

DELIVERING AN OUTSTANDING 2017

BUSINESS REVIEW



David Arnott
Chief Executive Officer

“I am delighted with our performance in 2017, in which the business has continued to accelerate and capitalize on the significant momentum in our end market.”

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We have ended the year in a very strong position, with double digit growth across all our geographies, which is a testament to the dedication and talent of all our colleagues and our ability to consistently execute at a very high standard year after year.

This year our traction and leadership with tier 1 and 2 banks has been clearly demonstrated. We won deals with Openbank, Itaú, KBC and a US tier 1 bank among others, which speaks to our global relevance

and the strength of our value proposition. Our clients are looking for a software partner that will help them understand and address the pressures of digitization, regulation and the new world of open banking. With the leading packaged, upgradeable and open banking software in the market, we are the vendor of choice for the world's largest banks.

INTRODUCTION

In 2017, we cemented our position as the leading vendor of mission-critical software to banks globally. We delivered an outstanding performance across the business, from product innovation through to sales and implementation. This was all the more impressive coming on the back of a very strong two years of growth in 2015 and 2016 and demonstrates how, given the network effects in the software industry, fast growth begets fast growth.

Our growth is testament to our business model, which allows us to capitalize on network effects, and our ability to consistently execute on the structural opportunity. Banks are dealing with existential threats that are intensifying. The pace of digitization in financial services is accelerating, as is the burden of regulation. Overlaid on these two pressures is the move to open banking, which provides our clients with both a threat and an opportunity. How they respond to these pressures will dictate their future for decades.

These multiple structural drivers are underpinning the growth in third-party banking software spend, as institutions are increasingly coming to realize that they not only need to upgrade their systems for the digital age, but that they need to use third-party vendors to do so.

In 2017, we again took market share in this growing market. This owes in part to our ability to capture a growing share of deals with tier 1 and 2 institutions as we emerge as the de facto vendor of choice for the system replacement at the world's biggest banks. In 2017, tier 1 and 2 banks contributed 59% of total software licensing revenue. It also owes to the competitiveness of our solution across the different segments we serve, our results showing broad-based success across retail, wealth and corporate verticals.

With a significant and growing market opportunity, we continued to invest in our business throughout 2017 to ensure we are well positioned to keep taking market share. As a product-led organization, R&D is at the heart of everything we do and this is reflected in our ongoing commitment to invest in our product to ensure that we are at the forefront of innovation in our sector. We have also continued our investment in Sales and Marketing. As we grow, we need to ensure we have a sales team that is structured to continue driving this growth. We have increased our sales headcount by more than 20% in 2017. This was a mix of experienced hires as well as graduates from the Sales Academy, our comprehensive program to attract and train the best and the brightest young people to become sales leaders of the future.

We have demonstrated our ability to consistently execute on the market opportunity, and have seen a significant acceleration in our pipeline over the last 12 months. We have increased our financial targets for 2018 and for the medium term which reflects our revenue visibility and confidence in our ability to grow the business and create significant value for our shareholders.

2017 IN REVIEW

Sales – double digit growth across all geographies

Our sales performance in 2017 was very strong as we continued to win all the largest deals in our market. We delivered double digit growth across all of our geographies driven by a large volume of deals across client tiers and segments but also higher deal sizes as our sales mix continues to shift to tier 1 and 2 institutions. Activity in Europe was particularly strong as banks responded to changing customer demands, increased regulation and the move towards open banking. We also saw good growth in Latin America, as well as the Middle East and Africa, driven by increasing demand for banking products and the need for reduced time-to-market for new products and services to stay ahead of the competition.



OPENBANK, THE DIGITAL BANK OF SANTANDER GROUP, SELECTS TEMENOS CORE BANKING

Openbank, the digital bank of Santander Group, has selected Temenos Core Banking to be implemented as Openbank's new core banking solution for retail and SME banking across its global operations.

Temenos' Core Banking solution is an integrated, upgradeable and scalable package built on an open banking architecture. Banks are able to utilize robust open APIs to operate collaborative business models, working with an ecosystem of third parties to add more value to their customers' financial lives. Temenos Core Banking is already available through public cloud, private cloud or on premise and is platform agnostic.

By adopting Temenos Core Banking, Openbank will be able to gain a deeper understanding its customers and be fast to market with new personalized products and services at a very low Total Cost of Ownership.

Openbank, which already has over 1 million customers today, will use Temenos Core Banking to drive domestic and international expansion and support the group's digital strategy. Openbank is one of the first fully fledged digital banks in the world, with its software, APIs and client transactions running in the cloud, offering a complete range of banking and investment products through its digital platform.

"We are very excited to count on the know-how and speed to market that Temenos will provide us, as we continue to build one of the best digital banks in the world."

Ezequiel Szafir
Chief Executive Officer, Openbank

BUSINESS REVIEW continued

We announced a number of notable deals in 2017, the most significant of which was the signing of Openbank, the digital bank of Santander Group. Openbank is one of the first fully fledged digital banks in the world, running in the cloud and offering a complete range of banking and investment products through its digital platform. The bank selected Temenos T24 Core Banking for their new core banking solution for retail and SME banking across its global operations. By partnering with Temenos, Openbank will be able to gain a deeper understanding of its customers and be fast to market with new personalized products and services at a very low Total Cost of Ownership, driving domestic and international expansion and supporting the Santander Group's digital strategy.

We also announced the signing of a deal with Itaú, Latin America's largest banking group, which selected Temenos' WealthSuite for its international private banking operations. The solution will combine Itaú's core banking, portfolio management, channels and analytics functions in a single wealth management platform deployed in the cloud, enabling the solution to scale in an agile manner according to the ongoing evolution of the business.

Other key deals signed in the year included KBC, which commenced the implementation of Temenos' solution across multiple geographies after the successful roll out in Ireland. In Q4, we announced the signing of a deal with a US tier 1 bank, a significant step in our strategy of expanding into the US. The bank selected Temenos T24 Core Banking as its global cash management platform for deposit transaction processing, internal account sweeping and interest compensation. The system will replace the bank's legacy infrastructure and will be implemented progressively in multiple countries across the globe, enabling the bank to offer its wholesale clients a follow the sun service to improve their working capital efficiency.

Our new three year plan – update on strategic initiatives

We made very good progress on the strategic initiatives we laid out at our Capital Markets Day at the start of the year and presented a new three year plan at the start of 2018 to reflect the ongoing development of our business and end-market.

We extended our leadership across core banking, wealth and fund administration, with our growth in each area materially above the level of growth in the market. Our position as the leading vendor of front-to-back solutions was cemented with the signing of the largest and most strategically important deals in our market in 2017, in particular Openbank, KBC, Itaú and a US tier 1 bank. Our relentless focus on innovation and R&D is reflected in these key wins, as well as numerous other signings in the year, as we see banks reducing the number of vendors they work with to focus on relationships with a small number of key strategic Partners for the renovation of their legacy IT landscape.

Our strategy to penetrate the US is bearing fruit, with the signing of key new accounts, strong development of our pipeline and very good progress made on the ongoing implementation with Commerce Bank and the build out of the US model bank. Commerce Bank will be a key reference for us going forward.

Our momentum in digital banking and cloud was demonstrated with the progress of major digital projects including Pepper, the digital bank of Bank Leumi, as well as a noticeable uptake in the use of cloud for implementation and deployment, as demonstrated by the signing of Itaú. This culminated in us receiving recognition of our digital capabilities by leading industry analysts.

Our new three year plan focuses on five key initiatives:

- > Enhancing our award-winning Suites. Our focus is in particular on ensuring our clients can operate platform models in the age of open banking so key enhancements are around APIs, MarketPlace, analytics and online updates – allowing our clients to put into production new software much faster.
- > Product development to open up new markets. Through organic developments we are confident we can open up and generate material revenues from origination and fraud, markets accounting collectively for over USD 1.6 billion in annual software spend.
- > Market development to capture faster growth. Here we see the potential to capitalize on our existing momentum to drive much higher revenues and growth from tier 1 and 2 institutions, Australia (following the Rubik acquisition), the US and payments.
- > Ready the organization for sustained faster growth and changing deployment models. This concerns multiple aspects of the business such as: Sales and Marketing, where we continue to grow spend faster than revenues; education, where we are investing significant resources in our learning community, an ecosystem-led approach which will be highly scalable and be constantly enhanced via strong network effects; delivery, accelerating the rate at which we onboard Partner resources and launching initiatives such as the client assembly factory; and cloud, where our goal is not just to grow cloud deployments but to undertake a far greater proportion of implementations and testing using cloud infrastructure.
- > Complementing organic growth with acquisitions. We will continue to use M&A as a tertiary driver to give us presence in new markets, drive scale and accelerate our R&D roadmap through complementary technologies and entrance into complementary and adjacent segments.

Delivering client success

One of our most valuable intangible assets is our client references. We live and die by the success of our clients and as such I am hugely focused on ensuring our clients realize the business benefits they set out to achieve when partnering with Temenos. A record number of clients went live on Temenos software in 2017, with 251 go-lives in total including 104 clients going live for the very first time. Our Services organization continues to act in a critical quality control and governance role on all our projects, working closely with our strategic Partners to deliver success for all our clients.

DIGITAL TO THE CORE

2018 will be the year of digitization. However, most banks are still only beginning this digitization journey. Significant amounts have been spent on digital initiatives to date without realizing the improvements that banks were expecting. This is because banks invested in digital channels without updating their core infrastructure, exposing to end users the limitations of siloed, batch-based legacy systems. Now, banks are appreciating that a digital journey must include core banking modernization if it to be truly effective. The digital journey does not necessarily have to start with the core replacement, but it must include the core.

An end to end digital transformation is essential if banks are to deliver the levels of customer experience required and to capitalize on the opportunity afforded by open banking. As the major platform companies, such as Amazon, have shown, the model for delighting customers lies in providing the highest levels of fulfillment, the analytics to provide the best personalized recommendations and the third-party marketplace to offer the widest possible range of products and services. Without a digital core, banks will be unable to provide such a model since they will not have access to real-time information, data will be locked into product silos rather than attributable to customers, it will be impossible to provide adequate information to third parties and the speed of fulfillment will be dragged down by manual processing.

Banks can approach digital transformation in different ways. Most elect to progressively renovate their systems, replacing systems one by one by function, line of business or geography. This is what clients such as Nordea and Julius Baer are doing. Many others choose to launch a new digital bank. These include Equitable Bank's EQ Bank, Bank Leumi's Pepper and M-Shwari from Commercial Bank of Africa. The rationale for this approach is that the technology can be implemented quickly, the banks can be branded to appeal to a different, normally younger, demographic and the new entity is both free from many of the technology, process and governance constraints of the parent while leveraging the parent's assets in terms of trust and compliance knowledge. In our latest annual survey, conducted with Accenture, our respondents felt that these new digital banks represented their biggest competitive threat.

Once digital, banks will be able to fulfill their potential to become trusted advisors to their customers. This will see banks leverage their trust to help customers make smarter financial and commercial decisions, introducing them to the right service or providing the right advice at the right time and over the right channel.

We will explore the theme of 'digital to the core' further at our 2018 Temenos Community Forum, taking place in Dublin in May 2018.

FINAL REMARKS

I am delighted with our performance in 2017. We executed very well across all aspects of our business, from innovation through to Services. We have significant momentum in both our business and our end-market, which is reflected in the acceleration we have seen in the last few quarters and our substantial pipeline growth. We have unmatched references in the tier 1 and 2 space and continue to take market share. I am confident we will continue to deliver during 2018 and the medium term

David Arnott
Chief Executive Officer



ITAÚ SELECTS TEMENOS' WEALTHSUITE FOR ITS INTERNATIONAL PRIVATE BANKING BUSINESS

Itaú Unibanco Holding SA (Itaú), Latin America's largest banking group, selected Temenos' WealthSuite for its international private banking operations.

The highly scalable solution combines Itaú's core banking, portfolio management, channels and analytics functions in a single wealth management platform. The bank will deploy WealthSuite in the cloud enabling the solution to scale in an agile manner according to the ongoing evolution of its business.

Temenos' WealthSuite will be implemented in a big bang approach, allowing the business to benefit from the new technology in the quickest timeframe. The new system will allow the bank to scale to meet future demand at a reduced total cost of ownership (TCO). At the same time, it will decrease time to market for new innovative products and services, and provide Itaú's clients with a seamless digital customer experience.

"Investing in technology and the digital transformation of Itaú is crucial in order to meet clients' needs and create lasting value."

Carlos Constantini
CEO of US and
Head of International
Private Banking, Itaú