

Annual Report 2018



We Improve Banking

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Dear Sirs/Madams,

It is March 2019 and we would like to look back to review what happened in the last year in our Annual Report, as we do every year.

The most visible change was probably renaming of our Company and the related overall rebranding. For many years, customers had known us as BSC. And after our name changed, they will know us as BSC in the future too. It is because the BSC abbreviation remained unchanged, but its meaning is changing and we are approaching the values that our company currently holds and the business activities it is performing. BSC newly means **Banking Software Company**. We believe that this new brand of our Company literally expresses what we are.

We are a company that has been providing **banking services** for over 25 years. We are a company creating its own original **software products** that are currently sold to the customers over Europe, Asia and USA.

In the field of enterprising, we have strived very well. **We increased the revenues of BSC by 17%** and at the Group level, we anticipate a consolidated increase of even 20%. Our profit margin at the level of operating results reached the value of 20%. We grew at all markets. We did well in the Czech Republic and Slovakia where our growth exceeded the average rate. This is an evidence that despite our cross-border expansion, we do not forget our home customers.

We think of the future. Investments in our products are the largest expenditure items to which we allocate a great part of our operating results. In 2018, we invested almost 40 million crowns in the research and development of our products, which amounts approximately to 14% of our turnover. This amount of investments confirms our belief and trust in the future of our products and it is clear that in the following years it must be related with an increase of the revenues from the sale of software products compared to the revenues coming from the provision of IT services. To be able to achieve this, in 2018 we initiated building of our network of partners with established companies providing IT services both in the Czech Republic and abroad.

In relation to the change in our brand, in 2018 we also executed a change in the structure of the relationship with our customers in Slovakia. We are gradually transferring all contracts to our 100% controlled subsidiary, BSC SK that has operated for many years at the Slovak market and is already providing direct services to such customers.

I am glad that the decision to enter the American market brought forth first real results in 2018. Before the end of 2018, we signed several contracts and we even launched the first bank in full operation in the USA. This year, we are expecting putting of other approximately 5 banks in service and we believe that in 2020, the number of our customers in the USA will show two digits.

As our business grows, our teams does as well. It is a great success for us, as we are able to employ tens of new colleagues every year and still the amount of fluctuation is very low, approximately 6%. Our teams grow in all eight branch offices.

I am aware that the journey we have started is not easy and demands a lot from us all. We are building a global company and the competition is huge. I am happy that in BSC I have colleagues who not only understand this, but also share our joint vision and live towards it. And it is to them and to our customers whom I would like to thank the most for our success in 2018.

Yours



Petr Koutný
General Manager and Executive Director
Banking Software Company s.r.o.
14 March 2019

Company Introduction

Since its establishment in 1990, Banking Software Company s.r.o. has been providing top software solutions to financial institutions. We belong among the global leaders in the field of digital banking for financial institutions across three continents already, i.e. in the Czech Republic, Slovakia, Ukraine, Georgia, Azerbaijan, Russia and USA. In Slovakia and Russia, we have our own representative offices operated by our subsidiaries.

In the field of digital banking our flagship is the **my | GEMINI** Digital Bank OS platform based on which we supply a wide range of digital products comprising retail or corporate banking, SME banking or digital sale. All with end-user applications for web and more and more frequently also for mobile devices. The added value of our **my | GEMINI** platform is the mix of state-of-the-art technologies, business know-how and many years of experience of our specialists. By merging these ingredients, new software solutions occur enabling us to provide to our customers and banks services with extraordinary customer experience.

In the field of mandatory reporting we are a leader at our home market, as concerns the **my | BI** products. BSC pays attention to the reporting and regulatory reporting almost from the beginning of its existence, and with regard to the growing regulatory scope in Europe, we are able to extend our portfolio, as concerns the depth and width of functionalities and the number of customers.

We are not lacking behind even in the field of BackOffice systems; in many cases, it comprises optimised platforms for IBM System i. It mainly concerns products and interfaces for the MIDAS banking system, such as clearing, card system, fee modules, etc. This area is fully covered with **my | BOS** products.

my | GEMINI

my | BOS

my | BI

Basic Information

Trade Name Banking Software Company s.r.o.

Company ident. No.: 00549533

VAT No.: CZ00549533

Executive and General Manager Petr Koutný

Proxy Holder Radek Borovský

Company Address Na Hřebenech II 1718/10, Praha 4 – Nusle, 140 00

Registration Banking Software Company s.r.o. is registered in the Commercial Register maintained by the Municipal Court in Prague under file number C 195

Company Management



Petr Koutný
General Manager and
Executive Director

Petr has been working for BSC since 1993. His professional career has been related with banking and software for over 25 years. As the Executive Director of the Company, he is in charge of the strategic management and HR for the entire BSC Group, including subsidiaries BSC SK and BSC Msc.

Radek came to BSC in 1995 and since then, he has been focusing on our financial management. Today, from the position of the Financial Director, Radek manages the financial operations of the entire Group.



Radek Borovský
Financial Director and
Proxy Holder



Čeněk Navrátil
Sales Director

Čeněk has been in charge of sales in BSC since 2007. In his position of the Sales Director, he is in charge of all markets where BSC carries out its business activities. His division is also liable for the customer relationship management and the company marketing.

Honza has been the father of our business line comprising Business Intelligence and the reporting of financial institutions since 1998. His deep knowledge and experience in this area correspond to the large market share of our products.



Jan Hanuš
Lead Manager – BI



Milan Vintr
Lead Manager – BOS

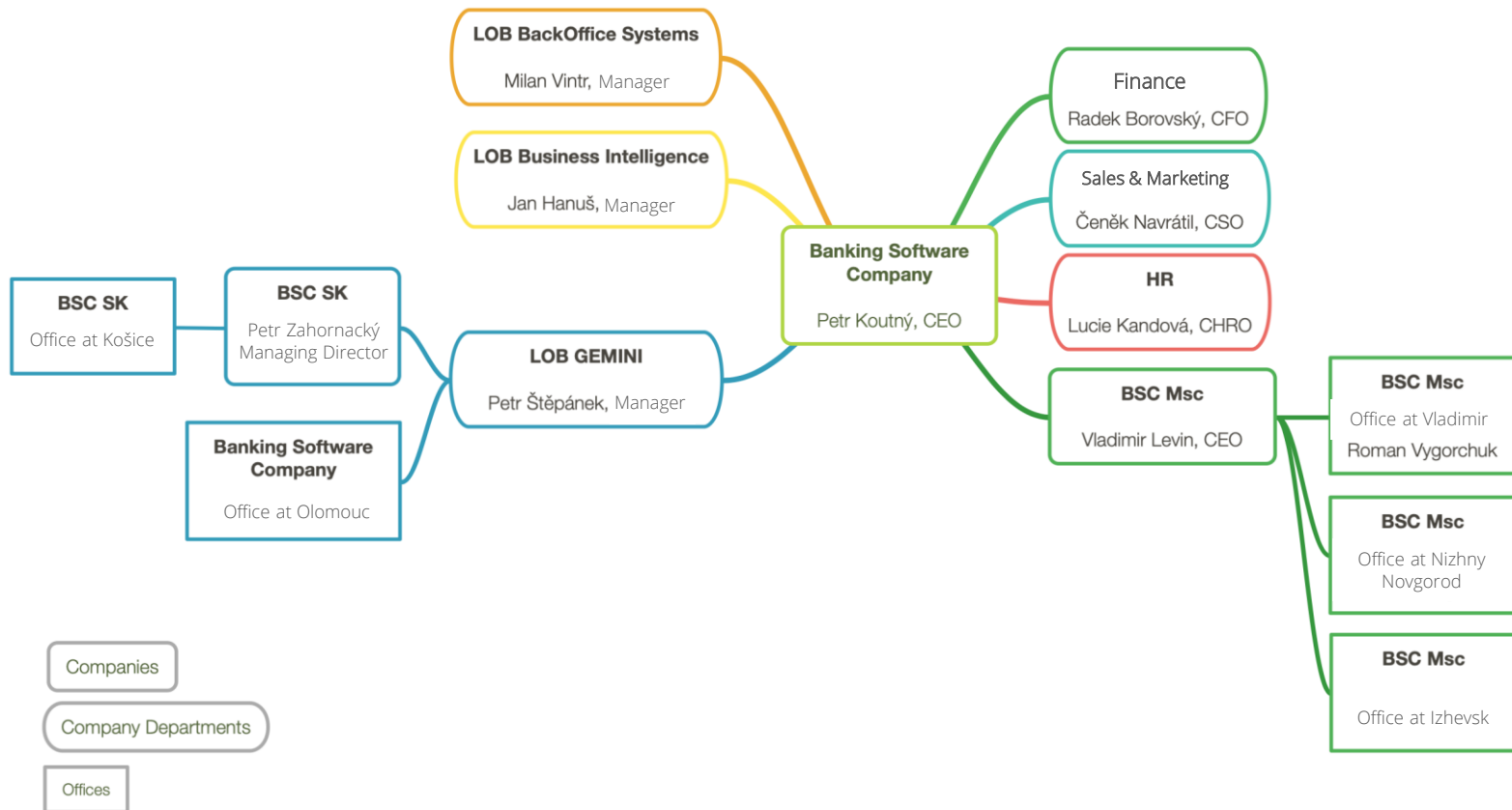
Milan is an expert for the main banking systems and related applications. His rich knowledge and practical experience gained in BSC since 1994 allowed him to make up a team disposing of unique know-how and over 90 years of practical experience in the banking business.

Since 2011, Petr has been managing our most extensive business line GEMINI. Digital services are what we help banks to create. Petr disposes of deep experience in banking, software development and managing of complex projects.



Petr Štěpánek
Lead Manager – GEMINI

Organization Chart



Partnerships



Banking Software Company is a long-term partner of Oracle Czech in the field of applications, mainly database systems, application servers and middleware technologies. BSC not only sells but also implements these products and secures highly professional post-implementation services and technical support. Our myGEMINI product is a registered application set within the ASFU programme.



Banking Software Company is a long-term partner of Misys. Close cooperation with one of the biggest worldwide suppliers of bank information systems has led to multiple successful implementation of the universal Midas DBA banking system both in the Czech Republic and in Slovakia. We are currently dealing with the development and support of MIDAS expansion in the area of national specifics.



In December 2010, Banking Software Company became the partner of Microsoft within Silver Competency, which evidences a great level of eligibility and professional knowledge of our developers of the .NET platform in the Business Intelligence unit. Membership in the Microsoft Partner Network provides us with space to deepen our know-how, thanks to which we can provide top-level products and services to our customers.



Banking Software Company is a long-term and successful partner of IBM in the field of distributing systems in the category of IBM System i (former AS/400) and System p (former RS/6000) and of WebSphere software solutions. Our specialists deal with configuration and optimization of the WebSphere products that are operated as mission critical applications by a great number of our customers.



Banking Software Company has been cooperating with Tech Data (former Avnet) for many years already. During our partnership, we succeeded in implementing a number of successful projects in the field of supplying products to IBM and Oracle, which has established a good base for the future cooperation of our companies.

Selected Customers



Up-to-date Information on the Company

Within our traditional three business lines, i.e. GEMINI, BI and BOS, we achieved a great increase of our turnover in 2018. In addition to this growth, we also did our best to provide as much attention as they deserve to our existing customers. To that end we increased the number of our customer care team members and reset most of the processes in this area under the lead of a new manager. Positive effect of these changes was evidenced as early as at the end of 2018 in the customer satisfaction research carried out by NPS. We achieved a positive score of 33% and in 2019, we would like to improve the score even more. In the last year, we also significantly invested in our own products. The amount of our investment reached almost CZK 40 million, which is the most in our Company's history.

The total revenues of BSC in 2018 increased by 17% (at the Group level the anticipated growth should reach even 20%) and amounted to CZK 295 million. The revenues of GEMINI increased by 19% to CZK 213 million thanks to a successful completion of our customers' projects gained in the preceding year. The BI business line experienced an increase of the total revenues by approximately 30% to the level of CZK 42 million. The BOS business line grew by 13% as concerns revenues and reached CZK 32 million. As we mentioned above, in 2018 we hugely invested in research and development, allocating 62% more resources in this field than in 2017. In 2018, we invested more than 82% of the recognised net profit to R&D.

All three business lines were profitable. The profit margin of the entire BSC Group at the level of the operating profit (EBITDA) amounted to 20%. Thus, as regards profitability, 2018 was another successful year for us.

Compared to 2017, our balance increased by CZK 31 million (+19%) to CZK 191 million. The Company does not maintain any loans; it is fully funded from its equity. Its share on the balance sheet total is 78%. At the time of this Annual Report compilation, BSC has renewed contracts for operation funding up to the maximum amount of CZK 50 million. This credit line may be used by the Company in the course of the business cycle for short-term financing of the working capital.

In 2018, our subsidiary BSC Msc also achieved great results. The increase of revenues in comparison to 2017 amounted to 12%. The balance sheet total of BSC Msc achieved RUB 95 million (+11% compared to 2017). BSC Msc does not maintain any loans and it is funded via its equity amounting to 78% of the balance sheet total. In 2018, BSC Msc transformed from a private limited company (ZAO) to a limited liability company (OOO) thanks to the amendment of the corporate law in Russia.

In 2018, our subsidiary BSC SK showed profit of EUR 43 thousand. Even in 2018, BSC SK participated in a number of projects within the BSC Group, especially in the business cases implemented in Slovakia. Thanks to that, contracts of the Slovak customers who are serviced directly by the teams of our Slovak branch office were transferred from BSC to BSC SK.

GEMINI in 2018



In 2018, we started to implement our strategy Agenda 2020. The main activities of GEMINI were directed in the field of customer care, product development and strengthening of our team.

The key activities in 2018 were focused on the product transformation of GEMINI. It started with the creation of a dedicated product team (20% of the overall capacity of our business line), setting of new internal processes, changing the system of planning and financial controlling in GEMINI and last but not least, changing the implementation approach. It did not only concern changes made on the paper; they were verified within real projects. Sometimes with positive and at other times with negative results, but always with the knowledge where to direct the future product transformation. In 2018, the investments in research and development grew to 17% of the total revenues of GEMINI and a brand new product, myGEMINI Digital Bank OS, was created.

Product transformation and growth of our revenues also led to the recruitment of new employees in the GEMINI team. During the year, the number of employees grew by 34 in total, i.e. by 21%, while maintaining a relatively low overall fluctuation at the level of 7%. Significant growth combined with the need to maintain the necessary quality and performance of implementation services was not an easy task. It was managed thanks to the established agile programme or team structure at GEMINI. In a summary, we reached a situation when the organization and implementation GEMINI model is well-scalable and open for further growth in the future. Redevelopment of the customer care department represented another personal and contextual element of 2018. It focused on an entirely different style and level of communication with and services to our clients.

The year 2018 also showed where the risks and threads for the future development of GEMINI lies, with regard to the fulfilment of the Agenda 2020 strategy. It mainly concerns a rather poor product and business marketing and the need to increase the Company visibility both at home and abroad. Another risk ensues from dealing with the project or customers specifics instead of the product development and innovation, as well as in an insufficient number of the personnel needed in a product-oriented company. Dealing with these areas remains our priority in 2019.

Petr Štěpánek
GEMINI Business Line Manager

BackOffice Systems in 2018



As concerns our BackOffice business line, in 2018 we implemented projects in four main areas:

- Card business and Dispo balance HUB;
- Payment transactions and related legislative changes;
- Co-participation in the implementation project of the myGEMINI omni-channel solution; and
- Customer projects in the field of the MIDAS core banking system.

As concerns the card business, we proceeded with the implementation and development of the CM24 system, including the functionalities of the Dispo Balance HUB system. We initiated implementation for another customer and the product was supplied by the end of the year for testing. In addition to an increased availability of the card business, compatibility with PCI DSS and an independent solution platform, Dispo Balance HUB is an important motivation for our customers – for the future functionalities of immediate payments that will be implemented in banks during 2019.

In the field of payment transactions, we implemented new so-called R-Transactions in the scope of the “SEPA Changes 2018” requirements. Even though the name comprises the word “changes”, it concerns brand new functionalities and not any small changes, e.g. of the SEPA payment or collections formats.

Similarly as in the preceding year, our cooperation within the GEMINI 5 Platform Project continued, we launched POC for implementation and integration to the myGEMINI omni-channel solution under the new project.

The most significant area where development was achieved in 2018 were customer projects dealing with integration of various systems in the main banking system called Midas; the merger of two Midas banks was completed; and the project of product updating to the new Midas version – FusionBanking Midas –was fulfilled. Various optimizations of the existing functionalities were implemented; new accounting records in Midas and new extractions from Midas, etc. were made.

One of the significant customer implementations included specific functionality in relation with GDPR and data anonymization.

BI in 2018



The BI business line results in 2018 showed another year-on-year increase, as concerns all monitored parameters. Upon comparison with 2017, it concerns a growth of 30% in the area of revenues, with a corresponding increase of the absolute profitability. These numbers are a strong evidence of extraordinary economic results of the BI business line.

There is no single main reason for such success; it concerns a combination of several factors. The new customers show a permanent intent to buy the myBI system licenses and the financial market supervision in the Czech Republic is continuously tightening up, which also leads to more orders from the existing customers. Extension of the reporting obligation by the Czech National Bank as the local regulator follows the dynamically developing requirements by the European regulatory authorities (EBA, EIOPA, ESMA) and leads to a continuous demand for automation of the data collection processes in both the new and the constantly changing data areas.

In the last year, we gained three new customers (Western Union International Bank, W.A.G. payment solutions a.s., and the Bank of Communications Prague branch) and we are conducting advanced negotiations with other potential customers, mainly in the insurance sector, which leads us to believe that the positive trend of the customer base extension will continue. Our current market share in the banking sector of the Czech Republic reaching almost 70% does not allow for any dramatic increase in the customer base; on the other hand, as a leader at the market, it is a great challenge for us to be the first preferred and also the target choice.

Within the STAR module, in 2018 we introduced a brand-new functionality for communication with the RIAD register, including covering of all related ECB requirements to extend reporting of the loan portfolios provided to the segment of legal persons according to the AnaCredit standard. In 2019, we will mainly focus on the development of the new myBI system generation that will be fully compatible with the new SDAT metasystem implemented by the Czech National Bank.

In 2018, the BI business line achieved extraordinary results and confirmed the top quality of the products and services provided to our customers.

*Jan Hanuš
Business Intelligence Line Manager*

Financial Results – Profit and Loss Statement for 2018

(in thousands of CZK)

Category		2018	2017
I.	Revenues for the sale of products and services	294,923	252,344
II.	Revenues for the sale of goods	1,950	0
A.	Production consumption	150,247	121,373
B.	Change in stocks following own activities (+/-)	-3,008	324
C.	Activation (-)	-22,287	-6,334
D.	Personal costs	97,770	85,608
E.	Adjustment of values related to operation	14,816	9,846
III.	Other operating revenues	199	12
F.	Other operating costs	810	-5,016
F.1.	Amortised cost of sold fixed assets	4	0
F.2.	Amortised cost of sold material	0	0
F.3.	Taxes and fees	141	178
F.4.	Provisions related to operation and complex deferred charges	0	-5,720
F.5.	Other operating costs	665	525
*	Operation results (+/-)	58,725	46,554
IV.	Revenues from fixed financial assets – shares	1,911	3,179
G.	Costs of sold shares	0	0
V.	Revenues from other fixed financial assets	0	0
H.	Costs related to other fixed financial assets	0	0
VI.	Interest income and similar revenues	686	772
I.	Value adjustments and provisions related to financial operation	3,640	0
J.	Interest costs and similar costs	20	95
VII.	Other financial revenues	767	1,952
K.	Other financial costs	2,755	2,438
*	Financial operation results (+/-)	-3,051	3,370
**	Profit or loss before tax (+/-)	55,674	49,924
L.	Income tax	7,815	7,829
**	Profit or loss after tax (+/-)	47,859	42,095
***	Profit or loss for the accounting period (+/-)	47,859	42,095
*	Net turnover for the accounting period	300,437	258,259

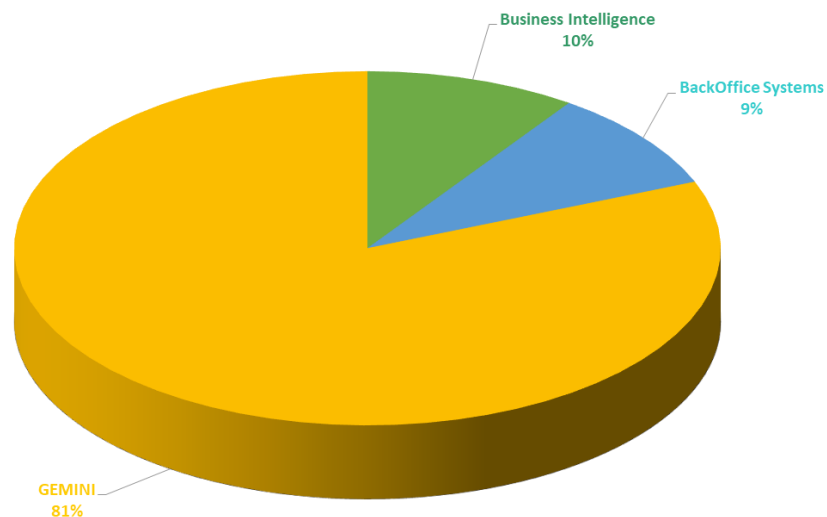
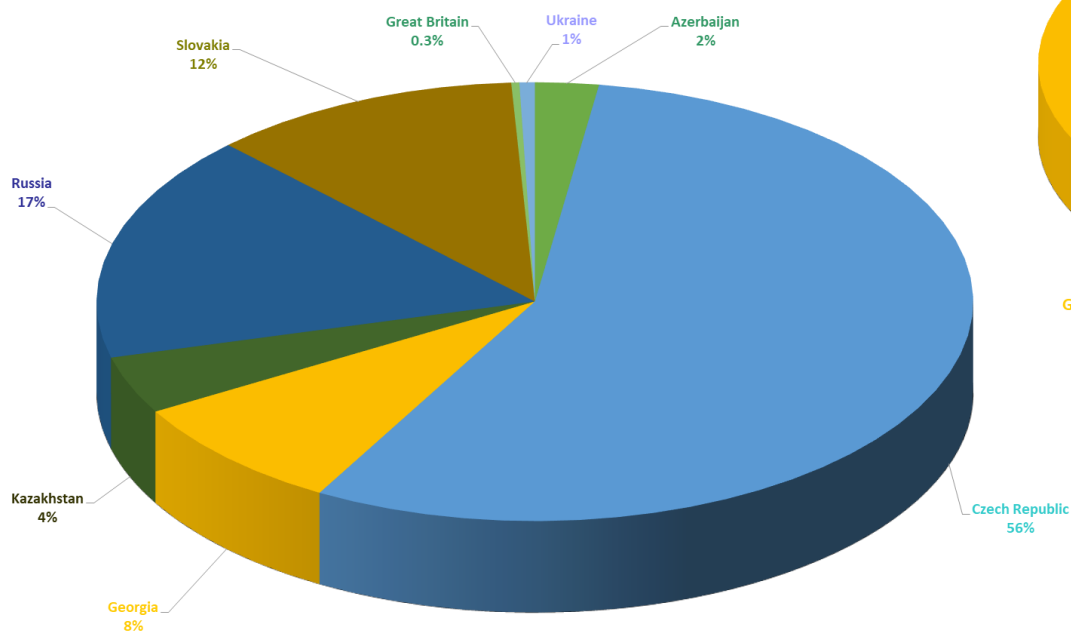
Financial Results– Balance Sheet for 2018 (in thousands of CZK)

Category		2018	2017
	ASSETS IN TOTAL	190,848	160,280
A.	Subscribed capital	0	0
B.	Fixed assets	69,451	58,695
B.I.	Fixed intangible assets	35,756	26,231
B.II.	Fixed tangible assets	8,843	6,085
B.III.	Long-term financial assets	24,852	26,380
C.	Current Assets	120,067	100,509
C.I.	Inventory	5,884	2,878
C.II.	Receivables	50,078	28,137
C.III.	Short-term financial assets	10,353	0
C.IV.	Cash funds	53,751	69,494
D.	Accrued assets	1,331	1,076
	DEBTS IN TOTAL	190,848	160,280
A.	Equity	148,707	128,196
A.I.	Registered Capital	5,000	5,000
A.II.	Share premium and capital funds	4,459	1,807
A.III.	Revenue reserve	1,000	1,000
A.IV.	Profit and loss carried forward (+/-)	90,390	78,295
A.V.	Profit and loss for the current accounting period (+/-)	47,859	42,095
A.VI.	Decision on advanced distribution of share in profit (+/-)	0	0
B.+C.	Reserves and Liabilities	36,344	27,472
B.	Provisions	0	0
C.	Liabilities	36,344	27,472
C.I.	Long-term liabilities	0	0
C.II.	Short-term liabilities	36,344	27,472
D.	Accrued liabilities	5,797	4,612

Structure of BSC Group Revenues

According to the business lines

According to countries of our customers



People in BSC

In the last year, the number of people working in our teams also increased on the year-on-year basis. In comparison to 2017, the number of full-time employees increased by 14% to the total number of 318 persons. This increase was based on an increase of the team sizes in all our branches.

Our teams are currently located at the following locations:

Banking Software Company s r.o. – Company head office

Na Hřebenech II 1718/10, Praha 4 – Nusle, 140 00, Czech Republic

Banking Software Company s.r.o. – office at Olomouc

Legionářská 1319/10, Olomouc, 779 00, Czech Republic

BSC SK s.r.o. – company branch office

Raymanova 2766/9, Prešov, 080 01, Slovakia

BSC SK s.r.o. – kancelář Košice

Trieda SNP 37, Košice, 040 01, Slovakia

BSC Msc, OOO – company branch office

1st Kozhevnikovskiy lane 6, Moskva, 115114, Russia

BSC Msc, OOO – office at Vladimir

Mira street 34, Vladimir, 600017, Russia

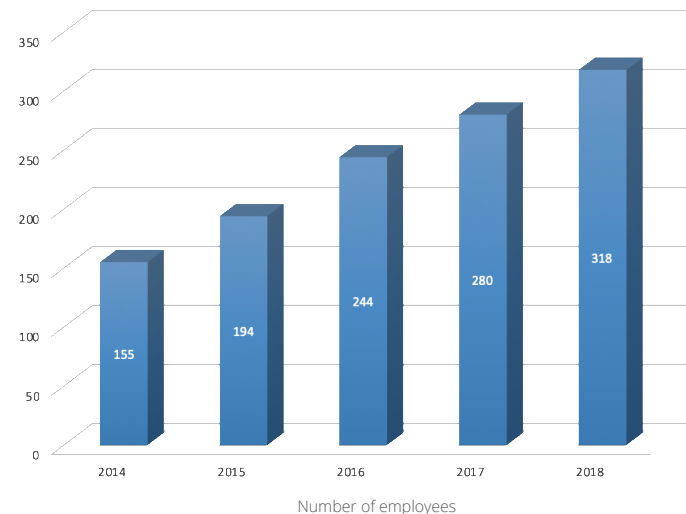
BSC Msc, OOO – office at Nizhny Novgorod

Kerchenskaya 13, Nizhny Novgorod, 603086, Russia

BSC Msc, OOO – office at Izhevsk

Karla Marksa Street 218, Izhevsk, 426008, Russia

The number of full-time employees of BSC



Independent Auditor's Report on Annual Financial Statements for 2018

Auditor's opinion

"In our opinion, the Financial Statements attached as an integral part of this Report give a true and fair view of the assets, liabilities, costs, revenues and operating results, as well as the cash flow of limited liability company Banking Software Company for the year ending on 31 December 2018 and have been compiled in compliance with Act No. 563/1991 Coll., on the Accounting, as amended by Decree No. 500/2002 Coll. and the Czech accounting standards, as amended on 28 February 2019."

Other information concerning the Annual Report

Our opinion concerning the Financial Statements for 2018 does not apply to any additional information or provide any other special opinion. Nevertheless, it is a part of our obligations related with the audit of the Financial Statements to get acquainted with the additional information and consider, whether such additional information is not significantly (materially) non-compliant with the Financial Statements or our knowledge concerning Banking Software Company obtained during the audit of the Financial Statements, and whether the Annual Report is compiled in compliance with the legal regulations, or whether such information does not appear as otherwise significantly (materially) incorrect. In the case that based on the works carried out we find out that this is not the case, we must include the established facts in our Report.

Based on the performed procedures and in the extent as we are able to assess, we hereby confirm that:

The additional information describing the facts that should also be reflected in the Financial Statements is in all significant (material) aspects in compliance with the Financial Statements; and

Such additional information was compiled in compliance with the legal regulations.

Using the aforesaid procedure, we did not establish any significant (material) factual misstatements in the information obtained.

AUDITORSKÁ A DAŇOVÁ KANCELÁŘ s.r.o.

Husitská 344/63, 130 00 Prague 3

Certificate number: 181 Auditor: Ing. Pavel Antoš

Certificate number: 1416

Date of compilation: 14 March 2019



Report on Relations

Controlled parties: Banking Software Company s.r.o., BSC SK s.r.o., OOO BSC MSK, Zygo it, s.r.o.

Controlling party: Algorithmiq, s.r.o.

BSC SK s.r.o. provides software services of Banking Software Company s.r.o. under normal business terms and conditions. The liability of Banking Software Company s.r.o. towards BSC SK s.r.o. amounting to EUR 106,624 as at 31 December 2018 has been duly paid at the date of this Report.

OOO BSC MSK provides software services to Banking Software Company s.r.o. under normal business terms and conditions. The liability of Banking Software Company s.r.o. towards OOO BSC MSK, spol. s r.o. amounting to RUB 900,000 as at 31 December 2018 has been duly paid at the date of this Report.

Banking Software Company s.r.o. provides software services to OOO BSC MSK under normal business terms and conditions. The receivables of Banking Software Company s.r.o. towards OOO BSC MSK, spol. s r.o. amounting to RUB 3,647,615 as at 31 December 2018 has been duly paid at the date of this Report.

Banking Software Company s.r.o. provides administrative support services to Zygo it, s.r.o. under normal business terms and conditions. The liability of Banking Software Company s.r.o. towards Zygo it, s.r.o. amounting to CZK 605 as at 31 December 2018 has been duly paid at the date of this Report.

This Report was compiled by the Executive Director of the Company in compliance with Section 82 of the Business Corporations Act.

In Prague, on 04 March 2019

Petr Koutný
Executive Director

