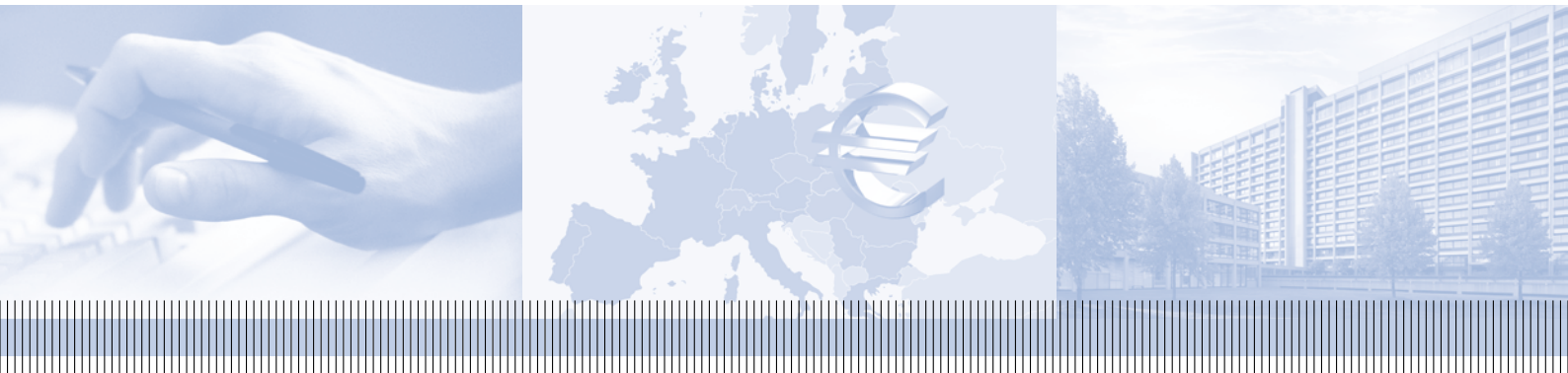


**TARGET2 –
AN INTEGRATED EUROPE
FOR INDIVIDUAL PAYMENTS**



Department Payments and Settlement Systems

TARGET2 – single technical platform for processing of urgent Euro-payments

TARGET2 stands for **T**rans-European **A**utomated **R**eal-time **G**ross Settlement **E**xpress **T**ransfer System 2. It is the payment system of the Eurosystem's Central Banks for settling urgent payments in real-time. Compared to its forerunner TARGET, which was an association of 17 differential components, TARGET2 is operated on a single technical platform (so called Single Shared Platform, SSP). Although the TARGET system, in place since 1999, had stood the test of time very well, certain structural drawbacks had become evident. In particular, the decentralised structure and the principle of "minimum harmonization" appeared to be less advantageous in the longer run in terms of performance, costs and

stability. On 19 May 2008 TARGET was displaced by TARGET2 after a six-month migration period. Currently all central banks of the Eurozone as well as the central banks of Bulgaria, Denmark, Poland, Estonia, Latvia and Lithuania are connected to TARGET2. The central bank of Rumania will migrate to TARGET2 in July 2011.

TARGET2 is Europe's most important payment system for urgent payments and processes a daily average of around 340,000 payments with a total value of more than € 2 trillion. Roughly half of the payments in terms of volume and around one-third in terms of turnover are submitted via the Bundesbank.

TARGET2 has the following aims:

- Fulfilling the European banking industry's user requirements (eg pan-European liquidity management).
- Compliance with the neutrality principle. The new common platform is designed to create a level playing field for the banks and market infrastructures in the respective countries.
- Safeguarding the principle of decentralisation within the ESCB. The participating central banks will retain responsibility for conducting business with their customers.
- High degree of flexibility through a modular approach in order to accommodate the various interests of the participating national central banks.
- High level of standardisation.
- Benchmark-setting contingency provisions.

The conceptual and legal design

TARGET2 is based on a single technical platform operated by the Bundesbank, the Banca d'Italia and the Banque de France. From a legal perspective, however, it consists of a number of different systems operated by the individual central banks. Nonetheless, the

legal conditions of the individual systems have been harmonised as far as possible; deviations are permissible only if national legislation makes this absolutely necessary. The German system is called TARGET2-Bundesbank (TARGET2-BBK).

TARGET2 offers participants a number of advantages:

- TARGET2 processes large-value and urgent payments in „safe“ central bank money with immediate finality, even across borders, and thus reduces the risks inherent in payment transactions.
- With approximately 800 direct participants and 52,000 addressable banks, (including branches and subsidiary institutions), an extremely large number of banks are accessible.
- TARGET2 has long operating hours: from 7.00 to 18.00 for the daytime processing as well as from 19.30 to 22.00 and from 1.00 to 6.45 for the nighttime business of ancillary systems on working days.
- Liquidity is widely available in TARGET2. Minimum reserve holdings are available for settlement purposes during the day and the Eurosystem provides its counterparties with unlimited intraday credit free of interest against collateral.
- It has many liquidity management options, for instance, reservation of liquidity and liquidity pooling.
- National and cross-border payments are processed in the same way, with participants addressed directly.
- The single shared platform means harmonised services that are provided at standardised prices.
- TARGET2 also processes interbank direct debits.
- In TARGET2, payment orders can be “pre-submitted” – up to five working days in advance.
- TARGET2 is designed so that payment transactions made via the accounts of central banks in future EU member states can be processed easily.

The pricing scheme

In TARGET2, there is no longer a distinction between national and cross-border payments. Instead, there is one common pricing scheme for the core service, which aims to meet two main objectives. First, it ensures broad access to the system, thus allowing smaller institutions to participate directly in TARGET2. Second, the pricing scheme is designed to attract the major market players, which account for a very large share of TARGET2 transactions and which process, in particular, urgent commercial payments. The processing of these payments in RTGS mode contributes to financial stability in the euro area and allows cost-recovery at a reasonable price.

Following discussions with users, the ECB Governing Council decided upon the adjacent pricing scheme in July 2006. The participants may choose between two options. Option A charges a monthly fixed fee of € 100 plus a flat transaction fee of € 0.80 per transaction. Option B charges a monthly fixed fee of € 1,250 as well as a volume-based degressive fee ranging from € 0.60 to € 0.125 per transaction. The point at which option B becomes more attractive is when more than 5,750 transactions are carried out per month.

Option A

Monthly fee	€	100.00
Flat transaction fee	€	0.80

Option B

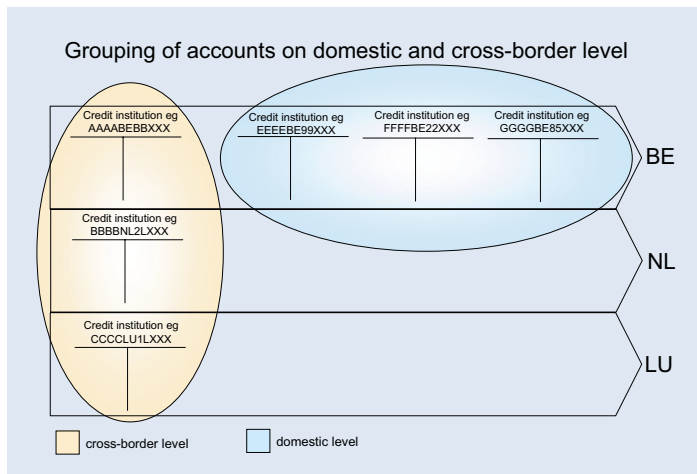
Monthly fee	€	1,250.00
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Band	Monthly transactions		Price in €
	Volume	Cumulated	
1	10,000	10,000	0.60
2	15,000	25,000	0.50
3	25,000	50,000	0.40
4	50,000	100,000	0.20
5	more than 100,000		0.125

Liquidity pooling

TARGET2 offers two types of liquidity pooling: in the form of a virtual account (aggregated liquidity procedure) and in the form of consolidated information (consolidated account information procedure). Both options are based on the idea of allowing TARGET2 participants to pool the RTGS accounts of institutions belonging to the group in one account group.

In the case of a virtual account, the available liquidity of all members of the account group is aggregated in a liquidity pool during the business day. Each account holder within a group thus has the possibility of making payments through their own account up to the total amount of intraday liquidity available to the account group. Only accounts of participants in the euro area may be included in a virtual account. Responsibility for management of the individual accounts at the end of the day (eg to fulfil the minimum reserve requirement or to avoid drawing overnight credit) lies with the relevant account group; these tasks are carried out by a "group manager". An annual fee of € 2,400 per participating account is charged for the use of a virtual account.



In the case of the consolidated account information option, only consolidated information is offered to the account group. Payment processing will still be carried out exclusively at individual account level. The consolidated account information option is also available to participants from non-euro-area countries. The use of consolidated account information costs € 1,200 per participating account per year.

“Group pricing” is applied to all participants included in an account group, ie all payment orders from the account group are treated as if they were issued by a single participant. Standard fixed costs are also payable on top of the transaction fees.

Eligibility without any size-related access criteria

TARGET2 provides open and competitively neutral access to individual payments in euro. In principle, credit institutions will be free to choose between direct or indirect participation.

Direct participation

Direct participants must have their own RTGS account and their own Information and Control Module (ICM) connection. All supervised credit institutions within the European Economic Area (EEA) are allowed to become direct participants. A direct participant may also hold several accounts in TARGET2, in which case these have to be assigned to different BICs. On demand, single BICs of accounts, which are generally used for internal purposes of a participant, may remain unpublished in the TARGET2 directory (“unpublished BICs”).

With the aid of the liquidity pooling feature, several direct participants can group their accounts to form one virtual account or use the consolidated account information feature. Furthermore, while participants may hold just one RTGS account, they may register branches and subsidiary institutions belonging to the same group and located in EEA countries using an autonomous BIC to send and receive payments directly (“multi-addressee access”).

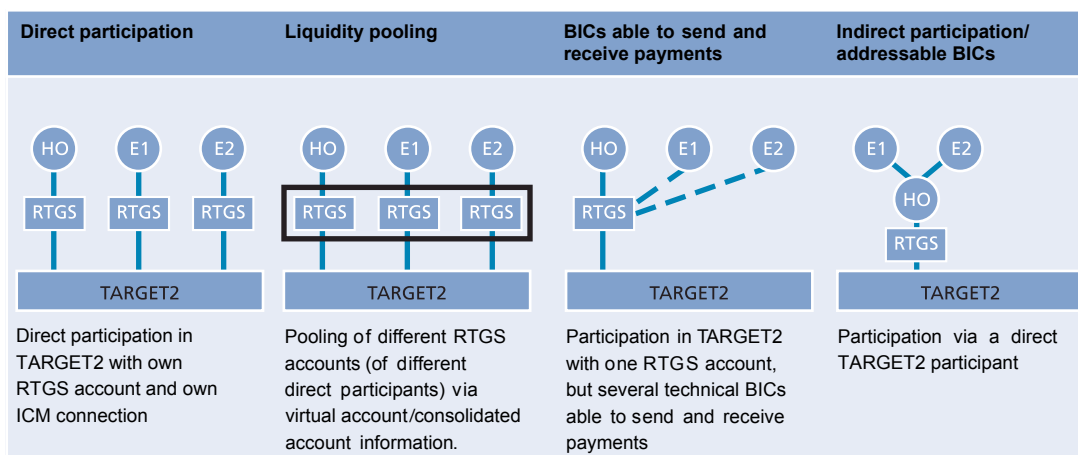
Indirect participation

Indirect participants, as a matter of policy, settle their TARGET2 payments via a direct participant, ie they do not have their own RTGS account and are not able to send or receive payments directly. Only credit institutions within the EEA are allowed to become indirect participants. Indirect participants are recognised by the system operator. Their payments are protected by the EU Settlement Finality Directive depending on how this has been implemented in respective national law.

Addressable BICs

Any branch or correspondent of a direct participant, irrespective of location, may be listed as an addressable BIC in the TARGET2 directory. From a technical point of view, the-

re is no difference between indirect participants and addressable BICs. Legally, however, addressable BICs only provide routing information in the TARGET2 directory without any further legal consequences.



HO = Head Office, E = Entity

Internet-based access to TARGET2 – an alternative for medium-sized and small credit institutions

As of 22 November 2010 the implementation of a modern and secure internet-based access to TARGET2 facilitates the direct participation in TARGET2. As alternative to the access via SWIFT the Eurosystem's internet-based access provides a service offer, that is sufficient for

the disposition of accounts and liquidity as well as for the settling of a constricted number of urgent payments.

Via this mean of communication the account-holders get an access to the Information and Control Module (ICM) in TARGET2. Thereby they are able to recall information (e.g. turn overs, account statements) or to intervene (e.g. liquidity transfers, submission of payments). The fee for the internet-based access will amount to € 70 per month.