant that I would no longer be able to win the race. I was also aware that the race was very difficult for my partner, Michèle. She is a sailor too and so knew exactly what I was going through. While I had so much to do, I couldn't dwell on the dangers. Michèle



didn't have any such distractions and worried a lot for me.

You were involved in quite a battle for positions weren't you?

Yes indeed, towards the end of the race with Sebastien Josse. In fact, we both have the same type of boat so it was interesting because the battle was waged on both technical and strategic grounds, with each of us



With the end in sight!

trying to use the weather in the best way. This made the latter part of the race very interesting. Coming back to Europe in winter is difficult: the nights are long and it is very cold, so it helped to be concentrating so intently on the race against Sebastien.

How did 'TEMENOS' perform?

She performed very, very well - better even than I had expected, and especially in the strong winds. In stormy weather, she was probably the best boat in the fleet and we maintained an extremely high average speed. 'TEMENOS' was really strong and proved an excellent boat for a race of this type.

You made a number of changes to 'TEMENOS' after the Transat race. Did these pay off?

Absolutely! We changed the rudders and the keel. This greatly improved the boat's performance and it was because of these changes that we could travel so fast in strong winds. It meant a lot of work for my team in the month before the Vendée Globe - I have a team of four normally but, just before the race, this grew to ten people. It was worth it

though.

You were at sea for more than 92 days. What did you miss most?

Michèle, naturally! But, to be honest, I was so much into the race that I had no time to miss anything else. I took books, but didn't have time to read, and DVDs, but didn't have time to watch them! The race was so intense. I had some home comforts - for example, my

friends packed a small Christmas tree for me. This made me think of my family and friends at Christmas time and realise that they were thinking of me, so it was a very pleasant moment - but short!

What was life on board like?

I was soaked, frozen and tired for a lot of the time. Plus, as I had to bring all of my rubbish back with me, I had an increasing number of rubbish bags accompanying me! The boat is very uncomfortable, being designed for speed not comfort. In fact, my 'bed' was only 1m 40cm long, while I measure 1m 80cm! So nothing is made for comfort - and, in any event, I would feel guilty if I was too comfortable!!

Will you be participating in any major races this year?

Yes. In November, the Transat Jacques Vabre double-handed race between Le Havre in France and Salvador de Bahia in Brazil.

Will TEMENOS be sponsoring you again?

Yes. The relationship with TEMENOS has been excellent - it has worked really well.

George Koukis was at Les Sables d'Olonne for my arrival home - it was the first time he had seen the boat. We had a very pleasant dinner together and I am delighted that George will continue to sponsor me.

What about the next Vendée Globe race?

Yes, I'd like to do it! I will need to raise more money first, however, as, if I want to seriously go for first place, I will need a new generation boat.

What advice would you give to other sailors who may be thinking about participating?

They must have done a lot of races before; they must be confident that they can stand the solitude of being alone on a boat for so long; they must be highly experienced navigators; and must be able to repair the rig, sails and so on. They will also need to have had between five and ten years' experience in different races - solo races. I would say that the kind of skipper who can do this is quite an unusual person. Sometimes, younger sailors do better to compete in the team events, for example, the Americas Cup, rather than solo races.

And what are you doing now, Dominique?

Well, I am already working on my next challenge and focusing on getting the sponsors I need to help me to complete it. As we say in Switzerland, when you reach the top of the mountain, don't stop, just keep going! So I 'keep going'!



'Such feelings of euphoria'.

TEMENOS and TLC provide integrated solution for Basel II risk requirements

TEMENOS and TLC have developed an interface between barracuda®, TLC's Basel II product, and the TEMENOS GLOBUS™ (referred to as GLOBUS) and TEMENOS T24™ (referred to as T24) core banking systems. TEMENOS clients now have a pre-integrated Basel II solution at their disposal. With a first joint implementation already under their belt, for a private bank in London, TLC has signed a further contract with an existing TEMENOS client, Universal Bank in Cyprus. This is a listed company on the Cyprus Stock Exchange and is a member of one of the largest financial services groups in Cyprus. We asked Adam Starr, director of TLC, to explain his company's approach to the Basel II requirements.

Compliance with Basel II is a very different exercise to compliance with Basel I. The Basel I regulatory capital requirement is predominantly an exercise of applying standard supervisory percentages to the asset side of the balance sheet in order to calculate the Tier 1 and Tier 2 capital requirements. These calculations are usually undertaken by the finance department and overseen by the compliance officer. In contrast, a clear intention of the Basel II Accord is to inextricably link the calculation and monitoring of regulatory capital to the function of approving and monitoring credit risk. Inevitably, therefore, the Basel II credit risk capital process will be the responsibility of the credit risk department. The broader scope of Basel II seeks to address risk inherent in the growing diversity of product offerings and in globalisation within the banking sector. Calculation methodology for exposures, mitigants and risk management operations is completely transformed and much greater emphasis is placed on qualitative issues.

The overriding intention of Basel II is to encourage financial institutions to strive for 'continuous improvement' in the management of risk in its entirety. This can be seen in the staged approach to compliance which is set out in the accord: three broad programmes of increasing sophistication - standardised, internal ratings-based (IRB) foundation, and IRB advanced. A combination of these can be applied to different product

or unit mixes and it is anticipated that many institutions will evolve towards the more complex methods as their capacity for risk management improves.

So, a framework for migration from the current reality of disparate legacy systems, databases and risk management processes to a coherent and risk aware system and people environment is inherent in the accord.

In managing this migration, banks need to view it as a continuously evolving and improving goal - a 'continuous improvement', covering systems, data, procedures, processes and risk modelling capacity; a programme of change that is measurable and achievable.

In reality, a significant number of banks have taken quite the opposite approach, seeking an ultimate solution, based on a single, costly, high risk project.

The TLC approach follows the 'continuous improvement' strategy. It is predicated on the early implementation of the barracuda® risk engine software. In pilot form, this can be based on summarised source data. The theoretical results can be used to form an initial business case, to focus subsequent projects on areas which are likely to drive value and achieve early and demonstrable success, and to serve as the basis for a comprehensive gap analysis.

Meeting the challenges of Basel II involves several distinct, though related, areas of work:

o Data sourcing

This is the primary challenge facing most institutions and it lies in ascertaining the type and format of data needed for Basel II. The data strategy should be predicated on an initial view of the product, business unit and approach 'mix' that will drive the lowest capital charge and the most pragmatic implementation of Basel II. The most proficient way of formulating this initial view is to apply a summary level of calculations to the existing balance sheet source data, based on a number of reasoned assumptions. The strategy will evolve as the implementation becomes more granular, both in data and operation analysis.

Where an IRB approach is applied, the data requirement includes historical analysis, which may have to be constructed using current data as a base or may have to be collated over time to reach a point of sufficient history.

Once a strategy has been formulated, coherent and targeted projects of data consolidation, standardisation and translation can commence. It is envisaged that such projects will form part of a continuously improving level of Basel II conformity.

For TEMENOS users, by far most (90%+) of the source data required will come from T24 or GLOBUS.

o Implementing a Basel II risk engine

Basel II calculations require data to be collated and analysed at an extremely fine

level. For TEMENOS users, this aspect will be handled in barracuda®. The legally enforceable perspective and the contracted limits at the line item level must be reconciled across the entire range of exposures and mitigants. Neither of these conditions, nor the level of granularity, is found in the traditional credit risk management systems. In addition, the distinction between banking and trading book and the classification by internal ratings requires a completely different compilation of data. We believe that it is imperative to implement a risk engine at the earliest possible stage in the compliance programme, as dealing with the granularity of the calculations and theoretical risk-weighted asset (RWA) calculations provides a good understanding of the required changes to systems, data and operations.

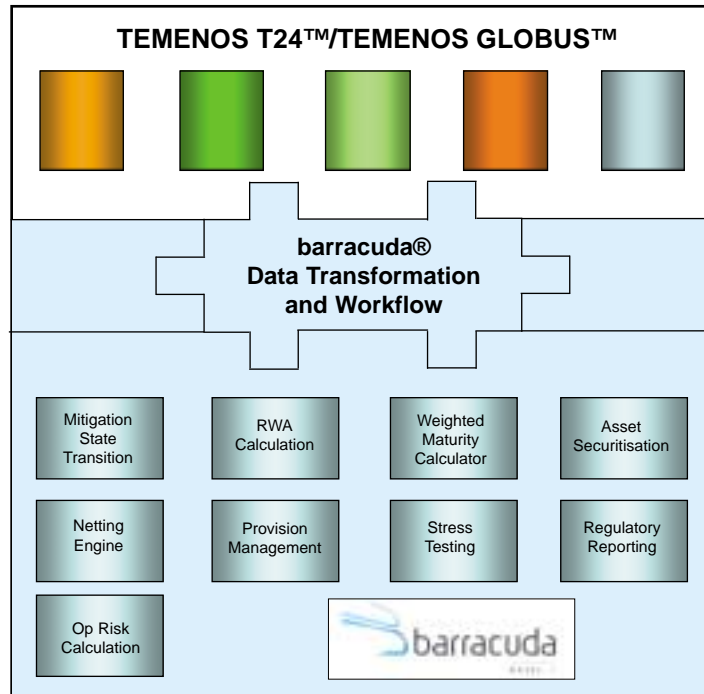
o Enhancing risk management operations

An assessment of existing risk management operations needs to be carried out to identify gaps in processes, methods, structures, systems and data, in addition to correcting any deficiencies.

o Disclosure of risk measurement and methods applied

The requirements under Pillar 3 of Basel II (mandatory disclosure of methods and results), while not necessarily clarified by local supervisor definitions as yet, are arduous and will reflect a fundamental change to regulatory disclosure. Given the 'work in progress' nature of this requirement, it is imperative that any solution, currently being implemented, allows for the interrogation of data in a flexible way.

So in general terms, this is what must be done. In practical terms, how does the pre-integrated Basel II solution help TEMENOS clients meet the compliance



challenge?

o Data mapping

For TEMENOS clients, the 'pain' of data mapping has been removed. As part of the pre-integration work done by TEMENOS and TLC, the data required from GLOBUS or T24 has been mapped to the standard interface formats in barracuda®. These interface formats describe the required business data for Basel II credit risk calculations in a non-technical way and reflect the data model within barracuda®.

o Data upload and interpretation

The bank's own data records from its GLOBUS or T24 system are uploaded into barracuda® via the interface. The barracuda® pre-checker will be utilised to identify missing data (eg. counterparty i.d.), inconsistent data (eg. exposures where the drawing does not map to a facility), and sub-optimal data, in instances where the data provided will allow RWA figures to be calculated, but will result in lower than achievable results (eg. missing guarantor or probability of default (PD) ratings or missing cross references between exposures and mitigants).

o Calculation, reporting and analysis

barracuda® calculates exposure, mitigated exposure and RWA as per the rules of the Basel II Accord. This information is calculated and stored at the lowest level of detail (i.e. individual exposure and limit level) and can be reported by customer or group of customers. barracuda® functionality includes all of the approaches to capital requirement calculation and covers all asset classes and exposure types. barracuda® can apply any, or all, of the approaches to calculating capital requirements for credit risk, from standardised through to the advanced measure-

ment approach.

Basel II calculations are very complex, and cannot be tackled adequately by using spreadsheets, even by the smallest institution. Reliance on national regulators to deliver a localised interpretation of Basel II will not leave enough time for the implementation of a proper solution. Indeed, national regulatory supervisors are expecting banks to start work now based upon the overall Basel II framework. barracuda® is the complete solution for the calculation of regulatory capital under Basel II. It is best of breed, in terms of its functionality, scope, flexibility and value for money. It offers TEMENOS' clients a particularly effective solution because it is pre-integrated with GLOBUS and T24 and it is available for reference now in a live TEMENOS client environment.

For more details of how TLC Risk Solutions can help TEMENOS clients to meet the Basel II challenge, please email enquiry@tlcrisksolutions.com

Secure, cost-effective regulatory reporting

The pace and scope of new regulations is increasing and meeting these requirements is an ongoing challenge, for which banks need to arm themselves with the most effective tools they can. TEMENOS Financial Reporting (TFR) is one such tool. Arnaud Gagnevin, TFR sales representative, and Didier Caspers, TFR manager, explain why the product can help to take some of the pain out of the regulatory reporting burden.

TFR is a totally standalone solution, which automates the entire reporting process. The precursor for TFR was brought into the TEMENOS product family through the acquisition of specialists, Quetzal Informatique, in 2002. The company came with some 14 years of experience in regulatory reporting and a client list which encompassed more than 120 institutions in 15 countries. TFR itself was launched in 2003 and has already been implemented by a number of TEMENOS' clients.

'Our vision is to remove some of the complexity of regulatory reporting jobs and to reduce the time required to fulfil them,' says Arnaud. 'Some activities are more strategic for the banks, but the reporting has to be done and it has a significant cost.' Historically, the necessary data from the banks' main systems was manually integrated and the ensuing production of reports was also largely manual. TFR automates this process, extracting data from all of the banks' systems and integrating it to create the required reports.

TFR is extremely flexible. Not only can it be fully integrated with TEMENOS T24™ (referred to as T24) and TEMENOS™ COREBANKING, but with any other banking application. It has been developed to meet the legal and regulatory reporting requirements of any type of financial organisation. It has also been designed to be compatible with any new requirements that may emerge. 'We think we have a future-proof solution!' adds Arnaud. Moreover, being browser-based, it is also easy to use.

The principal focus of TFR is to meet the burdensome requirements from central banks around the world. Much of the earlier work at Quetzal was devoted to Banque de



TEMENOS TFR team, Arnaud Gagnevin and Didier Caspers

France and European Central Bank reporting. With more recent compliance requirements (IFRS and Basel II, for example), complex risk calculations are required to provide the data which will populate the reports. In these instances, TFR works alongside specialist solutions to handle this aspect, be it the T24 module or a solution from a third party, such as barracuda® from TLC.

'Our focus is central bank reporting and the scale of this should not be underestimated,' says Didier. 'Banque de France requirements, for example, for which over 300 reports are needed, are lengthy and very complicated. Plus, it is not simply a matter of developing the software. We have to ensure that the system's parameters are kept up to date with changes in the central banks' regulations. This means keeping a watching brief over the regulations to ensure that any changes can be easily incorporated. We have a whole team of people in France doing this and this ongoing review process is very valuable to our clients.'

This is also why entering new geographical markets cannot be taken lightly. TFR's flexibility means that it can respond easily to the technical requirements of the different

local central banks but, in order to maintain the 'watching brief' over legal and regulatory changes, TEMENOS chooses to work with local partners. To date, in addition to being well established in France and most of Africa, TFR is also being implemented in Mexico and, shortly, in Russia. The limitations to entering other markets lie purely in finding an appropriate local partner.

TFR is a modern solution with an open, database and platform independent XML-based architecture. This means a rapid implementation (the average project requires 20-30 days) and lower costs for clients. The browser-based user interface can be customised to individual client requirements.

TFR has a rich database, containing all of the banks' information in one source. This is valuable for internal reporting too and a development currently under way is to provide a user-friendly reporting capability to facilitate the production of internal reports for senior management, for example.

Arnaud sums up: 'TFR offers a single reporting database, which allows clients to produce all of their regulatory reporting from one solution. It also provides advanced audit trail functionality, to ensure the accuracy and integrity of the reports produced. We can't claim to remove the pain of regulatory reporting altogether, but we can help to make the process much more efficient and cost-effective!'

For further information about TFR, please contact Arnaud Gagnevin on +33 (0) 1 4477 4360 or email agagnevin@temenos.com



continued from page 1

I am confident that 2005 will see licence revenues from T24 reach US\$55 to 60 million, up from US\$ 51 million last year. This is by far the biggest licence amount for a single product in the world of banking software.

Our TEMENOS™ COREBANKING (referred to as TCB) business is coming together quite nicely too and I think we will be able to close up to four deals this year and almost double our revenues from TCB compared to 2004 - vindication of the work and effort that has gone into building TCB into an international business package.

If Q1 saw us in a strong position to achieve our sales goals for 2005, our efforts were further encouraged by the announcement in March that TEMENOS had been ranked in second place in the latest International Banking Systems (IBS) Sales League Table. In the course of 2004, 28 new customers selected T24 and a further two selected TCB. This result means that TEMENOS has appeared in the top two positions of the league table for six of the last seven years!

Furthermore, our position of strength is

not only in the number of deals we make, but in the value of each of our deals, which is more than double the suggested average deal size of around US\$1.1 million for all featured providers in the league table. Indeed, IBS commented that, 'TEMENOS could have a case for arguing that it is ranked number one in terms of value of back office system sales'.

So we are well positioned as regards new licence revenues and, equally as important, indications are that this year we will exceed the US\$50 million mark in maintenance revenues from T24. This is a fantastic achievement, allowing us to invest more in supporting our clients, who can already benefit from some of our recent initiatives: the on site help desk to improve support for projects and upgrades, for example - much more effective than a remote operation; the use of monthly builds in development, rather than mega heavy semester releases; and the Geneva demo centre, where we can now show T24 running together with all components in a high volume environment.

In summary, then, the business looks fine. We are growing maintenance revenues faster than all our competitors (27% year on year growth), our costs are well under con-

trol and our Q1 results were well received by investors and analysts.

Looking ahead, there is increasing evidence that the banking sector is looking to replace ageing legacy systems, and we expect to see continuing robust growth in core spending for retail and universal banks on a global basis over the next 12-18 months. We are seeing evidence of this already in a strong sales pipeline and even in Western Europe, where replacement activity has been limited in recent years, we are engaged in evaluations with major banks.

While there is still a lot of work that needs to be done, I am confident about the direction in which we are progressing and the technology initiatives that we are currently undertaking. Our products are ahead of the competition by a big margin, but we cannot afford to be complacent. We will experience change and we will need to embrace this change in order to continue to be successful.

So, lots of opportunities and lots of challenges! Thank you all for your continued support. I hope that I will have the opportunity to meet with you at the TEMENOS Client Forum - TCF™ in June.

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Partners as well as clients

One of the most effective ways for TEMENOS eMerge™ (referred to as eMerge) to reach micro finance institutions (MFIs) in developing markets is through the international organisations which are active there. One such organisation is Opportunity International. We asked Daryl Skoog, vice-president for MIS services at Opportunity, about the system and about his organisation's relationship with TEMENOS.



A non-profit organisation, Opportunity's focus is to provide financial services to the working poor - primarily to entrepreneurs who are interested in business loans. Something of a pioneer in micro finance development, the organisation has been involved for over 30 years in 27 developing countries in lending and other financial services.

In 1992, Opportunity International extended its focus to include entrepreneurs at even lower levels of poverty. In the Philippines, the Trust Bank group lending method was tried, alongside the Women's Opportunity Fund, and this group loan programme was tested and refined across countries and cultures. It was found that, through small loans and business training, the downward spiral of poverty could be reversed. Interestingly, some 85% of the loans made still go to women and the repayment rate on these is 98%. The average loan size in the past year has been \$260 - very modest by developed world standards - yet some 455,000 jobs

have been generated as a result of Opportunity's work.

In 2000, with more than 200,000 clients worldwide, Opportunity began to establish formal financial institutions (FFIs) - commercial banks, development banks or credit unions - to broaden the financial services it could provide. FFIs can accept deposits, lend money and

accept investments. There were several factors propelling this change. Firstly, there was a growing need to offer savings accounts to the poor and, in order to do this, Opportunity needed to meet the central bank laws in the countries concerned. Secondly, as a result of a reduction in money being donated by governments and private donors, to maintain the scope of

OBM EXPANDS ITS BUSINESS WITH TEMENOS EMERGE™

Opportunity Bank of Montenegro (OBM) was founded in April 2002 to finance the growth of micro entrepreneurs and small to medium-sized enterprises (SMEs) in Montenegro, and to offer safe savings services to the Montenegrin public. OBM is the successor to Microcredit Montenegro, which was founded in 1999. Opportunity International is the main shareholder in the bank. Dutch banking group, Rabobank, and a number of other foreign investors are also involved.

OBM is a licensed and regulated full service bank that provides loans to both existing businesses and start-ups. Loan sizes range from EUR 500 to EUR 10,000 for micro entrepreneurs and generally up to EUR 100,000 (with a current average loan size of EUR 30,000) for small enterprises. OBM recently gained additional funding from the International Finance Corporation (IFC) to finance an expanding loan portfolio. OBM's management expects to fund the growth of the loan portfolio, partly from externally borrowed funds and partly by mobilising savings.

OBM selected TEMENOS eMerge™ (referred to as eMerge) to support its growing business. Darko Kekovic of OBM sums up the benefits of the system to the bank: 'For us, the multi-language capability of eMerge was very useful. But its flexibility goes even further. Even though as a packaged solution it was fast to implement, it is also very easy to adapt to our needs because it is open to adding new local fields, with no constraints. Other solutions I have seen for this market constrain the bank's business opportunities. With eMerge, we can adapt the system to our needs, not our needs to system.'

The fact that OBM enjoyed full systems support via eMerge was a factor in the IFC's decision to grant additional funding. This ability to manage its portfolio and reporting requirements gave investors confidence.

OBM's principal raison d'être is to serve the lower paid and, to some extent, the SME sector. It is also helping the country to recover from war. Montenegro is a beautiful country, with the potential to attract many tourists, bringing in welcome funds. To serve this burgeoning tourist market, OBM is planning to make its services available through a network of ATMs - a business that will also be supported by eMerge.

the assistance being provided, Opportunity needed to raise equity funding. Finally, as a non-governmental organisation, there was a limit to the amount of financial leverage Opportunity had. As a bank, it would have far greater leverage.

A number of Opportunity Banks have now been set up in some of the world's poorest regions. The strategic systems choice to support these operations is eMerge - some twelve sites have been implemented to date.

Says Mr. Skoog: 'eMerge stood out well ahead of the field when we were looking for a solution for our implementation partners worldwide. As these micro finance organisations expand the scope of their operations, often becoming banks, the modular nature of eMerge makes it easy to implement, but also flexible and capable of growing with the bank.'

Opportunity is supported in its implementations by DBS Global Solutions (Pty), TEMENOS' worldwide partner for micro finance. Opportunity's relationship with TEMENOS and DBS has a duality to it. On the one hand, there is the vendor/client relationship, but it is as development partners that Mr. Skoog believes the greatest benefits can be achieved. 'It is our aim to make eMerge the industry standard for micro finance. This means that we need to keep developing the product to keep it in line with the different markets we become involved in. We are happy to do these developments, because TEMENOS and DBS can offer us an outlet to the market for them. Ultimately, this will benefit our aim of helping the disadvantaged.'

So is eMerge appropriate to all of the MFIs set up by Opportunity International? To meet the criteria, the MFI needs to have a minimum of a \$1.5 million portfolio, plus 1000 clients, although these criteria may vary, depending on the market. In Eastern Europe, for example, where the average loan size at \$3000 is much higher than the \$260 in other areas, then the number of clients needed as a pre-requisite is reduced. For the smaller MFIs, there is the prospect of using eMerge on an application service provider (ASP) basis. Opportunity is in the early stages of developing an ASP

model for its clients - particularly those in remote areas where the infrastructure services are poor. This will reduce the need for the organisation to have skilled support staff on hand locally.

Certainly, micro finance offers a sizeable number of potential clients for eMerge. IT and micro finance have been associated for almost 30 years now. Where systems have been used, however, these have typically been based on Xbase or FoxPro technology and are outstripped once the client base climbs beyond 4000-5000 and more sophisticated branch support is required. The development of the industry beyond FoxPro has been limited. 'These MFIs don't have the financial or knowledge resources to take the lead in financial technology,' adds Mr. Skoog. 'They are trailing edge, rather than bleeding edge.' The market is ripe for a stable, viable system.

What does Opportunity see as the benefits of eMerge and the relationship with TEMENOS and DBS? 'Possibly the most important aspect is that we are working with a vendor who is here for the long-

term and with a product with an established, global customer base,' says Mr. Skoog. 'TEMENOS puts a huge amount of investment into its banking systems each year and there are very definite advantages from having a ubiquitous solution - from a support perspective, we can build on top of this. Ultimately, what we get is a tried and tested model, with a high level of knowledge and skills in the banking industry already built in.'

Opportunity International is putting this model to work very successfully - most recently in Opportunity Bank of Montenegro and in Opportunity International Bank of Malawi. There is also an implementation under way in Mozambique and a further two in Colombia.

However, there is so much more to do - the scope of the problem is truly vast. Currently, some 30 million people are being helped by micro finance - out of a total of some 600-700 million who need this kind of financial assistance globally.

OPPORTUNITY INTERNATIONAL BANK OF MALAWI (OIBM)

TEMENOS eMerge™ supports this successful bank, which required an 'international' flavour to be added to its business model to handle the foreign exchange requirements of Malawi's peanut and tobacco industries. New fingerprint identification technology also helped the bank to solve a fundamental business problem.

Most of Opportunity's clients and potential clients in Malawi are excluded from commercial banks because their deposits are too small and also because they do not have official birth certificates. Obtaining this document is difficult and often too expensive for destitute families. To overcome this obstacle, Opportunity International Bank of Malawi (OIBM) is providing savings accounts with fingerprint identification. This new technology provides complete security for the account holder and identification without passwords, birth certificates, or ID cards. This is a huge step forward for the poor families Opportunity serves. OIBM now has 10,000 savings account holders, and the average balance is \$60. The bank has also opened its lending programme and has \$84,000 in loans outstanding to nearly 450 borrowers.

Anecdotal evidence suggests that OIBM's clients in Malawi are a cautious bunch:

Two poor, but savvy entrepreneurial women travelled for four hours by bus to make a deposit at OIBM. The next day they withdrew their money. OIBM staff returned their savings politely, quickly and in full. Satisfied with the reliability and service of the bank, the women deposited their savings again and took the four hour bus ride back home!

This case study has been reproduced from Opportunity International's 'Impact' magazine, August 2004.

ALUBAF live on TEMENOS T24™

Some five months into live running, we have interviewed Mr. Hafedh Ben Naceur, ALUBAF's IT manager, to get his feelings about the implementation, TEMENOS T24™ (referred to as T24) and the 'TEMENOS experience'!

ALUBAF International Bank went live on T24 on the 1st of January, 2005. T24 replaced both ALUBAF's core banking system and trade finance systems.

ALUBAF is an offshore bank, based in Tunis. Founded in December 1985, the bank is owned by the Libyan Arab Foreign Bank (LAFB) and has about 50 employees and some 2000 accounts. Although a relatively small bank, ALUBAF has sophisticated requirements for all aspects of trade finance, its main business activity - including import and export letters of credit, guarantees and

'We wanted a modern system that would continue to evolve and improvethat is why T24 was selected.'

collections. From a historical and also from an ownership point of view, most of these trade finance activities focus on companies and other banks in, or with trading links to, Libya. Clients include major Libyan companies, oil companies and companies based in Tunis, with trading links to Libya. Alongside these, ALUBAF offers the normal offshore activities of a bank.

The selection of T24 was made before Mr. Hafedh Ben Naceur joined ALUBAF. The bank had been experiencing operational issues with its previous systems and had spent several months looking for a replacement and considering a possible upgrade of its old core systems to resolve the operational issues. Since the latter would have been almost as expensive as buying a new system, in December 2003, the bank selected T24, which could handle the requirements of both the banking and trade finance operations. In addition to LAFB, its parent company in Libya, TEMENOS already had two reference clients in Tunis, Arab Banking Corporation (ABC) and BEST Bank.

The implementation of T24 took exactly six months and, despite the limited implementation budget allocated, which constrained both planning and resourcing, the project was completed successfully. Mr. Hafedh Ben Naceur puts this down to the team's strong dynamics, plus its enduring dedication and commitment to the project: 'Although the timeframe was rather short and the budget smaller than we would have wished, thanks to the hard work and dedication of the bank staff and the TEMENOS team, we managed to meet the tight dead-

lines successfully and all of the modules are now live.'

The system will be used in the Tunis office by between 35 and 40 users. It is running on an IBM pSeries 630 as the server (two processors, RAID5), with jBASE™ 4.0 as the database, AIX 5.2 as the operating system, and Windows NT/2000/XP as the operating system for the users.

Mr. Hafedh Ben Naceur explains what T24 brings to the bank: 'ALUBAF wanted a fully integrated on-line system to cover all of the bank's operations and accounting. We wanted a modern system that would continue to evolve and improve, from both functional and technological viewpoints. That is why T24 was selected. Our management can now see, on-line, the correct, up to date customer positions. We now have a single customer database, where the integrity of the customer information file (CIF) is guaranteed. We have a system that meets our requirements. We have a system that will support us into the future.'

PARTNER PROFILE

BISHOP CAVANAGH

Partner Category: Systems Integration.

Coverage: Europe, Middle East, Africa, Nordic, Russian and Baltic States.

Credentials: With over 700 man-years of TEMENOS experience, Bishop Cavanagh has been delivering successful GLOBUS implementations for the past 5 years and has a consistent track record of delivering complex core systems on time, to budget and to the client's specifications.

Services: Requirements specification, implementation, pan-European and global roll-out and systems harmonisation, data conversions and interface development, quality assurance, education.

Support: Bespoke support solutions which minimise risks by ensuring that the TEMENOS GLOBUS™ or TEMENOS T24™ jBASE™ environment is stable and running efficiently. These integrate seamlessly into the bank and are supported by highly skilled consultants, on site, off site or on demand.

Solutions:

- o I-Con
- o BC Personal Navigator
- o Basel II
- o Enterprise Content Manager
- o Software configuration management tool

Client comment: Schroders Private Bank has worked with Bishop Cavanagh since signing with TEMENOS in 2001. The relationship has grown steadily through implementation and the first years of live running, to the current 24x5 comprehensive GLOBUS support solution which incorporates help desk and overnight support.

Gary Rhodes, IT director Schroders Private Bank, says: 'Having worked with BC over the last four years, we have built up a strong relationship with the company and their consultants who have excellent knowledge of and skills in the GLOBUS enterprise. Their unique model and flexible approach has allowed us to maintain full cover for the business while controlling our support costs.'

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to stay in **control**

Reforms create megabanks in Nigeria

TEMENOS has 17 clients in Nigeria, many with multiple branches, and many of these are expected to be the dominant banks in the consolidation process which is following recent banking reforms.

The Nigerian Government has recently introduced new minimum capital requirements for banks in Nigeria. The minimum capital required for banks to operate has been raised substantially from 2 billion naira (about \$15M) to 25 billion naira (about \$190M). This has been prompted by the small scale of many of Nigeria's banks: since they may only lend up to 35% of shareholders' funds to any single borrower, they are

'TEMENOS T24™ is uniquely placed to give all the banks rapid and effective results'

unable to help fund the development of Nigeria in any meaningful way. As a result, according to the Central Bank of Nigeria, the country's economy and infrastructure do not reflect the size of the population and its wealth in oil resources. The effect is that many banks will have to merge or they will fail to meet the requirements and cease to operate. As many as five or six banks may be required to merge to reach the critical mass that allows them to meet the new regulations. Furthermore, they need to do this quickly - the new rules come into effect in December this year.

The result has been a huge amount of merger and acquisition activity. Nigeria currently has 89 banks, with the twelve largest currently owning about two-thirds of total banking assets. By the end of the programme, however, the Central Bank of Nigeria expects that it is most likely to have about 25 'strong and reliable banks', while other senior banking sources believe that only 35 banks will emerge intact following these reforms. The Central Bank would like to see even more consolidation, with banks moving beyond the new minimum capital adequacy requirements of 25 billion naira to reach 'megabank' status, with capitalisations

of more than 70 billion naira. It says this will help them to 'migrate into and participate in the global financial marketplace'.

The Central Bank's long-term goal is to make Nigeria's banking system the 'best in Africa and one of the best in the world' and it notes that foreign interest in its banking system has already increased, confidence is improving and Nigerians themselves are investing more in the sector.

Can technology help?

TEMENOS and Inlaks Computers, TEMENOS' partner in the region, are working with customers and, local banks which must comply with the new requirements. As part of this process, they held a banking conference on the 24th of May to advise how technology, and TEMENOS' systems in particular, could assist the consolidated banks that would emerge. The seminar went very well with some 157 people attending, plus journalists.

Guest speaker at the conference was Mr. Arnold Ekpe, group CEO of ECOBANK ETI, a regional West African Bank, with representation in over twelve countries. Mr. Ekpe spoke about the challenges of mergers and acquisitions and made a particularly interesting exposition of how IT could be used to leverage and overcome the cultural, process, control and integration issues which accompany any merger or acquisition.

Delegates were very positive about the event, with Polycap Annyawu, head of IT at ACB International Bank and a

TEMENOS client describing it as a 'mini client forum in Nigeria', while Adebayo Afolabi, head of IT in AFRIBANK, TEMENOS' largest client in Africa, had this to say of the conference: 'It was well attended, well planned, and very articulate. It is the best seminar I have attended in recent times.'

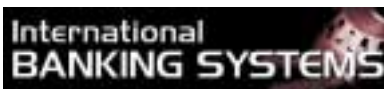
Julian Stourton, installed base manager of TEMENOS who presented at the conference along with Jim Hughes and David Helps from TEMENOS, summarised the impact of the changes taking place in Nigeria: 'The size of the challenge is immense. The government believes that there will be at least ten strong banks who will be international in outlook after the consolidation, by December 2005 and a second tier of merged banks that will number about 20. The biggest challenge for the merging banks will be to agree on a new structure as quickly as possible and then use technology to help enable their growth. TEMENOS T24™ is uniquely placed to give all banks rapid and effective results. We have already seen how TEMENOS can help banks in their acquisition ambitions, with quick time to market and solid results. I am sure this will be the case in Nigeria as we see the market change.'



Bankole Amu, Capital Bank International; Arnold Ekpe, Ecobank Transinternational; Opeyemi Agbaje, Asset Management, Research and Advisory Services

A view from the markets - the IBS Sales League Table unwrapped

The annual barometer for the back office systems market, the IBS Sales League Table, has duly appeared. IBS Journal editor, Martin Whybrow, looks beyond the figures.



The good news for TEMENOS from the latest IBS Sales League Table (covering the calendar year, 2004) is that a large portion of the deals are still ending up in the hands of a relatively small number of suppliers (one of which is TEMENOS). The bad news is that there has now been no sign of a pick-up in the market for several years, with this seemingly continuing into 2005. Why is this and what are the trends beneath the statistics?



The Sales League table was unveiled at an IBS event in London. George Koukis was on the panel; the event was chaired by Martin Whybrow (above).

For one thing, there are regional pockets of activity. There was a healthy number of core system replacement decisions in Eastern Europe (mainly Russia and former Russian

Federation states), with TEMENOS among the couple of outside vendors to make headway. Asia Pacific was also relatively buoyant, with this region holding the bulk of the core retail banking signings. Deals were fairly evenly spread in Western Europe but things were much quieter in Africa than in recent years. The Middle East, as usual, showed steady but unspectacular activity.

The lack of activity might seem strange. Listen to any consultants and they will tell you that there is actually a lot of activity, a lot of re-engineering, banks putting in place new architectures, and so on. Even without these opinions, there would look to be plenty of good business reasons for overhauling legacy back offices.

There are probably two factors at work here. First, there is a lot of activity but much of it is focused on other things, particularly compliance in its myriad forms. Compliance requirements come with set deadlines and increasing focus from the board; back office replacement decisions, per se, do not usually have these two attributes. Second, there seems to be a move away from replacing point systems in preference to enterprise-wide reappraisals, which start at the data and process models and do not seek to replicate

more or less what is being done at present but look instead at the fundamentals of the organisation, at how its activities are carried out, where they reside, and whether this makes sense.

A new back office system might be one of the new components that is introduced after this rethink but the project is more strategic than that and takes longer to come to fruition. Increasingly, the approach is likely to have a 'component-based model' or 'service-oriented architecture' tag to it. Within some of the more forward thinking banks, this sort of analysis has been under way for a year or so, resulting in a few notable selection decisions of late. This trend is likely to accelerate. The challenge for application suppliers will be to ensure that they are ready for this new world and can slot in their products and services accordingly.

Meanwhile, pure back office system sales will continue, in isolation from wider strategic projects, and usually for perfectly sound business reasons. Nevertheless, the real growth in the market might come from the wider projects.

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