

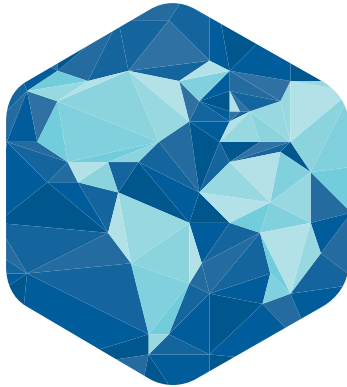
REAL-WORLD FINTECH

ANNUAL REPORT AND ACCOUNTS 2016



Welcome

TEMENOS: THE SOFTWARE SPECIALIST FOR BANKING AND FINANCE



Temenos provides mission critical software to 38 of the top 50 banking institutions in the world.

Headquartered in Geneva, Switzerland, the Company has 63 offices in 41 countries and had non-IFRS revenues of USD 635 million for the year ended 31 December 2016. Temenos has been a public company listed on the SIX Swiss Exchange (TEMN) since June 2001.

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WHO WE ARE

Founded in 1993, Temenos is the market-leading provider of mission critical software to financial institutions globally with more than 2,000 customers in 145 countries worldwide. Temenos partners with banks and other financial institutions to transform their businesses and stay ahead of a changing marketplace.

4,300+

Over 4,300 professionals

145

Serving clients in 145 countries

2,000+

Over 2,000 clients

500m+

Processing the daily transactions of more than 500 million banking customers

Financial and operating highlights

An outstanding year of growth and operational performance

2016 NON-IFRS FINANCIAL HIGHLIGHTS

Total software licensing growth of 20%.

Maintenance growth of 6%.

Total revenue growth of 14%.

Services margin of 9.1%, improvement of 0.6 percentage points.

EBIT margin of 29.4%, up 128bps.

Operating cash flows of USD 258 million, up 13%.

Operating cash conversion of 114%, with DSOs down 27 days in the year.

Strength of cash flows and growth in profit support 2016 dividend of CHF 0.55 per share, an increase of 22% (2015: CHF 0.45 per share).

2016 OPERATIONAL HIGHLIGHTS

Outstanding performance in 2016, after landmark 2015, driven by continued high levels of client activity across tiers and segments.

Pressure of digitalisation is driving banks' strategic decision-making and market growth.

Temenos saw growth across all geographies in 2016, with Europe and Asia particularly strong.

Vendor of choice for Tier 1 banks, as demonstrated by winning all the key large deals in the market, in particular Standard Chartered Bank and Bank of Ireland.

Significant progress made in the US, with go-live of a top 20 US bank and winning of Commerce Bank, the 38th largest bank in the US, for its core replacement.

Strength and quality of pipeline gives confidence for continued strong growth in 2017.

Partner ecosystem continues to mature, with strategic Partners involved in winning and implementing key large deals, and Partners involved in majority of implementations across client tiers.

WE ARE THOUGHT LEADERS, DISCOVER OUR INSIGHTS ON > 48-61

WE ARE PEOPLE-POWERED, MEET OUR PEOPLE WHEN YOU SEE THIS SYMBOL



WE ARE MARKET LEADERS, BROWSE OUR OFFERING ON > 06-17



For the most up-to-date Investor Information and Press Releases, please refer to our website.

www.temenos.com

TOTAL SOFTWARE LICENSING

+20%



MAINTENANCE

+6%



TOTAL REVENUE

+14%



EBIT MARGIN

29.4%



OPERATING CASH FLOW CONVERSION

114%



EARNINGS PER SHARE

+20%



DIVIDEND PER SHARE

+22%



Chairman's statement

INFLUENCING 21ST
CENTURY BANKING

Andreas Andreades
Executive Chairman

It is with great pleasure that we present our annual report for 2016 to our shareholders.

2016 was a year during which our clients continued to enjoy positive economic conditions in most parts of the world. The technology upgrade cycle that started in 2015 continued robustly into 2016. The mobile revolution is changing our everyday lives and our clients are adapting their strategies and resulting technology investment to a new world of immediate interaction with their customers.

Clearly this presents our clients with the biggest opportunity for a generation to differentiate and innovate as well as create new business models that will ensure that their customers' trust is put to great use. Digital banking, a term that until now meant different things to different people, is better understood, and the appreciation the impact that this new world will have on banks is far reaching and is becoming mainstream. Digital banking is not only about a modern interface on mobile or internet channels but it is also about exploiting customer data, both transactional and otherwise, and product availability that allows the bank to offer a meaningful and rewarding experience to its customers when they interact digitally with their banks.

Not only are Millennials expecting a constant and immediate interaction with their favourite brands, but the move towards fast payments and cashless societies is causing transaction volumes to grow exponentially. Banks' technology, largely implemented in the 1970s and 1980s is clearly not in a position to cope with this new world. Digital banking is therefore the most disruptive force we had in the world of banking for at least a generation and has the potential to create new global and regional winners.

Cloud computing is also starting to come of age in the world of application software for banks. Regulators have largely embraced the opportunity that the cloud offers to banks to run their operations more efficiently, the security that the major cloud providers offer is better understood and issues around data residence are largely dealt with in most parts of the world even though we expect to see some geographies deal with these issues faster than others. Today it is a reality that a fully functioning new digital bank can be up and running on the cloud in a matter of months with minimal capital investment. We have seen a number of banks pursuing this strategy as a fast route to market.

During 2016 we focused on growing our organic business, investing relentlessly in our products, global infrastructure and our Partner ecosystem which has allowed us to grow our implementation capabilities and ensure successful deployment of our software. The acquisitions we executed in 2015 were fully integrated and contributed significantly to our successful growth. As a result of all of this, we generated record revenues, cash flows and profitability in the history of Temenos and we are therefore also proposing an increased dividend for 2016. Our revenue and profitability growth, arguably the best in the industry, is setting us apart.

We will continue to specialise in the financial services industry with packaged software that becomes better every year because of our strong recurring investment and we will continue to outpace our competitors every year because of this. Key banks are preferring to work with Temenos because they know that selecting a software provider is probably one of the most important decisions they will ever have to make and are increasingly more comfortable to do so with the industry leader.

Our robust corporate structure and governance underpin all our efforts and contribute to an environment of trust with our stakeholders that is so critical in growing our relationships. As a global company, we have been operating at an exceptionally high standard of integrity in complying with the laws and regulations of the countries in which we operate – in some cases higher standards than required by national laws or regulations. We have integrated sustainability into our policies and processes, our business planning, measurement and reporting systems, our management practices, decision-making and governance; in other words, into the way we operate. In that way, we have been better prepared to anticipate global business, social and environmental challenges and actively manage the risks and opportunities associated with them. In 2016, in order to make that expectation clear to all our stakeholders, we have launched an internal cross departmental project to explicitly align our Business Code of Conduct and our corporate policies with the ten principles of the United Nations Global Compact, as well as the OECD Guidelines for Multinational Enterprises. In addition, we are committed to measuring our non-financial performance and reporting on it along with our financial performance. This is detailed in the Corporate Social Responsibility section of the annual report.

Influencing the way banking is carried out for the 21st century continues to be our end goal, one that guides our daily endeavours. With more than 2,000 banking clients in 145 countries worldwide, we are well on our way to doing so. With a local investment mind-set, we hope we also successfully contribute to the economies of the world where our clients do business. The success of all who are involved with Temenos, be it clients, shareholders, Partners or employees, will always underpin the positive development of our business.

Andreas Andreades
Executive Chairman

Our investment case

WHY WE WIN

Our products are open, integrated, componentised and upgradeable, supported by a dedicated professional services organisation and a strong Partner ecosystem.

SPECIALIST

Temenos only creates software for banking and finance. And we've been doing it for more than 20 years. This makes us true specialists with deep domain knowledge and razor-sharp focus. We place our clients at the core of what we do. Everything starts and ends with our

clients' goals – we can't meet our goals without meeting theirs.

Over 2,000 firms across the globe, including 38 of the top 50 banks, rely on Temenos to process the daily transactions of more than 500 million banking customers.

Read more on > 06

UNRIVALLED CUSTOMER SUCCESS

We make packaged and upgradeable software. We spend c.20% of our revenues annually on R&D. As such, our software gets functionally richer and more technologically advanced with every new release.

8.6 percentage points lower cost to income ratio than financial institutions running legacy software.

Temenos customers significantly outperform their peers. Over the period 2008-2014, Temenos clients enjoyed on average a 31% higher return on assets, a 36% higher return on equity and an

The benefits of using modern software are clear. Temenos customers are more agile, able to offer more personalised products and services, to operate at lower unit costs, to react quicker to market opportunities and to manage risk better.

Read more on > 24

UNIQUE BUSINESS MODEL

Our success has proven that packaged software with the highest levels of flexibility can meet the exacting requirements of the world's largest financial institutions, without source code modification.

With enhancements rolled into an annual upgrade programme, banks can now focus on their true differentiators, whilst we focus on delivering best-in-class systems.

Read more on > 04-05

MARKET LEADER

Temenos is the leader in its market. In 2016 Temenos topped both IBS Intelligence league table and the Forrester pyramid, for sales of mission critical software for the banking and finance industry,

(see IBS Intelligence's 'Sales League Table 2016' for core banking systems and Forrester's 'Global Banking Platform Deals Survey 2017').

ECOSYSTEMS FOR GROWTH

We strongly believe in the importance of collaboration to achieve growth and the best customer outcomes.

This is evident in our large ecosystem of Partners. We partner with other firms to give our clients access to a large pool of system integration resources as well as choice over the technology platforms they run.

In addition, we open up our software to third parties to foster innovation. The Temenos Marketplace is our digital store where clients can browse, discover, download and deploy an ever-growing range of apps. These apps are developed by Marketplace providers using more than 11,000 APIs and business events that we make available to them.

Read more on > 26

PEOPLE-POWERED

We pride ourselves on seeing things differently from everyone else. We embody a culture of openness and meritocracy that allows us to attract the best people and to set them free to make things happen.

This culture is at the root of the Company's pioneering record on innovation.

Temenos employs more than 4,300 people across 63 offices.

Read more on > 71-74

HIGHLY RATED BY INDUSTRY ANALYSTS**Gartner¹**

"Leader" for 7th consecutive year.

Forrester²

"Leader" in Forrester Wave. Classed "Global Power Seller" for new business for 11th consecutive year and "Top Global Player" for new and existing business deals for 5th consecutive year.

Ovum³

"Market Leader" in core banking and "Market Leader" in digital banking platform.

Celent⁴

Awarded '2016 XCelent Award' for advanced technology in digital channels and awarded '2017 XCelent Award' for breadth of functionality in wealth core banking.

IBS Intelligence⁵

Ranked top position for the last four years. Ranked top two positions for the past 17 consecutive years.

International Data Corporation⁶

"Leader" in core banking and "Leader" in wealth management front and middle office.

Banking Technology⁷

Readers' Choice Award for "Best emerging/innovative technology product" for Temenos Marketplace

Asian Private Banker⁸

"Best Provider of Front-to-Back Wealth Suite Solutions."

Our business model and strategy

HOW WE DO BUSINESS

The sales of software licences of our award winning products drive growth in both maintenance and services.

Key facilitators

RESEARCH AND DEVELOPMENT

Outspending our peers on R&D

We annually invest c.20% of revenue in R&D, significantly more than our peers, into a single fully packaged, upgradeable software release, which ensures all Temenos customers benefit from modern technology and support indefinitely.

[Read more on > 18](#)

EXPERT PEOPLE

Investing in our talented people

Our people's visions and aspirations are central to the culture of Temenos. By fostering a culture of innovation and collaboration, and by investing in our people's development, we are able to retain the best talent and ensure we continue to deliver unrivalled customer success.

[Read more on > 71-74](#)

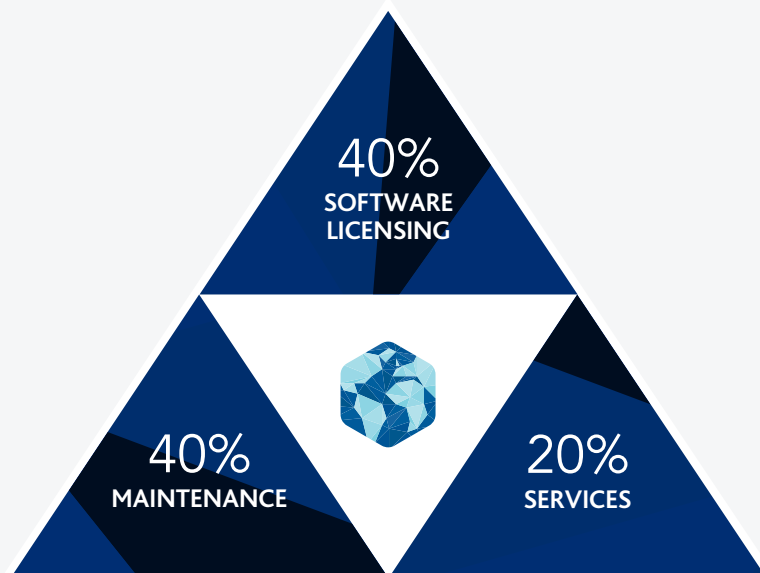
SUSTAINABLE BUSINESS

Focusing on our environment, people, community, and clients

We are committed to a sustainable business model that makes us proud of how we interact with our people, our customers and our marketplace. We believe that this is the only way to deliver long term business success for our Company.

[Read more on > 64-85](#)

Our business model



SOFTWARE LICENSING

An initial licence fee (or recurring fee in the case of Software-as-a-Service and subscription revenues) is payable for use of our award-winning products spanning Core Banking, Analytics and Reporting, Front Office, Channels, Risk and Compliance, Financial Crime, Payments and Funds and Securities.

- > Rich product suite;
- > Regularly upgraded;
- > New and existing clients;
- > Geographic spread; and
- > Referenceability.

MAINTENANCE

Maintenance is charged on our licence sales and provides our customers with access to the full ongoing support of Temenos together with product upgrades.

- > Revenue stream grows with licence sales;
- > Five year contracts, then renewable annually;
- > Paid annually in advance; and
- > CPI indexed.

SERVICES

Software is only part of the Temenos equation. Implementation, performance optimisation, integration, administration, maintenance, upgrades, training and support are all part of the comprehensive service package when our customers invest in a Temenos software solution.

- > Process led implementations;
- > High level consultancy; and
- > Direct client feedback for benefit of wider business.



See our strategic points in action wherever you see this symbol throughout the report.

Value created

A THREE-PRONGED APPROACH TO M&A

Accelerated growth in key markets and segments

Increased scale

Complementary products

2007

Actis.bsp

2008

Financial Objects
Lydian Associates
Informer

2009

Viveo

2010

FE-mobile
Odyssey

2011

Primisyn

2012

edge IPK

2013

TriNovus

2015

Akcelarent
Multifonds

Our offering

WHAT MAKES US DIFFERENT

First and foremost, Temenos is a product Company. Our software provides financial institutions with a single, real-time view across the enterprise, enabling them to maximise returns while streamlining costs.

Our vision

Every financial institution to run on packaged, upgradeable software, to create a better and more inclusive world of banking and finance.

Our mission

Build real-time, integrated and open software for the banking and finance industry.

Our values

WE PLACE CLIENTS AT THE CORE OF WHAT WE DO

Everything starts and ends with our clients' goals.

WE SEE THINGS DIFFERENTLY FROM EVERYONE ELSE

Average people see difficulties, exceptional people see opportunities.

WE INSPIRE, THROUGH LIVING UP TO OUR FULL POTENTIAL

We dream big and pursue our goals fearlessly.

WE BELIEVE IN THE POWER OF PEOPLE

People make things happen. People define our destiny.



Sustainably lower costs

Economies of scale



Low-cost, highly automated, scalable systems

Rapid launch of personalised products across multiple channels, single view of customer, real-time customer intelligence



Greater wallet share

Lower asset provisions

Market development

Our solutions

We offer our clients a set of complete front-to-back, integrated banking and finance software solutions which provides them with the full package for their specific needs.

SUITES

Read more on > 08

Our set of complete front-to-back, integrated banking and finance software solutions.

RetailSuite
WealthSuite
CorporateSuite
UniversalSuite
IslamicSuite
MicroBankingSuite
FundSuite

PRODUCTS

Read more on > 12

Our product families span core banking through to channels, analytics and risk and compliance.

Analytics
Core Banking
Channels
Financial Crime
Front Office
Funds and Securities
Payments
Risk and Compliance
Solutions for the US market

TECHNOLOGY

Read more on 16

Our technology products and frameworks are organised into five offerings, reflecting five areas in which banks face major business challenges.

Data
Design
Integration
Interaction
Platform

Our solutions

SUITES

One of our latest innovations has been to move all of our product families into open, integrated offerings for the different vertical markets we serve. Called Suites, these provide our clients with a real-time, end-to-end platform.



RetailSuite

The world's leading retail banking solution designed for the new banking landscape.

RetailSuite is an integrated banking software solution for retail banks of all sizes across the globe.

It combines a modern, agile core with powerful analytics and a single platform for distribution across all digital and assisted channels. It enables banks to provide convenience and choice to customers in how they want to bank and manage their finances. It extends their reach to customers using any device today and in the future. Banks are able to harness the wealth of data to better understand customers and develop products and services that they want and need quickly and easily.

RetailSuite addresses our clients' technology, regulatory and market challenges of today and tomorrow. Through Temenos, retail banks leverage technology innovation to drive competitor differentiation and advantage, operational efficiencies, reduce costs and boost profitability.

Whether a new start up looking for its first solution, or a large-scale multi-country bank, RetailSuite provides a solution which enables banks to scale, onboard, reduce attrition and deliver a market-leading service to their customers.



WealthSuite

WealthSuite is an integrated software solution for wealth managers. Its highly scalable technology offers integrated, multi-channel, front-to-back office capabilities.

WealthSuite empowers our clients' business. The solution industrialises the investment process allowing banks to efficiently manage investments for large numbers of complex portfolios and achieve maximum investment performance. Combining back office efficiency with front office differentiation, WealthSuite offers sophisticated portfolio management functionality to mass affluent and HNW clients, allied with CRM capabilities, mobile and internet banking capabilities and comprehensive back office support.

For banks looking for a single vendor solution, with the associated benefits of centralised support, WealthSuite transforms their business. WealthSuite offers:

- > Increased performance and revenue growth;
- > Stronger customer loyalty;
- > Advanced digital capabilities; and
- > Cost and risk reduction.



CorporateSuite

CorporateSuite provides one system, one view for all corporate banking needs; today and tomorrow.

CorporateSuite, with its scalable, innovative technology, provides superior features for corporate banks, supporting profitability, customer acquisition and retention. Now bank customers can benefit from quality digital solutions to equal their retail experiences for all their business banking needs.

Our CorporateSuite clients continue to see the benefit of our advanced modules, with Techcombank having won several awards for Trade Finance and Supply Chain activities. Temenos' CorporateSuite clients benefit from increased efficiency and profitability through:

- > A complete, single solution;
- > Transparent, single view offering a 360° view of accounts;
- > Agile, parameter driven platform flexibility;
- > A product builder to quickly create segment customer level products;
- > Full control;
- > Insight into customer profitability, loyalty, attrition risk and number of products for targeting activity;
- > A massively scalable, straight through processing (STP) solution;
- > Comprehensive business functionality and a modern, advanced, secure, open, modular architecture; and
- > An automated, electronic solution without the need for cumbersome paper based processes.



UniversalSuite

The world's leading universal banking solution for functionality across business verticals.

UniversalSuite is an integrated banking software solution for universal banks with market-leading retail, corporate and wealth management functionality.

It combines an agile core with powerful analytics and a single platform for distribution across all channels. It enables banks to be competitive with customer-centric, relevant products and an optimised user experience whatever channel the customer chooses to use. This drives customer loyalty, reduced attrition, increased wallet share and improve profitability. With UniversalSuite, banks can drive efficiency at the same time as building customer intimacy.

UniversalSuite will address the banking technology, regulatory and market challenges of today and tomorrow. Through Temenos banks can leverage technology innovation to drive competitor differentiation and advantage, operational efficiencies, reduce costs and boost profitability.

Whether for a retail bank looking to target the mass-affluent segment or a multi-segment, multi-country bank, UniversalSuite provides a solution which enables banks to scale, onboard, reduce attrition and deliver a market-leading service to customers regardless of the segment.



Our solutions continued

SUITES CONTINUED



IslamicSuite

IslamicSuite, with its scalable innovative technology, provides superior features for Islamic banks to offer their customers Shari'ah compliant products and services that rival their Islamic or conventional counterparts.

IslamicSuite services the Islamic banking community with Shari'ah compliant, flexible solutions that have been specifically designed to support wealth, retail, corporate and treasury bank needs. This range of highly scalable, established solutions means that Islamic institutions can now easily and efficiently create new Islamic banking products, offering world class services that rival Islamic or conventional counterparts.

Temenos' IslamicSuite customers benefit from increased efficiency and profitability through:

- > Adopting a pre-configured solution based on Shari'ah industry standard;
- > Offering advanced Shari'ah wealth management services;
- > Full automation and increased straight through processing rates;
- > Reduced development time by 40%; and
- > Quality customer products and services available quickly and cost effectively.



MicroBankingSuite

MicroBankingSuite is an integrated banking software solution built upon 20 years' experience serving retail community banking.

MicroBankingSuite is an integrated banking software solution for microfinance institutions (MFIs) and banks of all sizes active in both group and individual microfinance lending.

It provides MFIs with world class banking capabilities that usually are only accessible to larger commercial banks with significant IT budgets. MicroBankingSuite, which can be exploited in the cloud on a SaaS basis, provides a modern, agile and highly scalable core banking system, as well as a single platform for distribution across all digital and assisted channels, and powerful business analytics.

MicroBankingSuite enables MFIs to significantly reduce operating costs even when business is growing fast, and to pass on these efficiencies to their end customers in the spirit of financial inclusion. At the same time, it enables MFIs to clearly differentiate themselves with highly responsive service, tailored products and a truly customer-centric experience – giving every customer the same quality service anywhere regardless of their financial worth.

- > Cost-efficiency: Cloud deployment and SaaS model, low-cost of ownership, high STP levels;
- > Innovation: Easy product configuration and launch, powerful customer analytics;
- > Multichannel: Efficient multichannel distribution of banking services and products;
- > Flexibility: Supports various group types, individual rates, standard payment channels;
- > Scalability: Preserves transaction and query performance when growing fast;
- > Operational resilience: Nonstop 24/7 business, scalable data centres with SLAs and controls; and
- > Business security: Biometrics, customer mnemonics.



FundSuite

FundSuite is Multifonds; the award winning fund administration software providing fund accounting, portfolio accounting and investor servicing and transfer agency on a single platform.

With FundSuite, clients have the capability to manage all the asset classes and jurisdictions that they are involved with now or in the future, from a single accounting and investor servicing platform.

- > Delivers long-only control and efficiency with alternatives flexibility on one platform to support convergence between long-only and alternative funds;
- > Reduces total cost of ownership by consolidating functions and systems on one platform across multiple geographies, asset classes, jurisdictions;
- > Delivers increased efficiency through sophisticated workflow and exception management;
- > Syndicates analysis/product development across clients so that development costs are shared and all clients benefit from changes made to one code base;
- > Supports both middle office and back office and delivers the Investment Book Of Records (IBOR) and Accounting Book Of Records (ABOR) from one platform; and
- > Provides ease of data access based on an open Oracle architecture.



Strategy in action

BANQUE INTERNATIONALE À LUXEMBOURG SELECTS TEMENOS FOR MAJOR SYSTEM TRANSFORMATION

Banque Internationale à Luxembourg (BIL) moves to standardise technology infrastructure on the Temenos Banking Solution Suites.

BIL, a leading Luxembourg universal bank, has selected Temenos to provide the software solutions for a major system transformation project. The project will see Temenos software used across the bank's full operations in retail banking, private banking and corporate banking.

In a move to reinforce its position as a leading multi-business bank, the system renovation project will focus on digitalisation and client service innovation across all business lines. The project, to be delivered progressively over the next few years, will result in most of the bank's current legacy systems and platform components replaced with Temenos solutions, delivered as a combination of the Temenos Retail, Corporate and Wealth Suites, containing the integrated channels, front, middle and core banking components for the markets in which BIL operates. The new system's architecture, based on agile methodology, will allow for a more timely and fully client-oriented approach.

"We have selected Temenos as our IT platform partner for the future on the basis of their corporate strength, the breadth and depth of their solutions, and their open, flexible and scalable architecture. And also for their delivery track record and their certified implementation partners network."

Yves Baguet

Chief Operating Officer
Banque Internationale
à Luxembourg

Our solutions continued

PRODUCTS

Temenos software is the world's most comprehensive, integrated and fully upgradeable solution for the transformation of the banking and finance industry.

Our software

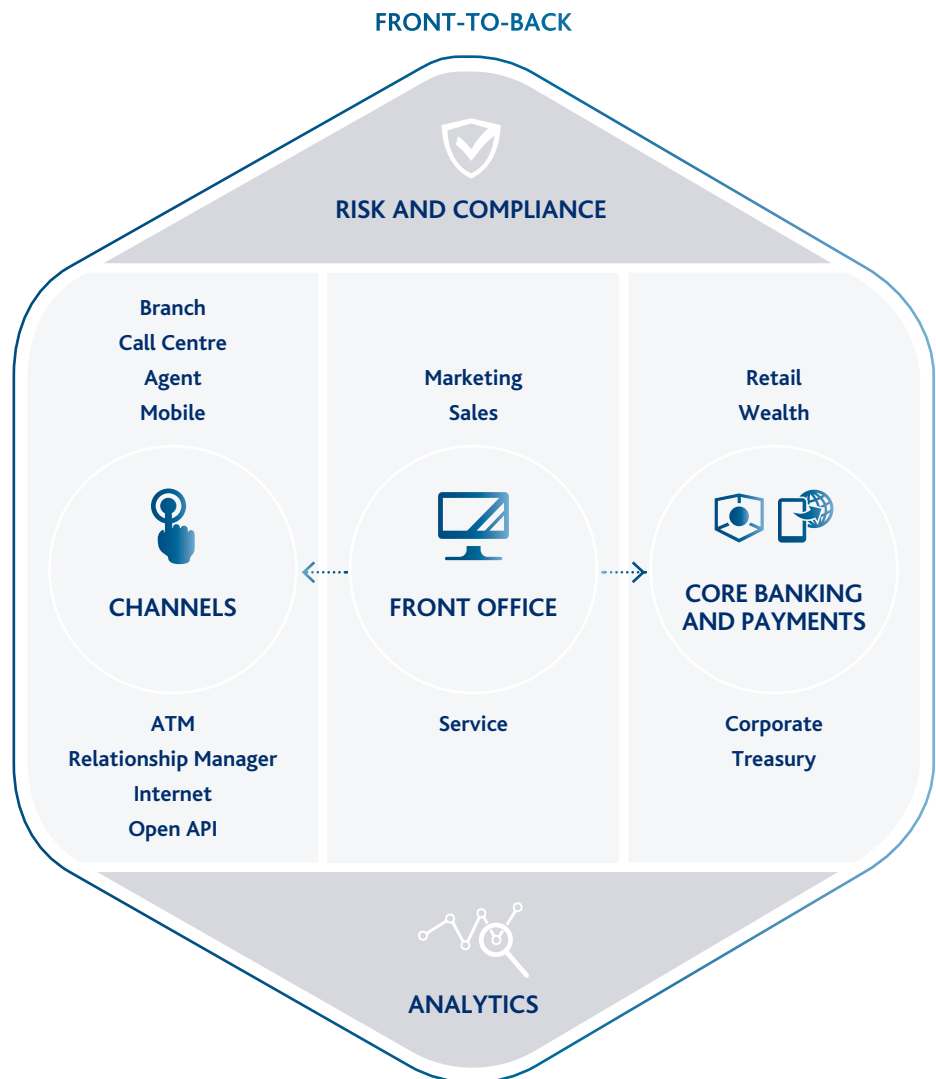
A complete and integrated software platform for banks.

Temenos builds and supports the world's leading software platform for banking. Our software covers the full range of activities of banks and similar financial institutions from front-to-back and across all types of bank and banking activity. The same software is pre-packaged into a series of Suites adapted for all the major banking business verticals including retail, wealth and corporate. Suites are also available for the more specialist areas of banking including Islamic and microfinance. In this way our industry leading levels of investment in our software benefit all our clients in all types of banks.

Our clients can take a complete solution based on our platform or alternatively implement specific modules to address specific issues or requirements. This approach lends itself well to larger banks who wish to conduct a lower risk, phased migration to our platform; an approach called progressive renovation.

We strive to ensure that all of our modules are market-leading in their own right and able to compete with 'best of breed' competitors. At the same time we invest in full integration of our modules so banks who choose to implement a full Temenos solution gain significant additional benefit.

We invest heavily in our software platform to ensure that it remains fully up to date regarding banking practice, regulation and technology. Our clients are able to benefit from this investment because of our disciplined package approach where all our software is fully upgradeable.



Analytics

We unlock the power of banks' data to become analytically driven and drive profitability and efficiency improvements throughout their entire organisation.

Temenos Analytics enables banks to harness a wealth of data and transform it into valuable business intelligence to support better decision-making across the enterprise and to enrich all interaction with their customers.

By using banking specific, high-value, analytical applications in every department from Finance, Marketing, Operations, Treasury to Risk Management, banks are able to transform their business. This gives banks a significant competitive edge in this new banking landscape and digital world.

By using Analytics, our clients are able to:

- > Empower business users with self-service access to accurate data providing a single version of the truth driving smarter decision-making faster with better business outcomes;
- > Gain deep customer insight into behaviour and buying trends to build a customer-centric approach to delivering products and services;
- > Embed intelligent analytics into core systems to enrich every customer interaction and boost customer engagement with a superior user experience;
- > Integrate real-time data and embed predictive analytics to enable real-time risk and marketing activities;
- > Provide customers with contextual, relevant product offers and advice at a time when they are most likely to buy – improving cross-selling, customer value and customer loyalty;
- > Integrate analytical capabilities directly into Core Banking and other applications, making those applications, and the users of them, smarter and more efficient; and
- > Better understand and predict performance to build strategies for improving operational efficiency and financial processes to minimise risk and drive profitable growth.

Core Banking

The Temenos Core Banking platform has been the best selling solution on the market for 15 years, used by over 600 financial institutions.

It combines rich functionality with cutting-edge technology in an easily upgradeable application. Clients benefit from real-time embedded analytics, a sophisticated product builder and technology that allows for easy integration and infinite scalability, in turn enabling them to significantly outperform their peers.

The Temenos Core Banking solution is an open, integrated and real-time platform providing:

- > Real-time, complete customer information – enabling financial institutions to offer their customers the right products at the right time;
- > Product builder – allows for extremely quick time to market for new products as well as the ability to personalise products and services to individual customers – a market of one;
- > Infinite scalability – the solution runs on any software stack and is engineered to be linearly scalable, allowing clients to generate significant economies of scale;
- > Extremely low Total Cost of Ownership (TCO) – against the industry average of 78.8% of IT budgets being spent on maintenance, Temenos clients spend 46.3%; and
- > Zero risk of obsolescence – Temenos spends c.20% of revenues annually on R&D, continually developing software based on customer requirements and innovation from our labs. We make this available to our clients through regular releases, ensuring once they've caught up, they never fall behind again.

Country Model Banks

With our extensive experience of customer implementations have packaged all country specific localisations, including compliance with regulations and local payments systems, into reusable country platforms, to provide our customers with software that fully supports local requirements.

We currently offer country model platforms for over 30 major countries.

Channels

Banks can accelerate time to market of all their products and services across all digital and assisted channels and extend their reach to customers using any device today and in the future.

Temenos' ground breaking Channels solutions enable our clients to deliver products and services for any business line, across all digital and assisted channels, for both bank staff and customers, in any language and optimised for any device. Temenos is the only provider currently in the marketplace that can deliver all of this from a single user experience platform (UXP).

Banks can support branch transformation as branches look to become more customer engagement focused with self-service kiosks and face to face financial advisors. Contact centres will be able to leverage digital technologies such as social media, video, chat and instant messenger as emerging channels for providing customer service and support. And all from a single platform.

A dynamic, rich UX responsive design is delivered providing consistency across all channels. Banks can provide choice and convenience to their customers and the optimum user experience whatever channel or device they choose to use at that time.

Temenos Channels solutions offer:

- > A single, consistent UXP reducing complexity and improving productivity;
- > Accelerating speed to market of new products and services by up to four times;
- > Using components to provide maximum business reuse and business agility;
- > An underlying UXP that can be extended across the enterprise further reducing TCO;
- > Seamless integration to Temenos Core Banking with open integration to third party systems and applications;
- > Maximum flexibility and agility to respond to market opportunities and changing conditions, by being highly customisable and configurable;
- > Being future-proofed to embrace new innovative technologies and devices thereby protecting your investment; and
- > Low TCO and reduced maintenance costs by up to 95%.

Our solutions continued

PRODUCTS CONTINUED

Financial Crime

A uniquely flexible range of intelligent, versatile solutions for banks, large and small, to combat financial crime.

The Financial Crime product family is a range of intelligent, analytical detection engines that are accurate, fast, easy to configure and simple to use. Its sophisticated approach ensures increased efficiency by saving time and lowering data-mining costs for enhanced decision-making and improved collaboration, ultimately completely mitigating against risk. Banks choose the solution they need, whether it be to combat money laundering, accurately screen against sanctions lists or ensure enhanced customer due diligence.

Our Financial Crime clients benefit from increased efficiency and profitability through:

- > Safe and accurate algorithms;
- > Complete control and clarity;
- > 25 years of experience;
- > Full automation;
- > Intelligent analysis;
- > Ready and easy integration; and
- > Stand alone or integrated into Temenos Core Banking.

With our solutions, organisations are able to reduce exposure to risk and minimise losses while complying fully with regulatory mandates.

Front Office

Front Office is an integrated, role-specific, multi-channel solution, designed to support banks' daily interactions and long term relationships with their retail, corporate, mass affluent and HNW customers.

Front Office is a key enabler of digital engagement throughout the customer's life cycle with both staff and customers benefiting from the product's multi-channel capabilities. Through the system's powerful data analytics, financial institutions can gain valuable insights into customers' lifestyles and transactional behaviours enabling them to offer a personalised customer experience through timely and relevant advice, customised offers and rewards and relationship based pricing.

Temenos' Front Office clients benefit from increased productivity and efficiency through:

- > Industrialisation of key on-boarding and revenue-generating processes;
- > High STP levels, enabling 'self-service' models via digital channels; and
- > A single integrated platform.

Front Office integrates seamlessly with both back office data and self-service channels to provide a consistent customer experience. It is completely compatible with the existing banking systems, enabling organisations to deploy and control a flexible range of multi-channel, next generation banking services for their customers – efficiently, securely, cost effectively and profitably.

Funds and Securities

Our Funds and Securities products are the award winning fund administration software from Multifonds, providing fund accounting, portfolio accounting and investor servicing and transfer agency on a single platform.

Today more than USD 5 trillion in assets for both traditional and alternative funds are processed on FundSuite in more than 30 jurisdictions for the world's leading global custodians, third-party administrators, insurance companies and asset managers.

Payments

A uniquely flexible payment solution offering full, real-time control and a harmonised customer service experience.

Our Payments product family is a uniquely flexible payment offering that not only gives banks full, real-time control but also a harmonised customer service experience and centralised for cost efficiencies and risk management. Our Payment Hub is designed to process domestic and international payments in one solution in any region as defined by analysts as 'a vision for the payment architecture'. It was designed in collaboration with a leading international bank to meet a gap in the market and with its rule and data driven approach, allows instant changes. Our auto-repair solution allows banks to reach STP rates of 97% and higher.

Our Payments clients benefit from increased efficiency and profitability through:

- > A complete, single solution;
- > Transparent, 360° view of transactions;
- > Unique weight based processing supporting payment prioritisation;
- > Agile, parameter driven platform flexibility;
- > Full operational and technical control;
- > Conditional rules; avoiding the complexity of multiple connections and high risk programming; and
- > Stand alone or fully imbedded within Temenos Core Banking.

Risk and Compliance

Enabling financial institutions to navigate the complex regulatory landscape in order to remain focused on serving customers, creating innovative products and improving profitability.

The Risk and Compliance product family offers software and services for:

- > Compliance advice;
- > Audits;
- > Social media monitoring;;
- > Vendor management;
- > IFRS 9;
- > CRS;
- > Enterprise risk management; and
- > FATCA compliance.

With our solutions, organisations are able to reduce exposure to risk and minimise losses while complying fully with regulatory mandates. In this challenging environment, there is tremendous pressure to maintain and grow profit margins despite challenges associated with new consumer demands, non-traditional competitors, and heavy regulatory burdens. Proper compliance practices, supplemented by products and services from Temenos, can help financial institutions avoid penalties, fines, and reputational risk, ultimately ensuring profitability and success.

Solutions for the US market

In addition to our main software, Temenos also provides a number of complementary products especially suitable for the US market.

Lifecycle Management Suite

The Lifecycle Management Suite allows financial institutions to manage every phase of the account lifecycle with the most advanced, browser-based relationship management platform available in North America. It offers six primary solutions addressing new account origination, loan origination, service, collection, recovery and profitability. The Suite provides common services such as dashboards, views, reports, workflows, business rules and security that are packaged with business specific functionality to create solutions.

Compliance Advisory Services

Compliance Services is our market-leading compliance solution for the US market, used by over 6,000 individuals at more than 1,300 financial institutions to keep them abreast of a fast changing regulatory environment. The solution has multiple components, such as a compliance knowledgebase listing all regulations and answering questions about the same. In addition, users receive a weekly newsletter and a periodic journals, both with contributors from the leading practitioners in the field.

Social Media Compliance

Social Media Compliance is a solution enabling financial institutions to monitor and log what is being said about them on social media channels, such as Facebook and YouTube. Moreover, it also gives the functionality for institutions to contribute and engage in these discussions in a way that is controlled and compliant with internal policies.

Vendor Management

Vendor Management is a central data repository for all vendor information and the business processes associated with them. This cloud-based system allows you to manage vendors throughout the lifecycle of the relationship to help reduce costs, improve contract terms, increase value and further reduce risk.



Our solutions continued

TECHNOLOGY

Technology is strategy. We say this because our Technology products and frameworks make banks more agile, competitive and profitable, and help them thrive in complex, margin-pressured environments.

These products also boost the scalability and resilience of the banking platform, enabling banks to perform well in the midst of complex, risky and low-margin environments.

- > Is your bank aiming to achieve digital banking excellence, real-time multi-channel banking, and real-time reporting and business analytics?
- > Is your bank aiming to exploit innovative third-party user-interfaces and apps, big data, and cloud-based resources?
- > Are you worried about the costs of growing your banking platform fast, frequently adapting functionality, and supporting dispersed business entities?
- > Are you concerned by the threat of disruptive competition, disintermediation and commoditisation posed by fintech entrants and large tech-native players, like Google and Amazon?
- > Do you want to extract maximum value from your Temenos software Suites and Products?
- > If you have answered yes to any of these questions, then our Technology products and frameworks are for you.

Our Technology products and frameworks are organised into five offerings, reflecting five areas in which banks face major business challenges.



Data

Turn the lead weight of data into a golden opportunity: manage it, unlock it and extract value from it.

Temenos' Data products provide banks with a unified data platform that helps them deal with the massive data volumes of the digital banking era by efficiently managing their data, unlocking and better accessing their data, and extracting value from their data.

Temenos' Data framework lets changes made by any Temenos product to be available in near-real-time to any configured reporting database. This data federation enables multi-tenant and multi-region operation without loss of real-time query.

This technology enables banks to strengthen their customer-centricity and support business decisions even when the volume of business data is growing fast. The key business benefits of our Data products and framework are:

- > Scalability: the ability to efficiently process massive volumes of both transactions and reporting queries without increasing costs, thereby preserving the quality of the customer and business user experience as the business grows;
- > Productivity: the ability to support advanced reporting capabilities that provide business decision-makers with value-adding perspectives, and to provide customers with fast responses to online queries; and
- > Competitiveness: the ability to exploit business analytics solutions to their fullest capabilities, enabling banks to action valuable insights and offer highly tailored and proactive products and services to customers.



Design

Adapt banking system functionality and business processes better, faster and more frequently.

Temenos' Design offering boosts banks' responsiveness to changes in business requirements while reducing cost-per-change, by enabling banks to adapt the functionality of their Temenos business systems and to adapt their business processes in a productive, cost-efficient and low-risk manner.

This technology enables banks to easily make high quality adaptations to systems' functionality to stay abreast with evolving business requirements and customer journeys. The key business benefits of our Design products are:

- > Responsiveness/Productivity: the ability to respond to evolving business requirements by adapting functionality and processes much faster and much more frequently, possibly multiple times a week or even per day, without increasing costs;
- > Quality: the ability to build and run a highly industrialised and institutionalised change-the-bank process which encourages high quality development work and eliminates the risk of faulty changes affecting business operations; and
- > Cost-efficiency: reduce dependence on vendor-specialised experts, legacy in-house tools and complex coding cycles, and maximise the level of automation of the change-the-bank process.



Integration

Be more agile and competitive with real-time event based integration.

Temenos' Integration offering makes banks more agile by enabling them to integrate systems much faster and more cost-efficiently, and more competitive by enabling real-time, highly scalable, self-assisted and multi-channel banking 24/7.

Temenos' Integration framework is the basis for Temenos support for PSD2 based on ISO 20022 messages being exchanged between banks and third party payment providers in near-real-time.

This technology enables banks to offer a superior customer experience, one that is much more timely as well as more easily attuned to evolving customer needs, even when business is growing fast. The key business benefits of our Integration products are:

- > **Agility:** the ability to integrate any business system up to 3x faster, without detailed vendor-specific coding work, enabling banks to respond much faster to evolving business needs;
- > **Competitiveness:** the ability to provide multi-channel banking services in near-real-time 24/7, enabling banks to be competitive in the era of real-time digital business;
- > **Profitability:** the ability to sustainably reduce the costs of performing and maintaining integration, and the ability to exploit cloud-based applications;
- > **Scalability:** the ability to preserve the performance of integrated business services and straight through processing as business volumes grow; and
- > **Reliability:** reduce the risk of batch processing glitches and provide protection against regulatory scrutiny and reputational damage.



Interaction

Opening banking platforms to accelerate the pace of innovation around services.

Temenos' Interaction offering accelerates the pace of innovation around banks' services by enabling them to easily expose their services to innovation partners and to any User-Interface (UI). It also lets the bank create innovative combined services and efficiently manage UIs across multiple channels/devices/roles/languages.

Temenos' Interaction framework is the basis for Temenos support for APIs whether for banking mobile agents or for open banking. The framework enables the API to be mapped to the underlying enterprise services whether provided by Temenos, the bank, or third parties.

This technology enables our clients to easily build and maintain an outstanding digital customer experience that can evolve fast and cost-efficiently. The key business benefits of our Interaction products are:

- > **Innovation:** the ability to make banking services readily available in a standard way to innovation partners and to any third-party UI of their choosing, which will accelerate the pace of innovation around services;
- > **Competitiveness:** the ability to efficiently distribute innovate services, including combined (banking and/or non-banking) services, via outstanding UIs and via multiple channels/devices;
- > **Flexibility:** make it much easier to evolve UIs at a faster pace than underlying business systems without incurring substantial costs (from 'ripping out' and 'rewiring'); and
- > **Cost-efficiency:** reduce dependence on vendor-specialised experts and on lengthy coding cycles to make banks services readily available and to build their own UIs; enhance the re-usability of APIs and UIs that they create, and pre-empt data openness regulatory requirements.



Platform

Reduce the cost of growth and complexity with a highly scalable, efficient and flexible platform.

Temenos' Platform offering helps banks run and scale their business systems much more efficiently and to minimise TCO. It does this by letting banks run their core banking system in an application server and, when required, in a multi-tenant or cloud-based set-up. In all cases, business functionality is totally preserved.

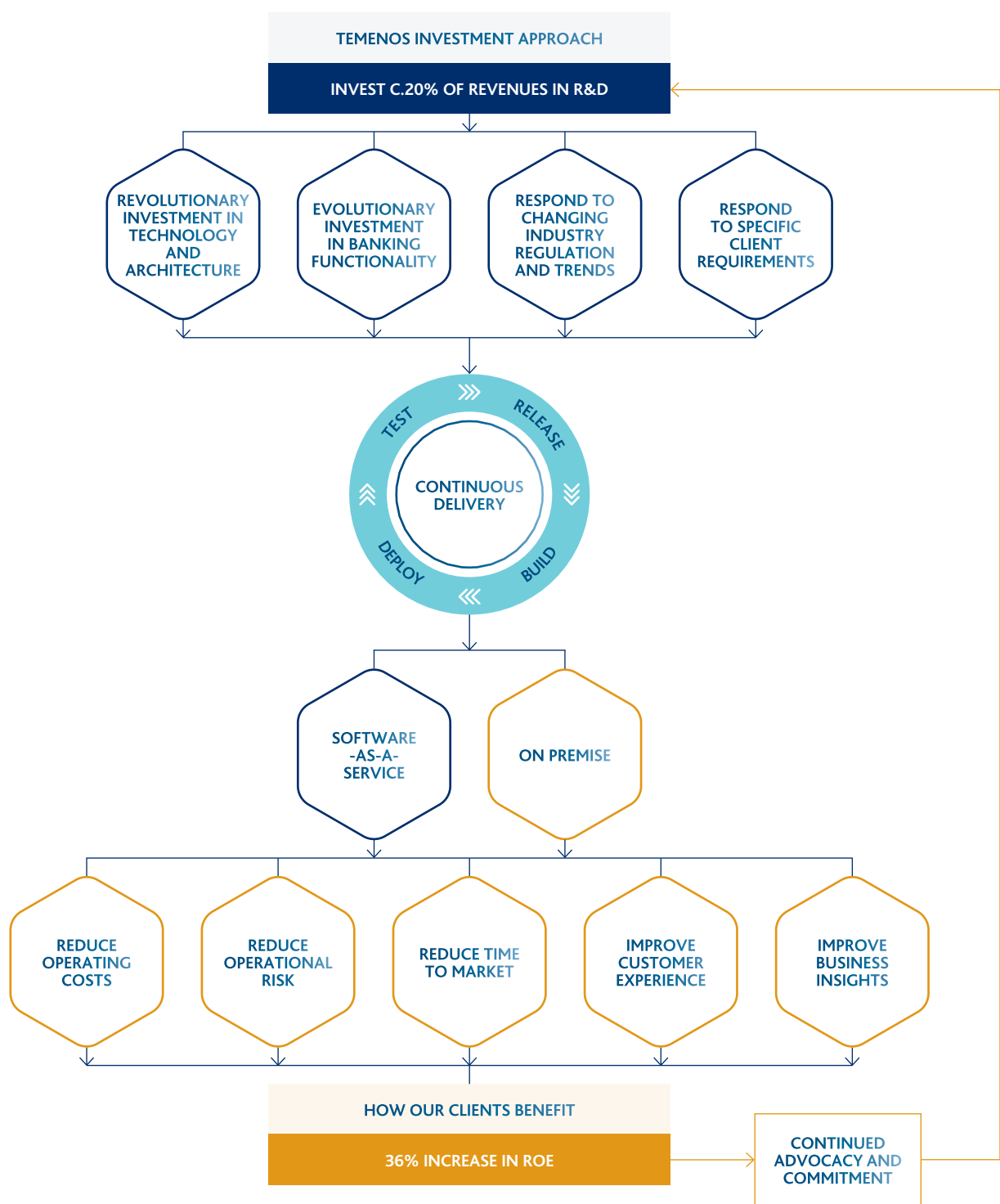
This technology enables banks to deliver outstanding service to their customers and business users. The key business benefits of our Platform products and framework are:

- > **Scalability:** enables banks to preserve the performance of their core banking system at all stages of growth, while keeping operating expenses in check, by fully exploiting application server technology and the possibility of using a virtually unlimited number of app server instances arranged to work together (clustering); and the ability to undertake comprehensive reviews of their system's health without impacting performance;
- > **Cost-efficiency:** the ability to significantly reduce infrastructure and administrative costs of running and growing a complex organisation by letting multiple entities ('tenants') share a same instance of the core banking system on a single set of platform resources; and the ability to automate multi-tenancy management to a large extent; and
- > **Flexibility:** at an operational level, the ability to choose which operating system and application server a bank wishes to use to run their banking systems; and, at a strategic level, the ability to easily create and manage new tenants in the system, increasing business agility.

Research and Development

THE VIRTUOUS CYCLE OF TEMENOS SOFTWARE INVESTMENT

The Temenos software investment approach is a virtuous cycle whereby Temenos' customers influence Temenos investment and thereby benefit from the improved product that contributes to their success. In turn, they advocate for our solutions enabling us to attract new clients, and invest further in the product, that is shared by all our clients.



Revolutionary investment in technology and architecture

In order to keep pace with the rapid rate of change in information technology, Temenos has always invested extensively to ensure that its software takes advantage of the latest innovations. Mobile and cloud are examples of revolutionary technologies that Temenos has already embraced; Blockchain is an example of an emerging technology that is in the early stages of incorporation. The updated software on the latest technology is offered to clients seamlessly through simple, regular upgrades.

Evolutionary investment in banking functionality

Banking functionality changes more slowly than information technology, building upon a solid foundation of banking products, industry practice and regulation. Temenos' investment in functionality over the past 24 years reflects this. An example of a significant recent addition is the advanced product builder with embedded profitability analytics. We enable our existing clients to add new functionality to what they use already through regular upgrades, whilst releasing the latest software for new clients monthly.

Respond to changing industry regulation and trends

Banking, being a highly regulated industry, is subject to continually changing requirements by regulatory agencies. At Temenos, we actively follow changes in banking regulation, in order to build them into the software, making it available to our clients through regular upgrades, so our clients don't have to. We also anticipate other significant industry trends such as digital and open banking, and incorporate them proactively in our solutions.

Respond to specific client requirements

As we enter new markets or work with some new clients, our software may require enhancement. We invest to fill these 'gaps' and conduct a rigorous triage process to ensure that if applicable, the resulting software is made available to the rest of our client community by becoming an integral part of the basic product. Our wide geographic reach across all banking segments means that enhancements developed for a specific client are often relevant in other markets at a later stage.

Continuous delivery

Temenos builds, deploys and tests software every day. It release upgrades to clients every month, with one annual maintenance release (AMR) each year. All releases are cumulative so clients can upgrade when they want. Upgrades to Temenos software can be made with minimal disruption to a bank's staff or customers.

Reduced operating costs

Banks spend on average 14.3% of operating costs on IT. Moreover, less than 30% of this is on growth and innovation; the rest is on business as usual. Temenos clients, in contrast, spend only 5.7% of total costs on IT of which 53.7% is on innovation. This is possible because of the pre-built end-to-end integration, automation and straight through processing offered by the software.

Improved customer service

Customers expect banks to provide the same level of seamless, personalised service today that they receive from leading online players like Amazon or Uber. Traditionally, banks' ability to provide such service has been hampered by legacy issues. Temenos provides a modern front-to-back integrated solution enabling digital, straight-through customer journeys. A single rules engine driven by advanced analytics, enables the bank to proactively tailor the experience to a customer's individual needs based on a single 360° lifetime view of the customer.

Reduced operational risk

Legacy-based IT landscapes are inherently risky – multiple interfaces introduce multiple points of processing and IT failures. As a result, banks can face outages in mission critical operations and associated reputational damage, as well as technological obsolescence and skill shortages. The end-to-end integration offered by the Temenos' software, with configurable and sophisticated workflow, access control and security features, allow our clients to benefit from the lowest levels of IT operational risk, and to future-proof their IT architecture.

Reduced time to market

Today, digitisation and the rise of agile new competitors, are driving banks to respond ever more quickly to customers' individual needs. Temenos software enables banks to respond quickly, flexibly and securely to these business needs as it is highly parameter-driven, and delivered with pre-configured, re-usable content, as well as user-friendly configuration, design and testing tools.

Improved business insights

A modern, digital bank requires sophisticated analytics to understand customer needs, service regulators and make optimal business decisions in a timely and efficient manner. The Temenos analytics product is tightly embedded with the front-to-back solution stack, providing real-time, predictive and integrated analytics based on a single version of the truth, sourced from both, transactional data from the core engines and contextual data from the front office channels.



Research and Development continued

R&DEEP

R&D at more than twice the level of our competitors plus deep domain knowledge means software that never becomes legacy.

OUTSPENDING OUR PEERS ON R&D

Temenos consistently spends c.20% of its revenues on R&D. To put this in perspective, this is more than twice the level of our closest competitors. And because we only make software for banking and finance, all of this money goes into our concentrated product portfolio. As a result, we are able to leverage all of the work we do together with our 2,000+ clients as well as all of the innovation from our labs.

CHANNELLED INTO REGULAR RELEASES

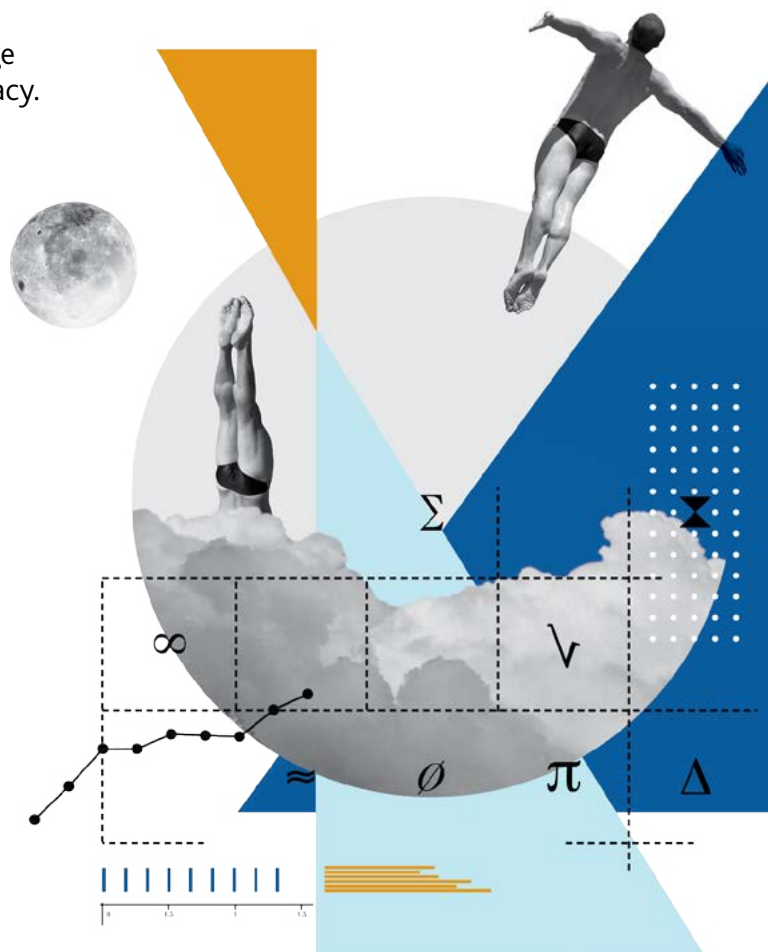
Our software is packaged and easily upgradeable. The software that we are continuously building is made available to our customers as part of regular releases. What is more, we offer partial upgrades. Our customers can upgrade whatever part of their solutions they want, whenever they want. And so they never fall behind and they never risk running legacy software.

STICKING TO CORE PRINCIPLES

Temenos sticks to core principles around its R&D. We keep to principles of re-use, openness and technology agnosticism. This means that all developments are made available to all customers. It means giving our customers choice over what technology they run and never locking them into a particular stack. And it means allowing third-parties to develop on our platform to accelerate innovation and ensure our customers always have access to the best technology and functionality.

A PROUD RECORD OF INNOVATION

Our philosophy could be summed up as constant functional enhancements coupled with constantly evolving technology. We are proud for example that we were the first fintech vendor to run on open systems, to have a true 24x7 platform (with no batch), the first to put core processing into the public cloud and the first to have all services as RESTful.



OPENING UP

Past success is no guarantor of future success, nor can any company ever hope to have a monopoly over great ideas. With this in mind, the Company has taken a number of actions to ensure that it is as open as possible to new ideas, from wherever these come. Examples of initiatives taken include setting up an internal ideas portal, active involvement in customer innovation committees, and sponsoring the Fusion accelerator.

However, the most significant initiative has been to create an Open Banking Marketplace (see page 21). Realising very early the scope – and need – for fintech companies and banks to collaborate, Temenos created an online platform to facilitate the exchange of value between these two communities which evolved into a platform for open banking.

SOLUTIONS FOR A CONNECTED WORLD

One of our most recent innovations has been to reorganise all of our products into integrated solutions for the different vertical markets we serve. Called Suites, these solutions provide our clients with open, real-time, end to end solutions. They allow for maximum operational efficiency with maximum front office differentiation. They enable financial institutions to offer the instant fulfilment that customers expect in a digital world. They also enable rich, seamless customer experiences where the right services, personalised to individuals, are offered at the right time and through the right channel.

AN ECOSYSTEM FOR GROWTH

The pace of innovation is accelerating. This places a need on all companies to attract and retain the best tech talent. It also means tech companies need to speed up innovation cycles by, for example, using agile development methodologies. But, most of all, companies need to accept that they can't do everything themselves. This is true for Temenos. It is true for banks. It is true for fintechs.

Recognising the broad need for collaboration across financial services was why we created the Temenos MarketPlace.

OPEN BANKING

It makes strong strategic sense for banks and fintechs to collaborate and, increasingly, they recognise the need to do so.

On the one hand, banks have trust, capital and large customer bases but struggle to innovate as fast as technology allows and customers expect. On the other hand, thousands of fintech companies are innovating but struggle to get their innovations to market. This creates the opportunity for partnership and more companies are seizing on it. In a 2016 survey carried out by Temenos and Capgemini, a clear majority of banks (69%) now see open banking – the use of Application Programming Interfaces (APIs) to allow for collaboration – as more of an opportunity than a threat.

The regulatory agenda is also pushing open banking. Even if financial firms weren't themselves seeing the business potential of open banking, regulation would likely be forcing them in that direction. Europe, in particular, is intent on accelerating the move to open banking. The EU's Payment Services Directive 2 (PSD2) regulation includes an Access to Accounts (XS2A) provision that will require banks, when requested by customers, to provide third parties – via APIs – with access to customers' data. This opens a path for non-bank aggregators and a whole host of fintechs to be able to sell services without providing a current account service. It will force banks to collaborate, whether or not they choose to.



AN OPEN BANKING MARKETPLACE

Temenos was early to see how this world of open banking could emerge. Back in 2015, it first opened its MarketPlace as a means for banks and fintech companies to work together.

In its initial phase, the Temenos MarketPlace was an online portal that allowed Temenos customers to investigate which fintech solutions were pre-integrated with Temenos software. Since then, the Temenos MarketPlace has become much more – a platform for open banking.

The Temenos MarketPlace is an online platform to facilitate the exchange of value between banks and fintech companies. Temenos carefully curates the most cutting-edge innovation (see 'Finding the best fintech' on page 22) and provides an easy and highly secure cloud-based platform for banks to be able to search, test and procure these services. For fintech companies, Temenos provides a library of APIs, providing the data, infrastructure and business events on which fintechs can build or integrate their services.

"We see the Temenos MarketPlace as a compelling opportunity to accelerate our fintech onboarding."

Dave Tighe

Head of Innovation
Bank of Ireland

As such, the exchange between banks and fintech companies is made easy – opening up innovation and a broader range of services to banks and opening up a route to customers for the fintech companies.

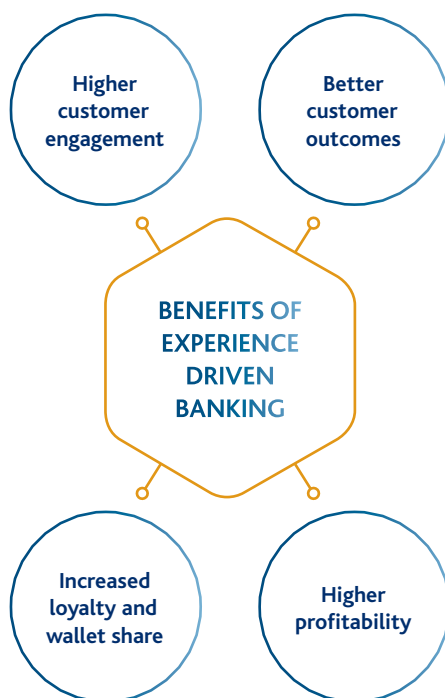
A FAST-GROWING PLATFORM

Today, there are nearly 100 fintech products, from more than 30 providers, available to banks through MarketPlace with one new provider being onboarded roughly every four weeks. The products address a broad range of banks' technical and functional needs such as internal fraud, market data, payments, security, risk, PFM, automated investments and testing. In 2017, we expect more than USD 10 million of fintech software to be transacted through the Temenos MarketPlace.

Research and Development continued

FINDING THE BEST FINTECH

According to some estimates, there are as many as 25,000 fintech companies in operation today.

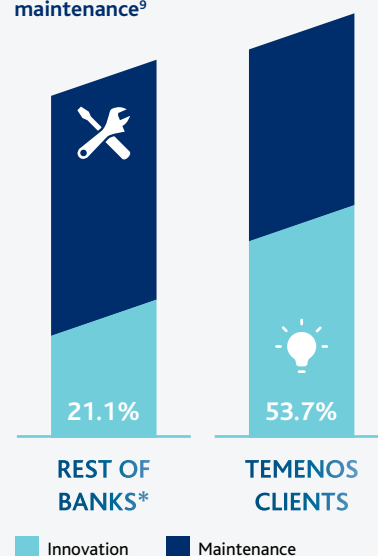


As in everything in life, we could use a bell-curve to classify these companies, with only a minority being truly outstanding. The job of the MarketPlace team is to find those truly outstanding fintech companies that can add significant incremental value to our banking clients. The Innovation Jams provide an important means for us to be able to be to uncover the best fintech.

The Innovation Jam was started in 2015. That year, we held a competition at the Temenos Community Forum (TCF) – voted for by the attendees – to find the most innovative new product from our complementary solution providers. It proved to be such a success that, the following year, we decided to turn it into a global competition.

In 2016, we had regional competitions in four cities – London, Singapore, Dubai, Miami – the winners of which were invited to take part in the grand finale at TCF in Barcelona. The format for the grand finale was the same as for the regional competitions: seven minute live demos and the TCF audience voted using the conference app while the livestream viewers voted online. There were ten finalists – Bridg, Bibitel, FacePhi, DocuVital, MeetInvest, Qumram, Moneythor, Mesitis, Kerv and EbankIT – but only one winner: Kerv, a London-based fintech company with a ring for contactless payments.

Our clients can focus on growth and innovation, leaving Temenos to take care of routine and commodity maintenance⁹



* Adjusted to remove Temenos customers.

For 2017, we are going further still by hosting five heats – in London, Geneva, Singapore, Miami and Abu Dhabi. The winners will compete once again for the crown of global Innovation Jam champion at TCF in Lisbon.

In 2016 Temenos held a series of regional Innovation Jams in Miami, Singapore, London and Dubai.



"Taking part in the Innovation Jam gave Qumram great exposure which, together with now being listed in the MarketPlace, has helped us to generate new business."

Mathias Wegmüller
Founder of Qumram

461
attendees

+300
entries

58
fintech companies
competed

10
finalists

"The Miami Innovation Jam was an incredible experience. From meeting other innovative fintech companies to talking with banking executives I made many connections which have helped propel my company forward."

Joel A. Brown
DocuVital

Delivering success

PARTNERING FOR SUCCESS

The continued development and growth of the Partner ecosystem underpins our record of successful deliveries.

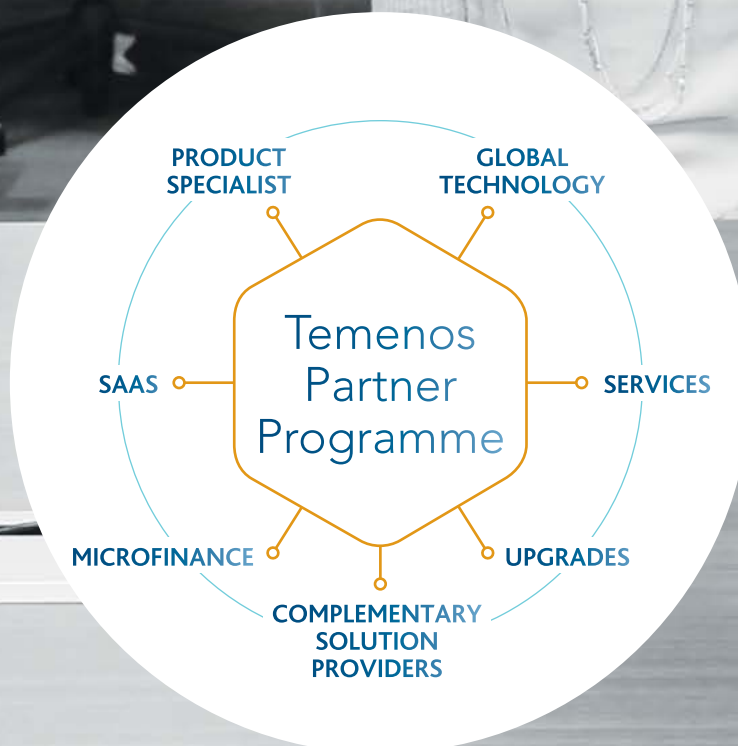
Partners are at the heart of the Temenos ecosystem and form a critical part of the Temenos strategy, supporting both our go to market sales execution and complementing our delivery capability. Our Partner Vision remains "To be the Partner of Choice for leading quality product, technology and service suppliers in the Banking sector to enable Temenos to deliver the optimum solutions to its clients."

Supporting this vision our two key Partner objectives are "To increase Temenos sales through deals brought to Temenos by Partners or by deals which are closed due to the influence that Partners can bring" and "To increase the number of quality projects delivered due to increased trained and certified delivery capacity in the market created through a network of Partners."

Year-on-year licence revenues with Partner involvement grew substantially in 2016. Our Strategic Partners were involved in many of the key wins during 2016 and Partner influenced deals were closed in all of our regions. We started 2017 with a very strong pipeline of opportunities brought and/or influenced by our Partners that we will be working closely together on in the coming year.

Our Partners have grown both their capacity and capability to meet the increased demand and now offer a total resource pool of over 2,400 Temenos skilled Consultants and Project Managers. The training that Temenos provides has enabled the Partners to increase their knowledge to be able to lead projects covering the full portfolio of Temenos Suites, Products and Technology supported by the mandatory Partner Led Project Governance provided by Temenos Expert consultants and experienced Project Managers.

The continued development and growth of the Partner ecosystem underpins our record of successful deliveries which saw another increase in the total number of go-lives which has risen to 178 in 2016.



Strategy in action

STERLING BANK, NIGERIA, COMPLETES TEMENOS IT TRANSFORMATION PROJECT



Sterling Bank simultaneously rolled out Temenos Core Banking Solution across 185 branches.

Sterling Bank successfully went live with Temenos UniversalSuite. Sterling Bank, 'the one-customer bank' is a full-service commercial bank, which has been serving Nigerian customers for over 50 years. Its asset base exceeds N 890 billion (USD 2.8 billion).

The Nigerian bank offers both Retail and Corporate Banking services to more than 1.4 million customers. The bank's move to replace its existing legacy systems with Temenos core banking solution will support ambitious growth plans, including reaching customers in new geographical locations and improve its ability to bring new products to market.

The bank went live across all its 185 branches simultaneously, allowing the whole business to benefit from the new technology in the quickest time frame.

"Technology has become the backbone of the global banking system today and as an institution, we are committed to continuously making the necessary investments to ensure we deliver the one-customer experience to all our customers. Our choice of Temenos is founded on their impressive track record and reliable service delivery; a trait synonymous with the core values we hold dear."

Yemi Adeola

Chief Executive Officer
Sterling Bank

Delivering success continued

SEAMLESS IMPLEMENTATION

In 2016, Temenos and its network of Service Delivery Partners took more clients live than ever before; 178 banks went live with Temenos software last year.

Temenos focuses upon the training of staff and Partners responsible for implementation of software to ensure a strong mix of qualified Project Managers and extensive product expertise. Temenos ensures skills are of a very high standard through a rigorous programme of formally certifying both staff and Partners in the Temenos Implementation Methodology, and Temenos product Suites.

The Temenos Implementation Methodology (TIM) describes the full end-to-end project delivery cycle of Temenos Suites and has been developed over a number of years using best practice from hundreds of implementation projects. The Temenos Implementation Methodology has continued to be improved in 2016 in line with our product strategy.

The Temenos delivery ecosystem comprising our own consultants and our Partner resources now have a higher level of certification than ever before. In 2016 implementation teams continued to certify on new product technologies to effectively manage multi-product deployments using a suite of management tools that are under constant review to improve the monitoring and tracking of projects. Project governance boards are held monthly to oversee the delivery of the implementation against milestones and we have enhanced our Partner project governance to ensure we continue to deliver quality to our customers.

"2016 saw even greater delivery success than before.

Temenos and its Partners took 178 banks live with Temenos software, and along with this increase in out-right go-lives we've also seen an improved measure of customer satisfaction from our annual customer survey.

The increase in the number of certified consultants in the Temenos ecosystem, along with our continually improving record of success delivering support to clients in Expert and Productised Services, means that we enter 2017 with great confidence that we can continue to deliver extensive value to our existing and implementing client base."

Mike Davis
Client Director



TEMENOS EXPERT SERVICES

Rapid growth in our expert consultancy capability gives customers access to wider benefits, more quickly, from our products and solutions. We help them improve their use of products they have already bought, and highlight those which can add additional value to their organisations rapidly and reliably.

Over the last year we have more than doubled the number of expert consultants offering advice and guidance to our live and implementing customers on optimising their use of our products. This is a touchstone of our overall Services strategy, complementing the growing strength of our Partners to lead more and more implementation projects. This growing revenue stream gives a high margin return to the business whilst also facilitating the sale of new software modules in areas such as Technology and Compliance.

EXPERT SERVICES

Our flagship consultancy role is the Client Architect – a practitioner with deep and broad knowledge of our products, first-class consultancy skills, and an influential network with our Product organisation and across the Temenos ecosystem. Typically a Client Architect works on a part-time basis with several customers, helping them get the most from their current Temenos solution and constructing architectural roadmaps to unlock further benefits available from our products and technology. Knowledge, ideas and best practice are spread across our client base in this way.

In 2016, with the increasing importance of multi-product solutions to our business and our customers we initiated a Solution Architecture practice. We have recruited experienced Banking Solution Architects who engage with our customers' IT and Enterprise Architecture teams to help embed our solutions in the overall IT architecture. Clear definition of end-to-end banking transactions across our solutions (and beyond) provides a firm foundation of any implementation project. Such engagements start in the presales stage with our key prospects, with the Solution Architect providing an enduring presence through the implementation lifecycle to ensure the solution bought by the customer is kept in focus and delivered successfully.

Our expert architects play an increasingly prominent advisory role in the governance of Partner-led projects, where we have developed a standard global approach applicable to all Service Partners. We participate in Design Authority, Steering Group and similar forums with a persistent part-time presence throughout the project. Formal project reviews are conducted in month one, and then quarterly, to highlight risks, recommend improvements and help ensure a successful and timely outcome for both the Partner and the end client.

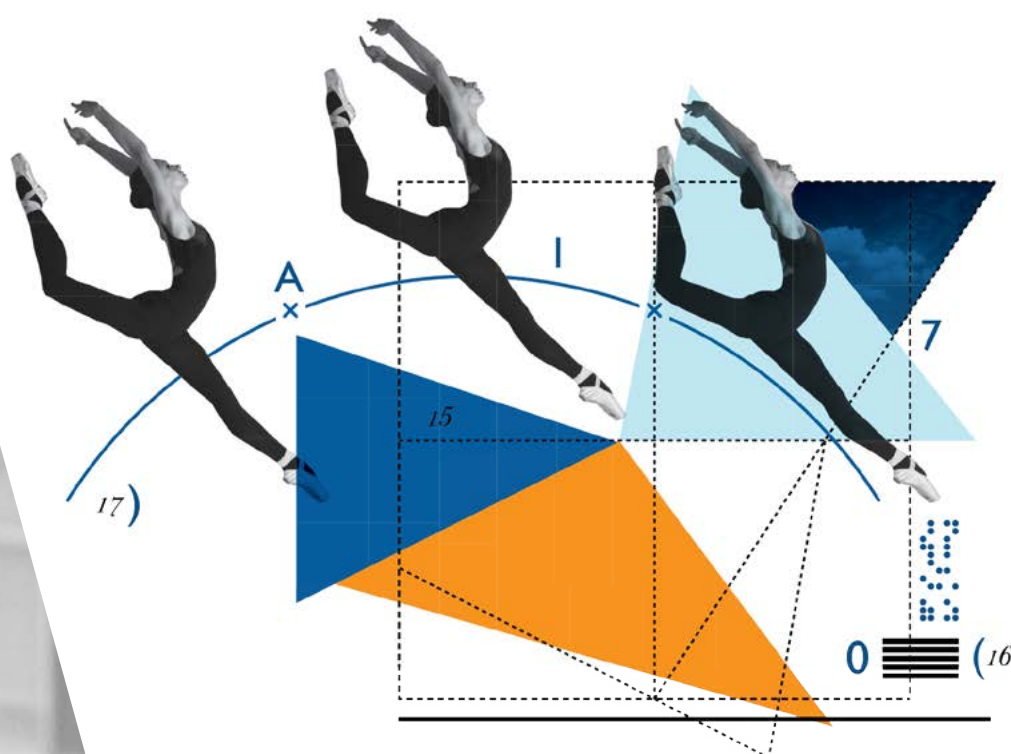
PRODUCTISED SERVICES

Our portfolio of short, high-impact consultancy packages has continued to grow in 2016. Foremost in terms of popularity has been the Upgrade Assessment. This service is designed to give the customer a full understanding of the business and technical benefits of an upgrade, in the context of their own business and IT strategies and aligned with Temenos product direction. We have launched a complementary 'Back to Core' assessment service, also relevant to many upgrading customers, to help clarify a strategy to make maximum use of core product capability and retire redundant customisations which may present technical or operational risks.

We have brought new Productised Services to market in areas such as our User Experience Platform, Front Office and Compliance (FATCA, CRS and IFRS 9). We continue to grow our delivery capacity in popular services such as Database Migration and adoption of our new Core Banking technology; for example Integration Framework and Data Lifecycle Management.



PERFORMANCE



Business review

ANOTHER OUTSTANDING YEAR

**David Arnott**

Chief Executive Officer

“2016 has been another outstanding year for Temenos, after a landmark 2015. We have excelled across all aspects of the business and have demonstrated that we are the vendor of choice for the world’s largest banks. Our business model of packaged, upgradeable software is resonating with our clients and driving our market share gains across client tiers, segments and geographies.”

INTRODUCTION

After an exceptional 2015, we were able to build on our success throughout 2016 and deliver an outstanding performance across all lines of business. We continue to benefit from sustained underlying market growth. With banks facing intense digital, cost and regulatory pressure, an increasing number are realising the need to renovate their IT systems and are acting on this.

In this context, we have continued to take significant market share across client tiers, segments and geographies. We won every large deal in our market in 2016, cementing our position as the market-leading vendor of front-to-back solutions for banks operating in the Retail, Corporate and Wealth segments.

We remain focused on our investment in R&D and innovation, which is particularly important for our Tier 1 and 2 clients who want to ensure they are partnering with a vendor with a strong vision of the future of banking. We invested substantially more than 20% of our revenues in R&D in the course of 2016, an amount significantly greater than any of our competition. In particular, we focused on investing in our digital offering and technology platform. Our market-leading levels of R&D investment enable us to continue taking market share in a growing market.

The quantity and quality of deals in our pipeline has grown throughout the course of 2016. We have set out new financial targets for 2017 and the medium term which demonstrate the confidence we have in our ability to continue delivering substantial growth and returns to our shareholders.

2016 IN REVIEW**Sales – growth across all geographies**

We have had another year of outstanding sales performance, which resulted in growth across all our geographies. Asia and Europe were particularly strong in 2016, driven both by the signing of the largest deals in the market as well as a high volume of deals across tiers and segments. Similarly we saw good growth in the Americas. The Middle East and Africa saw lower levels of growth, given the geopolitical instability in these regions, but still signed a good volume of deals and had healthy pipeline generation.

2016 was the year in which we reinforced our position as the vendor of choice for the world’s largest banks. We won all the largest deals in our market, with our business model of a single, packaged product giving us a significant advantage in the Retail and Wealth segments in particular.

In July 2016 we announced the signing of a deal with Standard Chartered Bank for deployment of Temenos WealthSuite across their wealth management operations in more than 30 countries. Standard Chartered Bank is working with Temenos to enable it to save significant hardware and maintenance costs, introduce much higher levels of automation and extract economies of scale as it grows. The system upgrade allows for significantly improved customer service through faster fulfilment, better reporting and more personalisation given enhanced analytics and portfolio management capabilities.

We subsequently announced the signing of a deal with Bank of Ireland in October 2016, who selected Temenos UniversalSuite, our front-to-back solution for retail, commercial and corporate banking, to be implemented as their new core banking and channels platform. Their progressive renovation will enable them to deliver greater customer-centricity at scale and capitalise on open banking initiatives. Bank of Ireland also intends to use UniversalSuite’s real-time analytics and integrated digital channels to deliver highly personalised and interactive customer experiences.

We reached two significant milestones in the US, with the go-live of a top 20 US bank, and the signing of Commerce Bank, the 38th largest bank in the US, for the replacement of their core banking system. These events have given us credibility in the market. We have continued to grow our US pipeline and are excited about our prospects in this market.

In total, Tier 1 and 2 clients contributed 52% of total software licensing in 2016. As we sign an increasing number of these clients who are embarking on progressive renovation and as we continue to grow our recurring revenue base, we benefit from increased revenue visibility in 2017 and the medium term.

Progress on strategic initiatives

We reiterated our six strategic initiatives at our Capital Markets Day at the start of 2016, and I am pleased to report that we made excellent progress on all of them in the course of the year.

We have clearly extended our lead in core banking by signing the two largest deals in the market in 2016, Bank of Ireland and Laurentian Bank of Canada. Our offering of front-to-back vertically integrated Suites is resonating with our clients, who see significant benefit in working with one single vendor across their IT real estate. Banks understand the importance of seamless integration, both within the software stack and with the bank's existing systems.

We were able to retain our leadership position in Wealth with a win rate of nearly 100%. The deal we signed with Standard Chartered Bank was the largest deal globally in the Wealth segment in 2016. We also signed multiple other deals in the space, including Bank of Montreal Asia Pacific and Banque Internationale de Luxembourg.

We continued to build our presence in the US, making key hires across both sales and operations. The go-live of a top 20 US bank, on Temenos Payments Suite, was a crucial milestone and proof point for other prospects in our pipeline. We subsequently won the core banking replacement for Commerce Bank, the 38th largest bank in the US, against the incumbent vendors in the region. 2016 was a year in which we gained credibility and made significant progress in our US strategy.

We invested heavily in our front-to-back digital offering in 2016, to address the digital pressures that our clients are facing. Digital for Temenos is not simply state-of-the-art channels, but runs throughout the entire stack, with straight through processing, real-time updating of the core and embedded analytics all critical elements of a comprehensive digital offering.

Our SaaS and cloud offering also saw good client traction, with three regulated banks signed and going live over the course of 2017 and 2018 on the Microsoft Cloud.

Strategy in action

NEW REGIONAL HQ IN THE US

The new US headquarters marks a milestone in Temenos' strategy to bring its global vision to the United States.



Malvern, Pennsylvania

"As the competition continues to become tougher and consumer expectations evolve, the US financial services market has a need for real-time, flexible and omni-channel solutions in order to meet the needs of their account holders. We have already begun to encounter great success in the region and the launch of the headquarters positions us to continue building this momentum."

David Arnott
Chief Executive Officer

"We pride ourselves on our investment in R&D and innovation. This is critical for our clients, who look to Temenos for solutions to the digital pressures they are facing today and in the future. Banks want to work with us as their strategic partner, helping them to put digital at the heart of their strategies for long term success."

Business review continued

Most importantly, we made significant investments in our sales and marketing, with more than 20% increase in sales headcount globally. As we discussed at our Capital Markets Day, we plan to continue investing in Sales and Marketing to drive our growth in 2017 and the medium term. Our strategic Partners were also involved in our largest deal wins and the majority of our implementations.

Delivering customer success

All our effort is ultimately defined by the success of our customers. We took a record number of clients live in 2016, a total of 178, including 95 full implementation go-lives. This is equivalent to one client going live for the first time on Temenos software every four days in 2016. We continue to focus on the governance and project management of our largest deals, with our strategic Partners leading the bulk of the implementation work. This model both decreases the time to value and derisks the overall implementation process.

REAL-WORLD FINTECH

The current operating environment for banks is one of constantly increasing pressures from all sides. Banks are no longer anywhere near as profitable as they were pre-financial crises, as certain business lines have been shut down or regulated out of profitability. With little visibility on how to drive revenues and therefore earnings growth, there is much greater focus on the banks' cost base, of which IT is a significant percentage.

On top of this, banks have had to cope with the unquantified threat from fintechs. New, nimble competitors have emerged in recent years to compete with banks across their product offerings. These new players are not weighed down by legacy technology, infrastructure, or entrenched management processes. They identify niche segments of financial services that they believe they can disrupt, and focus on providing a seamless, digital experience to attract and retain customers. Whilst transaction volumes with fintech providers are currently low, they are growing exponentially and, more importantly, introduce significant price competition into the market.

The question banks today need to answer is how they respond to these pressures and threats. And it is this exact question that we can solve for our clients. Our solutions embrace digitalisation from channels through to the core banking system. They enable our clients to progressively renovate their legacy IT through the installation of a modern, real-time core, seamlessly integrated with market-leading channels, front and middle office solutions. Our aim is to enable our clients to leverage their competitive advantages and capitalise on digitalisation by offering their end customers the experience they demand.

On top of this, we help our clients not just neutralise the threat posed by fintech companies, but to positively capitalise on the fintech movement to deliver better customer outcomes. We do this by providing a platform of carefully curated fintech providers who have built innovative products that integrate with our solutions – what we call the Temenos Marketplace (see page 21). By actively seeking out and working with fintechs to build products that work with our Suites, we can accelerate our clients' innovation cycle and enabling them to partner with the most talented fintechs in the market today. We believe this to be a mutually advantageous arrangement: fintech companies get access to market through bank platform, while banks get access to innovation and a wider range of products.

At our 2017 Temenos Community Forum, which is taking place in Lisbon in April 2017, we will be exploring the theme of real-world fintech. For us this had two main interpretations. First is the real-world, tangible innovation that comes from our customers, which have the systems that enable them to launch new products and services quickly and successfully. The second is the commercialisation of the best fintech ideas, which through the Marketplace we are able to take from a niche audience to the hundreds of millions of consumers whose financial affairs are conducted through Temenos software by our banking clients.

MEDIUM TERM GROWTH DRIVERS

In our Capital Markets Day at the start of 2017 we reiterated our drivers of growth for the coming year and the medium term.

We have won all the largest deals in the market in both 2015 and 2016 and have gained unparalleled credentials with Tier 1 and 2 banks. Our momentum in this client segment has created barriers to entry for our competition which we will use to further extend our lead in the market. We will be able to continue extending our lead in both core banking and private wealth through our focus on the Tier 1 and 2 opportunity.

Our strategy of implementation through progressive renovation, which maximises flexibility and choice for our clients, is now proven. We have multiple Tier 1 and 2 clients around the world undergoing progressive renovation, with Temenos and its strategic Partners driving the implementation processes. We are focused on derisking the implementation and decreasing the time-to-value for our clients. A key part of our appeal is the track record and very high success rate of go-lives that we have built over the last few years.

We see the US as a major driver of our growth in the medium term, as the largest market globally for banking spend on software and maintenance. With the organisation we have built and the early adopters we won in 2015 and 2016, we are confident we can continue penetrating this market and become a significant competitor.

Lastly we have invested heavily in sales and marketing in 2016, increasing sales headcount by more than 20% and we will continue to invest in this area over the next few years. We believe that we must capitalise on our market-leading position today by investing in and driving sales growth. Our Partner relationships are also a key part of this growth. As our Partner ecosystem matures, we will continue to benefit from increased joint go-to-market activity, higher volumes of sales involving Partners and greater investment by Partners in their Temenos franchises.

FINAL REMARKS

2016 was another outstanding year, after a landmark 2015. We have excelled across all our KPIs, our strategic initiatives are delivering the growth we expected, and our pipeline and revenue visibility are both very strong. We are taking market share in a growing market, and have pulled ahead of our competition. Our digital focus and compelling value proposition are key to our success and I am confident we will continue to deliver growth and value to our shareholders in 2017.



David Arnott
Chief Executive Officer



Strategy in action

AN ONLINE SAVINGS BANK FROM SCRATCH IN 18 MONTHS

Canada's Equitable Bank wanted to set up in record time an online-only savings bank. Dharmesh Mistry, Chief Digital Officer for Temenos, talks to the bank's Dan Dickinson about how it succeeded.

Within hours of EQ's launch, thousands were logging on and signing up. It is branchless, offers savings-only accounts with online access, and deals with customers online only. By being branchless it can also promise higher interest rates for savers – currently 3% compared with less than 2% for similar instant access accounts in Canada. The Digital Banking team is just 27 people, although it does outsource its call centre operations.

SITUATION

EQ's move is a big shot back from the banks in the war against the giant disruptors of their industry. Apple, Google, Amazon and others have been stealing a march on legacy banks and their creaky IT systems with a greater understanding of the modern bank customer: they know the services they need, when they want them and the platforms on which they want them delivered.

The disruptors are also incredibly fast innovators. But EQ showed it can be nimble too. It took just 18 months from selecting its core platform to setting up the first account. It then spent another six months working with Temenos on refining the systems, gradually adding more staff accounts, then selected external accounts – friends and family – before launching in January 2016.

SOLUTION

EQ uses Temenos products covering core banking, analytics and digital channels. EQ worked with Deloitte Digital to customise the interface used by customer accessing the bank.

"It wasn't like a traditional vendor relationship – more like a partnership," says Dickinson. "Temenos was always highly reactive and very happy to do what we asked – and we pushed hard."



"There's normally a trade off between achieving a high-end customer experience that takes a long time to develop and a quick installation with an interface that looks like everyone else's. I didn't want that kind of compromise. I wanted a great customer experience and in the end I got what I wanted," he says.

The bank is currently offering only one kind of savings account, but more savings products will follow. Further into the future, his road map is less clear.

This means he will be able to adapt the offer according to how the mobile banking market develops. Research from the British Banking Association last year predicted that UK customers would use their mobile phones to interact with their current accounts 895 million times this year, and that this would rise to 2.3 billion times by 2020. That growth will be replicated in other markets.

"We will tweak our mobile app as we go," says Dickinson. "Otherwise our interface stacks up well against everyone else."

"We wanted to build a digital bank quickly but one that was efficient, lean, and allowed us to go directly to customers with higher rates of interest than our competitors."

Dan Dickinson

Vice President of Digital Banking
EQ Bank, part of Canada's Equitable Bank

Financial review

ANOTHER OUTSTANDING YEAR OF GROWTH AND PROFITABILITY



Max Chuard

Chief Financial Officer and Chief Operating Officer

“We have had another year of outstanding performance in 2016 across all key financial metrics, which is all the more impressive coming on the back of a landmark 2015. We were able to grow total software licensing by 20% and earnings by 20%, and achieved this whilst delivering margin expansion of 128bps year-on-year. We have demonstrated the strength of our business model and our ability to take market share in a growing market.”

INTRODUCTION

Opening thoughts

2016 was another outstanding year for Temenos across all financial metrics, after a landmark 2015, and we exceeded all of our guidance targets for the year. Our business model enabled us to continue delivering substantial revenue and earnings growth, whilst maintaining very strong levels of cash conversion at 114% of EBITDA. We made significant progress on our DSOs, decreasing them by 27 days over the year to reach 127 days, well in advance of our medium term target, and closed the year with USD 194 million of cash on our balance sheet and leverage of 0.8x net debt to EBITDA.

IFRS vs non-IFRS

To ensure that the presentation of results reflects the underlying performance of the business, Temenos publishes its key metrics on a non-IFRS basis as well as on an IFRS basis. For transparency purposes, Temenos also publishes full reconciliations between IFRS and non-IFRS measures. Full definitions of non-IFRS adjustments can be found on page 36.

Highlights

Full year highlights (non-IFRS) include:

- Software licensing growth of 18%;
- SaaS and subscription growth of 26%;
- Total software licensing growth of 20%;
- Maintenance growth of 6%;
- Total revenue growth of 14%;
- Services margin of 9.1%, representing a margin expansion of 0.6 percentage points;
- EBIT of USD 186.5 million and margin of 29.4%;
- EPS of USD 2.07, an increase of 20%;
- Operating cash inflow of USD 258 million with cash conversion of 114%, significantly ahead of our guidance of 100%;
- DSOs reduced by 27 days to 127 days, ahead of annual target; and
- Recommended annual dividend of CHF 0.55, an increase of 22%.

KEY FIGURES 31 DECEMBER

All financial units in millions of US dollars, except non-IFRS EBIT margin and earnings per share.

	2016	2015
Non-IFRS Revenue	635.1	559.0
Non-IFRS EBIT	186.5	157.0
Non-IFRS EBIT margin	29.4%	28.1%
Cash generated from operations	257.6	227.2
Total assets	1,171.5	1,229.0
Non-IFRS earnings per share	USD 2.07	USD 1.73

USDm, except EBIT margin and EPS	Non-IFRS			IFRS		
	2016	2015	Change	2016	2015	Change
Software licensing	205.1	173.4	18%	205.1	173.0	19%
SaaS and subscription	51.1	40.6	26%	50.1	26.5	89%
Total software licensing	256.2	214.0	20%	255.1	199.4	28%
Maintenance	250.4	235.4	6%	250.4	234.0	7%
Services	128.5	109.6	17%	128.5	109.1	18%
Total revenues	635.1	559.0	14%	634.0	542.5	17%
EBIT	186.5	157.0	19%	149.2	96.8	54%
EBIT margin	29.4%	28.1%		23.5%	17.8%	
EPS (USD, fully diluted)	2.07	1.73	20%	1.61	0.95	69%

REVENUES

IFRS

Total group revenues were USD 634.0 million 2016, an increase of 17% versus 2015 on a reported basis. Total software licensing grew 28% in the year, with growth across all geographies. We won all the largest deals across our markets which demonstrates that we are the vendor of choice for Tier 1 and 2 banks. Asia and Europe were particularly strong, driven by a high volume of deals across client tiers and segments. We continue to gain momentum and credibility in the US, with the go-live of our first large US domestic reference client, and the subsequent win of Commerce Bank for core banking transformation.

Maintenance revenues grew 7% on a reported basis, and Services revenues grew 18% on a reported basis.

Non-IFRS

Total non-IFRS group revenue in 2016 was USD 635.1 million, an increase of 14% compared to 2015 on a reported basis, with the USD 1.1 million difference between IFRS and non-IFRS revenues due to a deferred revenue adjustment relating to acquisitions in 2015.

COST BASE

IFRS

Full year costs on an IFRS basis were USD 484.8 million, up from USD 445.7 million in 2015. With no acquisitions in the year, the cost increase was predominantly driven by investments in sales and marketing, increased services costs in line with the increase in services revenues, and sustained investment in software development and maintenance at a similar percentage of total revenues as 2015.

Non-IFRS

On a non-IFRS basis, the cost base in 2016 was USD 448.6 million, up from USD 402.0 million in 2015. Of the USD 36.2 million difference between the IFRS and non-IFRS cost base, USD 31.7 million is due to adjustments made for the amortisation of acquired intangibles costs and USD 4.5 million due to adjustments made for restructuring costs.

EBIT AND EARNINGS PER SHARE (EPS) IFRS

On an IFRS basis, EBIT was USD 149.2 million compared to USD 96.8 million in 2015. The increase was due to strong revenue growth and cost control in 2016, as well as the impact of non-cash items on the 2015 EBIT related to the two acquisitions made in that year. Fully diluted EPS was USD 1.61 compared to USD 0.95 in 2015.

Non-IFRS

EBIT on a non-IFRS basis was USD 186.5 million, up from USD 157.0 million in 2015, an increase of 19%. Fully diluted EPS was USD 2.07, up from USD 1.73 in 2015, an increase of 20%, driven by continued efficient management of below-the-line items.

Non-IFRS EBIT margin was 29.4% for 2016, up from 28.1% in 2015, driven by both outstanding revenue growth, and strong leverage across G&A, services and R&D, whilst still allowing for investment in sales and marketing. Services operating margin for 2016 was 9.1%, up from 8.5% in 2015, as we continue to pursue our model of focusing on the governance of our implementation projects, with Partners delivering the bulk of the services work, particularly for larger projects.

CASH FLOWS

We delivered USD 258 million of operating cash in 2016, representing a cash conversion of 114% of EBITDA. We have maintained our guidance for 100%+ conversion of EBITDA into operating cash flow in 2017, driven by the growth in our recurring revenues, and increased sales to Tier 1 and 2 clients positively impacting our cash flows.

“We generated strong operating cash flows of USD 258 million in 2016, an increase of 13% year-on-year. DSOs decreased 27 days in the course of 2016 to reach 127 days and we ended the year with nearly USD 200 million of cash on our balance sheet and debt leverage of 0.8x. Given this strong performance, I am pleased to propose an annual dividend of CHF 0.55 per share, an increase of 22% on 2015.”

DSOs decreased by 27 days again in 2016, having decreased by the same amount in 2015, and ended the year at 127 days, well ahead of our previous target of 10 to 15 days reduction p.a.. We have revised our medium term target for DSO reduction to five to ten days p.a., which will be driven by the increased contribution from Tier 1 and 2 clients undertaking progressive renovation and the continued maturation of our Partner ecosystem. We expect DSOs to reach 100 days in the medium term.

Our free cash flow reached USD 192 million, growing 19% on last year, driven by strong operating cash flows, and efficient management of capital expenditures.

BALANCE SHEET AND FINANCING

Temenos is highly cash generative with a strong balance sheet which enables:

- The servicing of our debt obligations;
- Investment in the business, including industry leading R&D spend;
- Funding for targeted acquisitions;
- The payment of an annual dividend; and
- Returning additional value to shareholders through share buybacks.

Financial review continued

RECONCILIATION FROM IFRS EBIT TO NON-IFRS EBIT

USDm	2016	2015	
IFRS EBIT	149.2	96.8	
Deferred revenue adjustments	1.1	16.5	Non-IFRS adjustments:
Amortisation of acquired intangibles	31.7	29.3	Deferred revenue adjustments Adjustments made resulting from acquisitions.
Restructuring	4.5	9.5	Discontinued activities Discontinued operations at Temenos that do not qualify as such under IFRS.
Acquisition-related charges	–	5.0	Acquisition related charges Relates mainly to advisory fees, integration costs and earn-outs.
Non-IFRS EBIT	186.5	157.0	Amortisation of acquired intangibles Amortisation charges as a result of acquired intangible assets.
			Restructuring Costs incurred in connection with a restructuring plan implemented and controlled by management. Severance charges, for example, would only qualify under this expense category if incurred as part of a company-wide restructuring plan.
			Taxation Adjustments made to reflect the associated tax charge relating to the above items.

Strategy in action

BANK OF MONTREAL ASIA PACIFIC SELECTS TEMENOS AS CORE BANKING SOLUTION



Bank of Montreal Asia Pacific has selected Temenos' core banking solution to replace their existing legacy back office settlement and accounting system.

Bank of Montreal Asia Pacific, which provides wealth management services to over 1,000 high net worth clients in Singapore and Hong Kong, evaluated several alternatives before selecting the Temenos core banking solution. The Temenos solution was judged to offer – flexibility as well as a – lower total cost of ownership.

Bank of Montreal is an existing user of Temenos' systems for channels and client and portfolio management and so, by also taking the core banking system from Temenos, will benefit from having an integrated, front-to-back solution. This end to end solution, known as WealthSuite, is proven to significantly improve levels of customer fulfilment while also lowering overall IT costs via higher automation and lower maintenance spending.

"This deal with Bank of Montreal is testament to Temenos' ability to equip private banks with the right tools to capitalise on Asia's wealth management industry potential and capture a growing market of mass affluent and high-net-worth individuals."

Martin Frick
Regional Director
APAC

+1,000
number of high net
worth clients that Bank
of Montreal Asia Pacific
serves

We continue to actively pursue acquisition opportunities as a driver of shareholder value creation, as well as investing in the business to position ourselves for the market opportunity.

Our debt leverage at the end of 2016 was 0.8x non-IFRS EBITDA, reflecting the strength of our balance sheet and giving us the financial flexibility to actively pursue growth opportunities as they arise.

DIVIDEND

Taking into account the strength of profit growth and cash generation, as well as the expected strength of future cash flows, subject to shareholder approval at the AGM on 10 May 2017, Temenos intends to pay an annual dividend of CHF 0.55 per share. The shares will trade ex-dividend on 15 May 2017, and the dividend record date will be set on 16 May 2017. The dividend will be paid on 17 May 2017. As with previous years, the 2016 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted of withholding tax. Temenos' policy is to distribute a sustainable to growing dividend.

LOOKING FORWARD

Guidance for 2017

Our 2017 guidance is as follows:

- Non-IFRS total software licensing growth at constant currency of 10% to 15% (implying total software licensing revenue of USD 276 million to USD 288 million);
- Non-IFRS total revenue growth at constant currency of 7.5% to 11.0% (implying non-IFRS revenue of USD 667 million to USD 689 million);
- Non-IFRS EBIT at constant currency of USD 210 million to 215 million (implying non-IFRS EBIT margin of c.31%);
- 100%+ conversion of EBITDA into operating cash flow; and
- Tax rate of 14% to 15%.

SIGNIFICANT, SUSTAINED SHAREHOLDER RETURNS

MEDIUM TERM TARGETS (NON-IFRS)

Total software licensing

15% CAGR

Total revenue

10% CAGR

EBIT margin improvement

100-150bps

p.a.

EPS

15% CAGR

DSO reduction

5-10 days

p.a.

Cash conversion

100%+

of EBITDA

Tax rate

17-18%

Medium term targets

We have provided the following medium term targets:

- Non-IFRS total software licensing growth of 15% CAGR;
- Non-IFRS revenue growth of 10% CAGR;
- Non-IFRS EBIT margin improvement of 100 to 150bps p.a.;
- Non-IFRS EPS growth of 15% CAGR;
- Cash conversion of over 100% of EBITDA p.a.;
- DSOs reducing by 5 to 10 days p.a.; and
- Tax rate of 17% to 18%.

Drivers of growth in 2017 and the medium term

As we outlined in our 2017 Capital Markets Day, Temenos continues to benefit from multiple structural growth drivers.

Total global spend with third party vendors on software and maintenance in our markets is estimated to be USD 9 billion, and is growing at an estimated 8% CAGR in the medium term. This growth is driven by intense digital and cost pressures on banks, forcing them to make IT renovation a key priority at the heart of their strategic plans for future growth.

In this context, our business model of packaged, upgradable software, delivered either on premise or through the cloud, is enabling us to win all the largest deals in the market and to take market share from our competition. We continue to maintain the highest rate of investment in R&D in the industry, providing us with a highly compelling product roadmap that gives clients the confidence to select Temenos as their strategic partner.

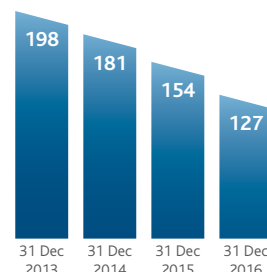
Tier 1 and 2 clients contributed 52% of total software licensing revenues in 2016, and we expect to continue growing our contribution from Tier 1 and 2 clients in the future. As we win more deals with top tier banks embarking on progressive renovation, we benefit from both improved revenue visibility and unparalleled credentials with the world's largest banks.

Our installed base continues to represent 60% of total software licensing revenues, and we expect revenues from the installed base to grow at a CAGR of 15-20% in the medium term driven by cross-selling, progressive renovation and relicensing.

Our SaaS and subscription revenues have continued to grow rapidly, and we expect them to continue growing at a c.20% CAGR in the medium term to represent at least 20% of total software licensing revenues.

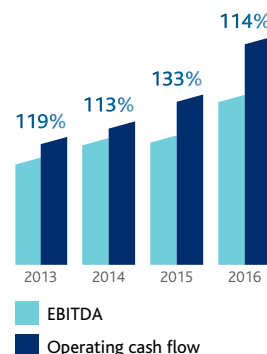
DSOs

Continued significant reduction in DSOs



CASH CONVERSION

Continued strong cash conversion



Lastly we continue to execute on our strategy in the US, and have gained credibility in the market with the go-live of a top 20 US bank and the Commerce Bank win. As the largest market for banking software globally, this remains a key driver of growth for Temenos in the medium term.

CLOSING THOUGHTS

2016 was another outstanding year for Temenos, after a landmark 2015. We have demonstrated the strength of our business model, which enables us to drive both revenue and profit whilst delivering strong cash flow. We are taking market share in a growing market which is being driven by the structural pressure of digitalisation on banks. I am excited about our prospects and confident in delivering our targets for 2017 and the medium term.

Max Chuard

Chief Financial Officer and
Chief Operating Officer

Principle risks and uncertainties

RESPONSIBLE RISK MANAGEMENT

Risks covered below are the main risks identified as being material and relevant for Temenos. However, other risks might exist or arise that could impact Temenos, its financial position or reputation.

RISK FRAMEWORK

Temenos Risk management policy is consistent with international standards including COSO: Enterprise risk management – Integrated framework 2013 and ISO: 31000 Risk management – Principles and guidelines.

Risk management is integrated with the internal control system and embedded into other governance processes.



ECONOMIC, POLITICAL AND SOCIAL ENVIRONMENT

Temenos derives all of its licensing, SaaS, maintenance and services revenues from banks and other financial institutions. The banking industry is sensitive to changes in economic conditions and is highly susceptible to unforeseen external events, such as political instability (such as in Middle East and Africa), terrorist attacks, recession, inflation or other adverse occurrences that may result in a significant decline in the use and/or profitability of financial services. Any event that results in decreased consumer or corporate use of financial services, cost-cutting measures by financial services companies, or increased pressure on banks and financial institutions to develop, implement and maintain solutions in-house rather than going to external providers, may negatively affect the level of demand for Temenos products and services.

In recent years, there have been substantial changes in the banking industry, including continuing consolidation among market participants, decreasing profit margins in certain sectors, the introduction of wide ranging regulatory changes and extensive technological innovation. These changes have inter alia resulted in increased IT spending by banks and driven market participants to replace legacy systems, leading to increased demand for Temenos solutions. If the pace of change were to decrease, demand for Temenos products and services may decrease, which could have a material effect on Temenos business, financial condition and results.

Temenos' global presence and comprehensive product offering both help to mitigate this risk.

LAW AND LITIGATION

Temenos operates in various legal jurisdictions and as such is subject to various legal and regulatory requirements. Temenos may have legal proceedings or litigious actions brought against it. The outcome of legal proceedings or litigious actions are intrinsically uncertain and the actual outcomes of legal proceedings or litigious actions could differ from the assessments made by management in prior periods, resulting in increases in provisions for litigations in the accounts of Temenos. Adverse outcomes to legal proceedings or litigious actions could result in the award of significant damages or injunctive measures that could hinder Temenos ability to conduct business and could have a material adverse effect on its reputation, business, financial position, profit, and cash flows.

Litigation of intellectual property infringement claims may increase as a result of Temenos acquiring companies which rely on third-party code including open source code, Temenos expanding into new areas of the banking industry resulting in greater overlap in the functional scope of products, and increasing assertion of intellectual property infringement claims by non-practising entities that do not design, manufacture, or distribute products.

Although Temenos believes that its products do not infringe upon the intellectual property rights of others, and that Temenos has all the rights necessary to utilise the intellectual property employed in its business, Temenos is still subject to the risk of claims alleging infringement of third-party intellectual property rights, including in respect of intellectual property that has been developed by third parties and acquired by Temenos in business or asset purchase transactions. Responding to such claims, regardless of whether they are with or without merit and negotiations or litigation relating to such claims could require Temenos to spend significant sums in litigation costs, payment of damages and expend significant management resources. In addition, such claims could lead to shipment delays or require Temenos to enter into royalty or licensing agreements on unfavourable terms, discontinue the use of challenged trade names or technology, or develop non-infringing intellectual property.

IP PROTECTION

Temenos liability insurance does not protect it against the risk that its own or licenced third-party technology infringes the intellectual property of others. Therefore, any such claims could have a material adverse effect on Temenos reputation, business, operating results and financial condition.

Temenos Legal Teams are aligned to business operations and are involved early in any decisions which may incur legal implications. Legal review and provide guidance on complex customer contracts to ensure contractual agreements align to local commerce laws and regulations. This is covered further in Foreign Operating Environments.

More broadly, the risk of potential breach of legislative or regulatory requirements through general operations, such as breach of listing requirements or group level legal requirements are managed through group level controls, compliance policies and procedures.

Policy compliance requirements are periodically assessed by Risk Management and reviewed by Internal Audit to provide comfort over adequacy of policies, processes and compliance.

Temenos relies upon a combination of copyright, trademark and trade secrecy laws, trade secrets, confidentiality procedures, contractual provisions and licence arrangements to establish and protect its proprietary rights and Temenos ability to do so effectively is crucial to its success. Temenos enters into agreements with its employees, Partners, distributors and clients that seek to limit the distribution of and otherwise protect its proprietary information. However, Temenos cannot give full assurances that the steps taken to protect its proprietary rights will be adequate to prevent misappropriation of its proprietary information as all of the protection measures afford only limited protection. Temenos proprietary rights could be challenged, invalidated, held unenforceable or otherwise affected. Certain proprietary technology may be vulnerable to disclosure or misappropriation by employees, Partners or other third parties and third parties might reverse-engineer or otherwise obtain and use technology and information that Temenos regards as proprietary. Accordingly Temenos might not be able to protect its proprietary rights against unauthorised third-party copying or utilisation, which may undermine Temenos market position and deprive it of revenues.

Temenos may not be able to detect unauthorised use of its intellectual property, or take appropriate steps to enforce Temenos intellectual property rights. Temenos products are used globally and are therefore subject to varying laws governing the protection of software and intellectual property in each of these jurisdictions. Temenos cannot guarantee that its software and intellectual property will be afforded the same level of protection in each jurisdiction, as some jurisdictions may offer no effective means to enforce Temenos rights to its proprietary information, which could result in competitors offering products that incorporate features equivalent to Temenos most technologically advanced features, which could have a material adverse effect on Temenos business, results of operations and financial condition.

Any legal action that Temenos may bring to enforce its proprietary rights could involve enforcement against a Partner or other third party, which may have a material adverse effect on its ability, and its clients' ability, to use that Partner's or other third parties' products. Moreover, litigation, which could involve significant financial and management resources, may be necessary to enforce Temenos proprietary rights. Any material infringement of Temenos proprietary technology could have an adverse effect on its reputation, business, financial position, profit and cash flows.

Our Partner contracts are designed in a manner which provides clarity and understanding of both parties with regard to the protection and safeguarding of their IP.

Principle risks and uncertainties continued

UNDETECTED DEFECTS OR SECURITY VULNERABILITIES

Temenos products may contain defects or security vulnerabilities that Temenos has not been able to detect and that could adversely affect the performance of the products and negatively impact Temenos relationship with its customers. This could occur when developing a new product or service or when developing a new version or enhancement of an existing product. It is not always possible to identify and rectify any errors or defects during a product or services developmental phase, and more commonly Temenos has discovered minor software defects in certain new versions and enhancements of its products after they have been introduced. The detection and subsequent correction of any errors or defects can be expensive and time consuming, and it is not always possible to meet the expectations of customers regarding the timeliness and the quality of the defect resolution process. In a worst case scenario, it might not be possible to wholly rectify certain defects or entirely meet customer expectations. In such circumstances it is possible that customers may pursue claims for refunds, damages, attempt to terminate existing arrangements, request replacement software or seek other concessions.

A defect or error in any newly developed software of Temenos could result in adverse customer reactions and negative publicity, as Temenos customers and potential customers are highly sensitive to defects in the software they use. Any negative publicity could hinder the successful marketing of the new software, reducing demand for the software. A defect or error in new versions or enhancements of Temenos existing products could result in the loss of orders or a delay in the receipt of orders and could result in reduced revenues, delays in market acceptance, diversion of development resources, product liability claims or increased service and warranty costs, any of which may have a material adverse effect on Temenos business, results of operations and financial condition. Any claim brought against Temenos in connection with defective software, regardless of its merits, could entail substantial expense and require a significant amount of time and attention by management personnel.

Our quality program is part of SDLC. Extensive product testing is carried out to identify and resolve any issues which may adversely affect the functionality or security of our products. Testing of code performance is conducted to identify inefficient or ineffective code in order to streamline and strengthen product capabilities.

KEY PERSONNEL

Temenos operates in an industry in which there is intense competition for experienced and highly qualified individuals. The economic success of Temenos is partly dependent on its ability to identify, attract, develop, motivate, adequately compensate and retain highly skilled and qualified management, sales, support, service, marketing and software development personnel, particularly those with expertise in the banking software industry. In particular, Temenos depends heavily on the continued services and performance of its Directors, members of its Executive Committee and other senior managers and technical personnel. In addition, Temenos relies on hubs of its technical staff at its facilities in India, Romania and other locations for cost-effective development, support and other activities. Temenos believes that in order to grow its business it will need to continue to hire and retain highly qualified employees with the requisite skills and expertise to support its growing client base. There is intense competition for experienced and highly skilled personnel, particularly in India, and there is no guarantee that Temenos will continue to be able to successfully and consistently meet its personnel recruitment goals. If Temenos fails to recruit and retain the numbers and types of employees that it requires, its business, operating results and financial condition may be adversely affected.

Incentive and recognition programs are utilised to align staff efforts to organisational objectives. Staff receive various training to ensure they have the necessary skills to perform their duties. Career and succession planning are carried out annually to provide for continuity of operations.

FOREIGN OPERATIONS

Temenos systems are currently installed at more than 2,000 live sites in 145 countries and it has sales and support offices in 41 countries. Temenos future revenue growth depends on the successful continued expansion of its development, sales, marketing, support and service organisations, through direct or indirect channels, in the various countries around the world where its current and potential clients are located, including in many developing or newly industrialised countries. Such expansion will require the opening of new offices, hiring new personnel and managing operations in widely disparate locations with different economies, legal systems, languages and cultures, and will require significant management attention and financial resources. Temenos operations are also affected by other factors inherent in international business activities, such as:

- Differing or even conflicting laws and regulation of risk and compliance in the banking sector;
- Difficulties in staffing including works councils, labour unions and immigration laws and foreign operations;
- The complexity of managing competing and overlapping tax regimes;
- Differing import and export licensing requirements;
- Operational difficulties in countries with a high corruption perception index;
- Protectionist trade policies such as tariffs;
- Limited protection for intellectual property rights in some countries;
- Difficulties enforcing intellectual property and contractual rights in certain jurisdictions;
- Differing data protection and privacy laws; and
- Political and economic instability, outbreaks of hostilities, terrorism, mass immigration, international embargos, sanctions and boycotts.

The risks associated with the factors stated above will intensify as Temenos expands further into new countries and markets. Additionally laws and regulations and governments' approaches to their enforcement, as well as Temenos products and services, are continuing to change and evolve. Compliance with the laws and regulations in the various jurisdictions may involve significant management time, costs and require costly changes to products and/or business practices.

Risks related to foreign operations are regularly assessed and mitigated as needed. Specific policies and procedures are in place to ensure compliance with export control and sanctions, anti-bribery and corruption, anti-money laundering, data protection and privacy and other legislation.

Foreign exchange and/or interest rate fluctuations

Temenos financial statements are expressed in US dollars and Temenos generates the majority of its revenues in US dollars. However, a significant portion of its operating expenses is incurred in currencies other than the US dollar, particularly in Euros, Swiss francs, Rupees and Pounds Sterling. In some jurisdictions Temenos receives payment in US dollars, but independent distributors resell the products to clients in the local currency.

Furthermore, Temenos is exposed to the fluctuation in interest rates of each of these currencies.

Temenos makes efforts to mitigate its foreign exchange risk by aligning its revenue streams to currencies that match its cost base and hedges most of the residual exposure by the use of derivative instruments. However, such hedging may not be sufficient protection against significant fluctuations in the exchange rate of the US dollar to other currencies, in particular those currencies in which Temenos incurs operating expenses, generates revenues or holds assets. Such fluctuations may impose additional costs on Temenos and have a material adverse effect on Temenos financial condition and results of operations, and on the comparability of its results between financial periods.

Temenos uses combination of various techniques to protect against currency and rates fluctuations.

COMPLIANCE WITH THE TERMS OF TEMENOS CREDIT FACILITIES

Temenos has credit facilities in place with a syndicate of banks. The facilities contain financial and negative covenants, undertakings and event of default provisions. Moreover, the facilities contain cross-default provisions such that a default under another debt instrument, such as any outstanding bonds, could result in a default under the credit facilities and acceleration of the debt thereunder.

The inability of Temenos to draw under the credit facilities to satisfy its working capital requirements, and/or the impact on Temenos of any cross-acceleration or cross-default provisions could have a material adverse effect on Temenos business, results of operations and financial condition. Compliance with the terms is monitored on monthly basis.

MANAGING CUSTOMER RELATIONSHIPS

Temenos relationships with customers are protracted due to the nature of the products provided. The relationship continues from implementation to maintenance, support and upgrades through the life of the product. As such the customer relationship is a long term and multifaceted arrangement and must be managed accordingly. The contractual arrangements supporting this relationship are therefore often varied and diverse to reflect the nature of the requirements of the customer factoring in specific legal and cultural requirements of the customers operating environment as well as the multiple stages of the relationship.

Temenos has increased its focus on assessing customer satisfaction and proactively seeking and responding to customer feedback.

Prior to entering into new customer relationships Temenos are taking additional steps to develop a customer profile which assists in clearly identifying and articulating customer requirements as well as providing a mechanism to identify and mitigate any potential areas for concern which may materialise into disagreements at a late date.

Improved mechanisms for tracking and oversight of contract clauses are utilised by the global contract team to provide additional comfort over the effective management of customer contractual arrangements.

Temenos aims to build long term strategic relationships with customers in order to maximise the value provided to both parties. Through strong relationships, Temenos are able to further develop products according to industry needs and requirements.

Principle risks and uncertainties continued

STRATEGIC PARTNERSHIPS

Temenos delivers its products to customers directly and indirectly through distributors and through strategic alliances with IT service providers. Temenos strategic Partners sell to customers and provide implementation services through a contract with the Partner, rather than with Temenos. These relationships with IT service providers and strategic Partners help to drive co-innovation of Temenos products, profitably expand Temenos routes-to-market to enhance market coverage and provide high quality services in connection with Temenos product offerings. Any failure to maintain and expand these relationships could adversely affect Temenos products and services which, in turn, would have an adverse effect on Temenos ability to compete successfully with its competitors and therefore negatively affect the results of operations and financial condition.

CLOUD AND SAAS SOLUTIONS

Cloud and SaaS technology is inherently complex and relatively new to the banking and financial market sector. Accordingly, Temenos may be subject to changing regulatory requirements, evolving customer attitudes and technical complexities in developing a new business offering and support services. Temenos may fail to achieve desired operating profit results in this new market due to regulatory changes, inability to develop a competitive product or which appeals to its clients.

By providing cloud technology to customers Temenos will hold customer data. Hardware or data centre failures, product defects or system errors could result in data loss or corruption, or cause the information held to be incomplete or contain inaccuracies. The availability of Temenos application suite could be interrupted by a number of factors, such as the failure of a key supplier, its network or software systems due to human or other error and security breaches.

Although Temenos employs strict security, data protection and privacy measures there is a risk that such measures could be breached as a result of third party action, employee error and malfeasance, or otherwise, and if as a result unauthorised access is obtained to customer data, which may include personally identifiable information about users, Temenos could suffer significant reputational damage and be exposed to liabilities.

Temenos holds SSAE16, SOC 2 and ISO/IEC 27001:2013 certifications to provide a greater degree of assurance to customers.

SOFTWARE IMPLEMENTATION PROJECT MANAGEMENT

The implementation of Temenos software and integration of various product components is a complex procedure requiring skilled and experienced personnel. The implementation of Temenos software is often performed in part or wholly by service delivery Partners as well as committed resources of the customer. The complex nature of the custom built, componentised product also makes it necessary to provide training and education on the operation of the product.

The reliance on third party capabilities, complex nature of product customisation and installation requirements mean that there is a high potential for unforeseen events to occur delaying the progress of implementations.

Temenos focus heavily on training the staff and Partners responsible for implementation of software to ensure a strong mix of qualified project managers and technical product expertise. Temenos ensures the adequacy of skills through requiring certification of staff and Partners in Temenos Implementation Methodology and products.

Implementation teams are also trained to identify and effectively manage any unforeseen events and a suite of risk management tools are used to monitor and track potential issues which may adversely impact the successful installation of software. Project governance boards are held monthly to oversee the delivery of the implementation against milestones.

Temenos Implementation Methodology is periodically reviewed and updated in order to maintain high standards to Temenos staff and our Business Partners. Identified initial project risks receive an increased level of review and analysis in order to more effectively mitigate and monitor them throughout the life of the Implementation Project.

MERGERS AND ACQUISITIONS

Temenos pursues a strategy of making targeted acquisitions. The risks associated with such a strategy include the availability of suitable candidates and successful integration. Failure to assimilate operations and personnel, and the risk of entering markets in which Temenos has no or limited prior experience may materialise. The process of integrating an acquired company or business is risky and may create unforeseen operating difficulties and expenditures, including: difficulties in integrating the operations, technologies, services and personnel of the acquired businesses; unexpected costs or liabilities of acquired businesses (or future acquisitions); ineffectiveness or incompatibility of acquired technologies or services; failure to realise operating benefits or synergies from completed transactions; potential loss of key employees of acquired business and cultural challenges associated with integrating employees from the acquired company; inability to maintain the key business relationships and the reputations of acquired businesses; and diversion of management's attention from other business concerns.

Further consolidation in Temenos industry may decrease the number of potential desirable acquisition targets. Failure to acquire, integrate and derive the desired value of any businesses or assets in the future could materially adversely affect Temenos business, results of operations and financial condition.

In addition, acquired businesses might not perform as anticipated, resulting in charges for the impairment of goodwill and other intangible assets on Temenos statements of financial position.

Detailed integration planning is utilised to ensure a smooth transition of product offerings and services. Legal, commercial and personnel matters are also considered prior to integration in order to limit exposure to unexpected losses or damage.

SECURITY, BUSINESS CONTINUITY AND DISASTER MANAGEMENT

As a software technology vendor and services provider, we face various cyber and other security threats, including:

- Attempts to gain unauthorised access to sensitive information and networks;
- Insider threats;
- Threats to the safe and secure operation of our software solutions and services;
- Threats to the safety of our Directors, officers and employees;
- Threats to the security of our facilities and infrastructure; and
- Threats from terrorist acts or other acts of aggression.

Our customers and Partners (including subcontractors) face similar threats.

Although we utilise various procedures and controls to monitor and mitigate the risk of these threats, there can be no assurance that these procedures and controls will be sufficient. These threats could lead to losses of sensitive information or capabilities, harm to personnel, infrastructure or products, and/or damage to our reputation as well as our Partners' ability to perform on our contracts.

Cyber threats are evolving and include, but are not limited to:

- Malicious software;
- Destructive malware;
- Attempts to gain unauthorised access to data;
- Disruption or denial of service attacks; and
- Other electronic security breaches.

These threats could lead to disruptions in mission critical systems, unauthorised release of confidential, personal or otherwise protected information (ours or that of our employees, customers or Partners), and corruption of data, networks or systems. In addition, we could be impacted by cyber threats or other disruptions or vulnerabilities found in products we use or in our Partners' or customers' systems that are used in connection with our business. These events, if not prevented or effectively mitigated, could damage our reputation, require remedial actions and lead to loss of business, regulatory actions, potential liability and other financial losses.

We provide software products and services to various customers who also face cyber threats. Our software products and services may themselves be subject to cyber threats and/or they may not be able to detect or deter threats, or effectively to mitigate resulting losses. These losses could adversely affect our customers and our company. The impact of these factors is difficult to predict, but one or more of them could result in the loss of information or capabilities, harm to individuals or property, damage to our reputation, loss of business, regulatory actions and potential liability, any one of which could have a material adverse effect on our financial position, results of operations and/or cash flows.

From an organisational perspective, the Security Board (SB), as the top-level cyber security management body of Temenos, is responsible for ratifying the strategy, oversight of its implementation and compliance. The SB also endeavours to facilitate effective communication between Temenos and all stakeholders, including customers, Partners, regulators and employees. The SB regularly reports to the Executive Committee and Board of directors.

In terms of business processes, security assurance shall be integrated into all business processes relating to R&D, the supply chain, sales and marketing, delivery, and technical services. Such integration, as the fundamental requirement of the quality management system, will be implemented under the guidance of management regulations and technical specifications. In addition, Temenos will reinforce the implementation of the cyber security assurance system by conducting internal auditing and receiving external certification and auditing from security authorities or independent third-party agencies. Furthermore, Temenos has already been certified to ISO 27001:2013 since 2009.

Principle risks and uncertainties continued

CONTINUED

In connection with personnel management, our employees, Partners and consultants are required to comply with cyber security policies and requirements made by Temenos and receive appropriate training so that the concept of security is deeply rooted throughout Temenos. To promote cyber security, Temenos will reward employees who take an active part in cyber security assurance and will take appropriate action against those who violate cyber assurance policies. Employees may also incur personal legal liability for violation of relevant laws and regulations. If Temenos security measures are breached and unauthorised access is obtained to Temenos IT systems, Temenos business could be disrupted and Temenos may suffer financial losses as a result of the loss of confidential client information or otherwise.

Temenos insurance coverage might not cover claims against it for loss or security breach of data or other indirect or consequential damages. If Temenos experiences interruptions in the availability of its application suite, Temenos reputation could be harmed, which may have a material adverse effect on Temenos business and financial condition.

As part of the periodic Risk Assessment of IT infrastructure, potential physical and security vulnerabilities are factored into the process for developing a resilient and robust IT infrastructure.

The physical security of IT infrastructure and personnel are kept secure through standardised general IT controls across Temenos in line with best practice standards.

Business Continuity Management framework currently provides contingency planning for all mission critical business functions and process within the organisation.

Information systems are regularly audited internally and externally to provide a reasonable assurance on effective management of these risks.

INSURANCE

Temenos has taken out a variety of policies in areas where a loss would have a significant financial impact.

Across the various local legal jurisdictions that Temenos operate, there are various legal requirements to hold certain insurance policies such as workers compensation policies and public liability for example.

Temenos local offices manage their legally required policies with oversight and review by Temenos Head Office. Also each office is reviewed and as necessary covered for Property damage, Business Interruption and Public Liability risks. Information and IT infrastructure is also covered by regional and local Computer Policies.

The United States and Canada are of particular note with regard to statutory imposed insurance requirements and are as such monitored carefully to provide sufficient coverage.

Temenos Head Office also manages all global policies. The main global policies provide coverage across core business areas as follows; Professional Indemnity liability (covering Errors and Omissions, Cyber Liability and Data Protection), Cyber Insurance, Global Travel Insurance and Directors and Officers policy that is providing the professional coverage.

All insurance policies are reviewed periodically to ensure that the Company, our offices and employees are sufficiently covered and that the policies provide value for money.

INTERNAL CONTROLS FAILURES

Although Temenos considers the controls and procedures it currently has in place to minimise the financial reporting, legal, disclosure and other regulatory, compliance and operational risks associated with its business to be adequate for its purposes, Temenos recognises that the efficacy of some of these controls and procedures depends significantly on employees and contractors, and on input from external legal and other advisers and all of these controls and procedures need to be kept under regular review, particularly given the pace at which Temenos business has developed and generally increasing regulatory scrutiny.

There is no assurance that Temenos will not be targeted by those willing to commit fraud against Temenos. Such an action could come from either an internal or external source and could result in a significant adverse impact on Temenos business, results of operations and financial condition.

Internal controls are regularly reviewed, updated and tested. Internal audit serve as third line of defence to provide assurance on effectiveness of the internal controls system.

Strategy in action

PHILIPPINES NATIONAL CREDIT UNION NETWORKS SIGN FOR TEMENOS PAYMENT SOLUTION RUNNING ON MICROSOFT AZURE

Asian Confederation of Credit Unions (ACCU) sponsored cloud payment platform for Credit Unions has potential to extend access to modern banking to over 38 million people in Asia.

Temenos has signed an agreement with two Philippines-based ACCU member organisations, National Confederation of Cooperatives (NATCCO) and Philippine Federation of Credit Cooperatives (PFCCO) to provide a cloud-based banking and payment service, known as the ACCU Payment Platform (APP). The service will run on Microsoft Azure.

With this move, NATCCO and PFCCO, which jointly represent 6.5 million customers, are kicking off a regional strategy developed by ACCU to modernise and standardise the Credit Union sector in Asia through a common payments platform for its credit members.

ACCU's network of Credit Unions represents 38 million people in Asia and by endorsing this platform ACCU is providing leadership to their industry, setting an example to the 7,000 Credit Unions in 105 countries who are affiliated with the World Council of Credit Unions (WOCCU), most of which are in emerging markets.

The ACCU Payment Platform comprises Temenos' MicroBankingSuite and Software Group's UT Suite, and which runs on Microsoft cloud technology. The platform provides services such as account top up, cash withdrawal, conditional cash transfer, bill payments, peer to peer including international remittances, which are can be offered over any distribution channel.



6.5m
customers
impacted by
the project

38m
people in Asia
represented by ACCU's
network of Credit
Unions

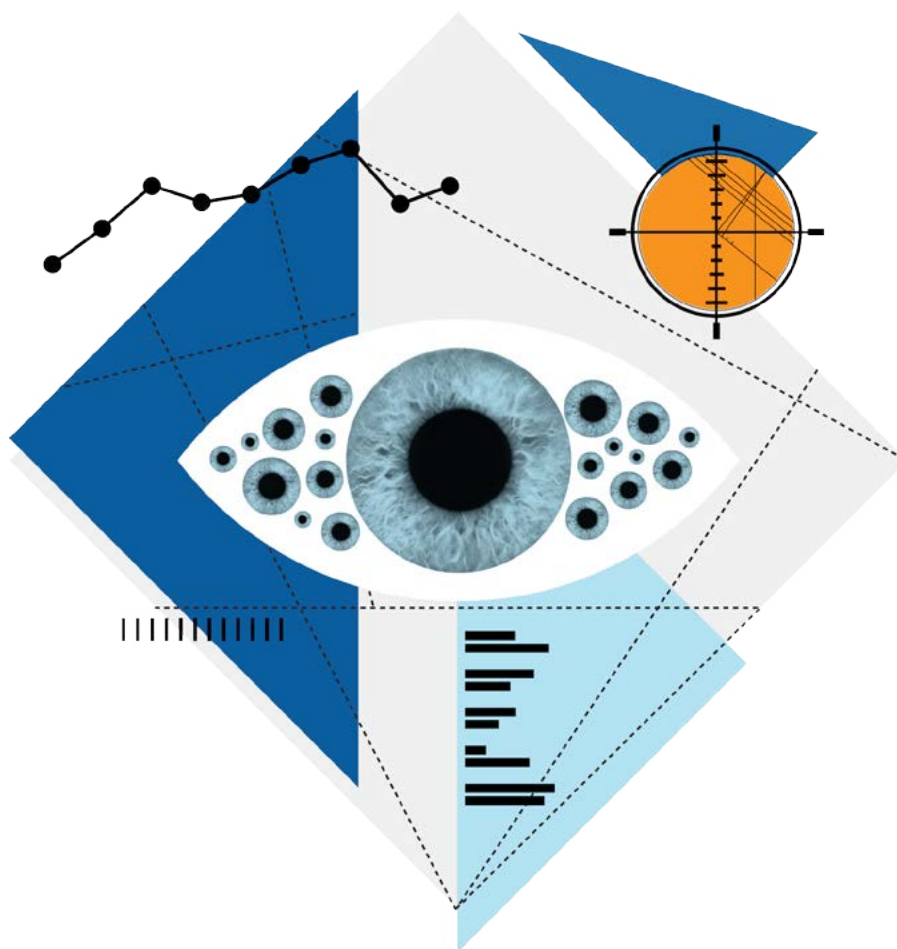
7,000
Credit Unions
affiliated with
WOCCU

"Credit Unions in Asia have a unique opportunity to take advantage of their established network to bring modern mobile payments to their members. In collaboration with Temenos, Credit Unions across the Philippines can now have access to their own mobile banking and payments network where a member can be served anywhere there is a Credit Union office, agent or ATM. A member is now a member of the Credit Union network, not just the branch where he or she lives. We look forward to expanding this strategy through the rest of our members."

Elenita V San Roque
Chief Executive Officer
ACCU



INSIGHTS



Thought leadership

RACING FROM DIGITAL ENGAGEMENT TO CUSTOMER INTIMACY

A new 'SingleBrain' approach linking digital channels seamlessly to a new core front office engagement architecture will allow banks to avoid a patchwork approach to digital banking and provide clients with the fluid, real-time user experience that they want. A new intimacy is born.

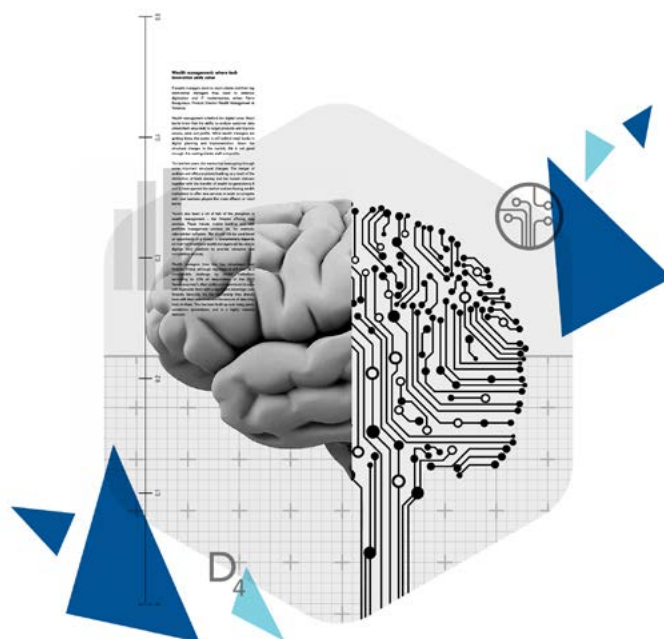
Digital disruption is upending established business models across the spectrum, and banking is no exception.

At its core, the industry still provides savings and loans, but interaction has moved from a traditional, face-to face, branch-based approach – based on cash, cheques and bank tellers – to a digital channels-dominated model, with realtime payments and communication based around integrated data and systems with rapid consumer adoption of mobile and digital platforms.

Retail banks are responding to these forces with different strategies. Some have patched their legacy IT systems and maintain a hybrid approach, reluctant for various reasons to completely overhaul the core architecture on which they built their businesses. Other new entrants and incumbents now facilitate and accelerate the provision of digital services via multiple channels in response to changing client needs, whatever and wherever those are. Another group has abandoned branches and embraced digital-only models.

All, though, share the goal of providing the most seamless services at the lowest price, to retain loyalty and win new business. And all are aware that providing clients with experience-rich banking and placing themselves alongside the customer always is essential for success.

However, banks must avoid past mistakes in their approach to core IT systems – patching over gaps in existing legacy systems and layering on top multiple 'silo' solutions that are not integrated or that duplicate capabilities across different business units – to liberate front-end functions like marketing, sales and other communication services, and enable all channels to function effortlessly via a single command centre. This paper explains how this new, unified command-centre approach to banking works – switching the focus to the customer's demands from the current, transaction driven core model. Those who embrace this customer-centric, unified approach will thrive. To the early embracers, the spoils.



CHANGING EXPECTATIONS

The customer base in retail banking is mutating.

It's well known that many Millennials reject traditional marketing approaches and want new ways of interacting with banks.

A survey for the 2015 World Retail Banking Report from CapGemini and Efm showed a significant rise in customers willing to change banks near term, with a 4-12 percentage point increase from the previous survey, depending on region. The propensity to shift was more marked among the young, notably Generation Y. But in banking, it is not just Millennials driving demand for new engagement. Elderly customers are increasingly using handheld devices for services. And the ease of mobile banking means previously unbanked or under-banked demographics are new targets. This presents challenges – and opportunities – for existing providers.

A 2014 Bain study showed that more than 50% of banking interactions were through digital channels in 18 of 22 countries. That figure is only rising. Accenture found last year that 20% of bank customers were digital-only users.

The CapGemini study found that customers were also less likely to refer others to their banks and buy additional services in-house, underscoring the ubiquity of alternatives including retailers with large databases, high traffic, strong brands and cross-selling opportunities. The logistics of switching are also becoming simpler. And the concept of 'liquid expectations' is taking root, whereby the just-in-time interaction that customers receive in sectors such as

retail (Amazon) or transport (Uber) fuels demand for a similar quality of service from their other providers, like banks. Marketing and IT leaders are increasingly working together to achieve digital transformation across traditional boundaries, creating opportunities for trusted brands to enter new sectors, according to a recent survey from Accenture.

In March 2016, Temenos released 'Retail Banking: In Tech We Trust,' its third annual study of the sector in association with the Economist Intelligence Unit. Among other things it found that almost half of retail banks worldwide believe that the fintech revolution will bring an end to branch-based banking, and a majority predicted that retail banking will become fully automated within five years.

Evidence for the efficacy of what has been dubbed the 'multichannel inbound/outbound approach' comes from Gartner¹⁰, which found that the ability to extend a relevant, planned offer during a spontaneous customer interaction has response rates approaching 15x those of non-targeted outbound campaigns.

Many banks are still unable to leverage the vast majority of their exchanges to sell their products or create happy clients because their architecture is not sophisticated enough even though the applications and channels are available. To succeed, their core strategy must go beyond omni-channel, encompassing omni-presence, or accompany the much-vaunted customer 'journey' wherever that may lead online – for example on websites, via mobile apps, social media or in chat rooms – driving and facilitating transactional preferences at all times.



“Throughout 2017 and 2018, our digital engagement offering is set to become one of the most comprehensive solutions for banks to manage the customer lifecycle – from prospect to customer to advocate.”

Dharmesh Mistry
Chief Digital Officer

An interview with Dharmesh Mistry, Chief Digital Officer at Temenos.

Q Can you tell us about your role as the Chief Digital Officer at Temenos?

A I am excited to be entrusted with this position at Temenos – not only because of my passion for digital banking and future technology, but also because I truly believe in the unique position Temenos is in to enable clients to deliver an unbeatable digital experience to their customers. Temenos creating this role shows everyone – Temenos employees, its customers and Partners that we take this area and the future roadmap for our products incredibly seriously and I am excited about what we have in the pipeline for the next year.

Q What do you see as your most important objectives for the year ahead?

A I think first and foremost, we want to create a consistent market view of what is meant by digital banking. There is a lot of noise, buzzwords and hype and we want to demystify it and show the solid, real-world solution Temenos has. I think in the past couple of years some early adopters of online banking and mobile banking have come around to realising that to provide a fully digital experience that is contextual to the individual, via the preferred channel and at the right moment, takes a lot more than a smart app. At Temenos we stand by ten essential requirements for a truly digital experience – and we can deliver these, as well as help banks manage their transition to fully digital.

Q According to some commentators digital banking is only 1% finished – do you agree with that sentiment?

A To an extent, I think they have a sound point – but whether the number is 1% or 10%, it is certainly a long way from being complete. There aren't many banks now that can offer a fully fledged digital experience to customers, but there are some amazing examples of banks that can. Take EQ Bank, a new bank, built to be truly digitally native, using Temenos' front-to-back solution, built in just 18 months. EQ Bank, the digital offering from Equitable Bank, is a great example of what we call the 'build and migrate' approach, where a bank builds a new bank from scratch and begins migrating customers across. Digitisation can also be achieved with front-to-back or back-to-front progressive renovation. So whether a bank is keen to renew their core first and then their front office/channels – or whether they want to go-live with the front office and channels first – there are options available and solid examples of banks doing this well, so it is absolutely possible with the right guidance.

Read more on > 33

“There is a lot of noise, buzzwords and hype and we want to demystify it and show the solid, real-world solution Temenos has.”

Q What current or future features on the Temenos roadmap are you most excited about?

A Trends like virtual reality and augmented reality have the cool factor, and there are a number of use-cases for these that we are working on. However, it's important that new developments are adding value, either to the customer or execution experience. Throughout 2017 and 2018, our digital engagement offering is set to become one of the most comprehensive solutions for banks to manage the customer lifecycle – from prospect to customer to advocate. We'll provide real-time contextual engagement to attract, advise, reward and influence behaviour through any channel including social media and chatbots. We'll enable banks to understand and continually learn from all customer interactions thus becoming smarter with every interaction. I'm most excited by the sum of all the parts of our solution working together to create the value for the customer, and the bank.

Thought leadership continued

THE SINGLEBRAIN

Best practice in this area involves the ability to take a single view snapshot of the customer's activity. Think of it as a dashboard.

THE COMMAND CENTRE

The command centre monitors events via analytics and insight-gathering engines. This could be transactional in the back office or directly – and potentially externally – through a front office channel like mobile. The data is pulled, analysed in real-time, then an appropriate decision is made and communication channels respond within the parameters of underlying credit and business constraints. All of this happens in real-time. Leveraging social media channels is an important part of the story – and certain banks are ahead of the curve in this area.

At the end of the cycle, the data will be analysed to discover the effectiveness of the communication (or decision not to interact) and best practice logged to ensure customer satisfaction and relate findings to other clients. All being well, accompanying the customer through this process allows banks to better know clients and transform them into advocates, growing the bottom line.

NEW TOOLS IN THE BOX

There are a burgeoning number of new tools, applications and features that can be embedded, exploited and controlled in real-time within the single command centre. These can be added to a single platform over time to suit the lender and their clients' needs. Some of these include:

- Incorporating offers – whether from the bank or incorporating third parties;
- Advice – especially with regard to personal financial management (PFM) and investment planning;
- Retention and reward – incentivising customers to remain in-house, driving loyalty;
- Influencing behaviour – for example via 'gamification', scenarios and forums to retain loyalty and train clients to resolve their own problems; and
- Improving experience – optimising UX, especially through design innovation in the online and mobile channels.

THE FOUR D'S

DETECT

Trap real-time events and respond

This could be something relatively mundane like a salary payment landing, a credit limit being approached or logging into the site. It could even come from an external link, for example news of a swing in the stock market or a change in base rates. The system logs or snatches the event, ready for the next step.

DECIDE

The response is based on data/analytics

Here, the 'SingleBrain' chooses whether or what to communicate by instantly asking profile-adapted algorithms, and it can go well beyond mere sales offers or marketing (customer relationship management or CRM). The use of intricate personal financial management (PFM) tools in particular can play a role, replacing a service that was once provided on a face-to-face basis.

DELIVER

Communicate through most effective channel

Next, the front office is instructed on whether, how and when to issue the appropriate communication. That could be via mobile, internet, text, social media messaging, phone or (heaven forbid!) a letter. Alternatively, a communication might not be appropriate at this juncture.

DISCOVER

Record all communications and responses and understand what works and what doesn't

Finally, the whole process is assessed within the system. What was the feedback to the communication? Was the communication appropriate? All the data and related responses are stored and form a continuous feedback survey, continually learning and improving best practice.

And that unleashes the shackles to allow banks to push further and challenge the new disruptors – often fintech companies – that are threatening to win customers through value-added intermediary services including:

- 'Freemium' services – these are provided free of charge, but bring loyalty and potentially new business when proprietary features are added or related services bought;
- Pay-for-what-you-use in areas like wealth management;
- Free equity trading, to rival the likes of Robinhood;
- P2P lending and crowd funding; and
- Creating a virtual market in the way that Fidor already does as an aggregator.

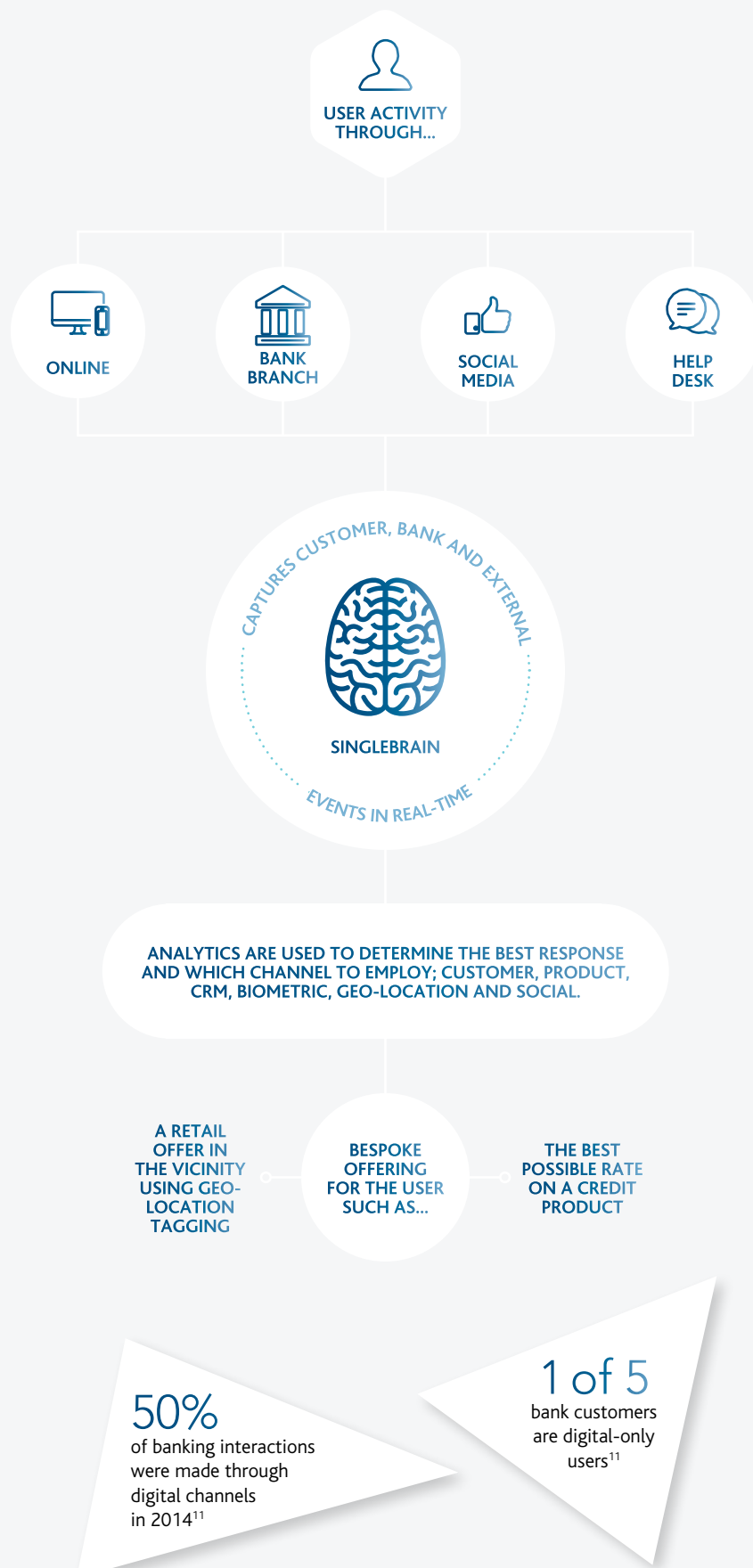
AVOID 'SPAGHETTI JUNCTION'

It's important to stress that implementing new apps and channels in silos creates development problems and raises the potential for a breakdown in communication and service.

When these apps or services are patched on to legacy back-end systems, the front end is left looking like 'spaghetti junction' – a tangled mess. The chance of acute customer dissatisfaction increases exponentially.

Those banks that want to excel in customer engagement will need to take a holistic view of design for future flexibility as customer demands change and as banks move to a more customer-centric approach. This requires avoiding point-to-point integration of data sources and channels.

The latest engagement applications and tools for sales optimisation (CRM) and content targeting (CMS) for example around loyalty/rewards and 'gamification' should slot into a single decision platform, the 'SingleBrain,' so that new channels and data sources can be incorporated through a single point rather than layering each separate application. A simple, clean architecture is available.



Thought leadership continued

COLLABORATION ADDS UP TO A WIN-WIN

Innovation is a powerful force. It can lead to the destruction of a market incumbent but it can also help incumbents fight off disruptors. And never has this been truer than in banking.

Fintechs and online banks are launching ever-leaner digital, more competitive services that are swiftly eating into more and more of banks' revenues. It's time for banks to catch up. But innovation won't be enough on its own: the banks' survival will demand collaboration to lower the development cost and shorten time to market. This is essential to help banks to offset their legacy investments in IT and compete with the nimble fintechs.

Much of the fintech industry already takes collaboration seriously, spending a lot of time and effort to cultivate collaborative ecosystems. This has meant investing not only in their own architecture to open up APIs, but in a whole series of ventures that encourage mutually beneficial innovations.

Important fintech hubs have sprung up on the West Coast of the US, Ireland, London, New York and Singapore, creating ecosystems that feed off themselves. Success breeds success. There is also a growing number of accelerators and incubators. Initiatives include Temenos' own Fusion, an incubator launched last year in Switzerland where we mentor fintech start ups. But many are also run by and/or receive investment from banks.

Bank of Ireland has its Workbench programme, which offers free space for start ups in an effort to encourage innovation and develop new ideas. It also runs an incubator called StartLab Galway. Citi set up CitiVentures, an accelerator with offices in the US, Germany, Singapore, Brazil and Spain. Other banks such as JP Morgan Chase, BBVA, ABN Amro, UniCredit and Goldman Sachs are investing hundreds of millions of dollars in collaborative initiatives that they don't own.

But collaboration shouldn't and doesn't stop there. Key to successful innovation is getting solutions to market and into use. Specialist online marketplaces offer the perfect place for sellers – particularly for start ups with little marketing budget but good ideas – to connect with customers. That's why we launched Temenos MarketPlace where everything is ready to plug and play with our systems, helping to simplify what can often be a long and painful procurement process. It's a shop front where anyone can look for tried and tested solutions to digital problems, be that middleware, bolt-on functionality or anything else.

Others are helping those with no more than the spur to innovate itself. Bank of Ireland this year ran its first staff innovation hack. Called Gear48, members of staff were given just 48 hours to develop their ideas over a weekend. And for solutions that are market ready, there are forums such as the fintech Hackathon and the annual Temenos Innovation Jam, where fintech start ups can showcase their ideas to the industry, and the winners go on to receive support and investment.

Practical help comes from places such as Level 39 in London's Canary Wharf, which provides space for fintechs to develop, while fintech Innovation Lab, backed by a number of banks, offers twelve week programmes in London, New York and Hong Kong with mentoring.

But given that only three in ten investments by venture capitalists succeed, there is a high risk of a bank or investor backing a non-starter. According to Garvan Callan, director of innovation at the Bank of Ireland, the only answer is to partner and nurture the fintech sector as a whole. He is involved in developing and nurturing a fintech ecosystem that helps his bank to keep up with the rapid pace of change while minimising the risk of backing the wrong horse. The strategy allows the bank to get closer to what's going on in the rest of the market.

Conferences are also a good way to stay abreast. A good one will mix start ups with CIOs; offer a forum for swapping go-live stories – the good and the bad; and share new ideas. It's all about sharing best practice, sharing lessons learnt, and sharing insights so that the whole industry can move forward and thrive.

But a truly collaborative system means accepting that Partners and customers may want to work with more than one provider – possibly even a competitor. Finland's Aktia Bank is a good example. While Temenos provides the core banking system to support accounts, payments and customers, Emric – a specialist Nordic solutions group – supports the lending requirements, which are very niche and specific to that market. For us to have developed a competitive product would have been expensive and time consuming.

Collaboration adds up to a win-win. Competition is good. It creates a healthy environment in which to thrive; but collaboration increases the likelihood of thriving. Banks' real challenge today is to think beyond the classical banking services they have been providing for centuries. It's a big ask and one that demands investment. But collaborative environments make that easier. R&D costs fall, development times accelerate and time to market is cut. It's got to be about teamwork.

Thought leadership by
David Arnott
Chief Executive Officer



“Soon, if not now, having access to these volumes of data and processing the insight from it will not be sufficient – it must be actionable to create value.”

Todd Winship

Data and Analytics Product Director

An interview with Todd Winship,
Data and Analytics Product Director
at Temenos.

Q Why are Analytics so important to banks?

A I believe that data and analytics will fundamentally change banking over the next five to ten years. Banks who have strategically invested in data and analytical platforms will be the winners of the future as they will be able to digitally engage with customers on a one-to-one basis, be more capital efficient than their competition and take advantage of the emergence of new banking business models which will ultimately make them more profitable. At Temenos, we are building the next generation of data and analytical platforms, which will future proof our customers for the business and technology changes ahead. It is a very exciting time to be part of Temenos - especially in the Data and Analytics teams.

Q How can the use of data and analytics be a differentiator to banks?

A Banks have extremely valuable data at their disposal that, with the right analytical capabilities, can set them apart from both their traditional and non-traditional competitors. I view this differentiation across short and long term time horizons. In the short term, if we look at digital customer engagement as an example, analytics are essential in effectively communicating and targeting today's banking customers. Banks must utilise analytics to fully understand a customer's financial needs and offer only the relevant product and services for that customer, at the right time and through the most optimal channel. Banks who are able to achieve this will rapidly take market share from their competition.

Longer term, we will see new regulations and business models emerge and banks will need to rapidly respond or be left behind. Regulations or directives such as BSBS 239, IFRS 9 and PSD2 require robust data platforms to satisfy in an expeditious manner. New business models for financial optimisation, data monetisation and others will again require data and analytics capabilities to ensure banks can stay ahead of non-traditional fintech companies.

Q What does the future hold for analytics?

A The future for advanced analytics in banking is very exciting. We are seeing artificial intelligence and machine learning changing the game and underpinning early versions of chatbots and robo-advisors. We also expect to see rapid advancements in embedded and predictive analytics providing automated decisioning capabilities from directly within systems such as core banking and channels solutions. I call these 'invisible analytics' as you cannot see it, but it is behind the scenes driving optimal behaviour. However, since the field is evolving so rapidly we cannot completely predict the future. What we do know is that banks must start investing now in data and metadata solutions, data governance programs and other platform capabilities that will be essential underpinnings to the analytical solutions of the future.

**AVERAGE
FINANCIAL
INSTITUTION**

3.8
petabytes

the equivalent of

76 million four-
drawer filing
cabinets full
of text

8,000 years
of continuous
playing of
MP3 songs

the estimated
size of the data
it maintains

41%

improvement in
business performance
when using big data¹²

Thought leadership continued

THE FUTURE OF RETAIL BANKING AND THE CASE FOR CORE TRANSFORMATION

The widespread uptake of disruptive new technologies is exacerbating the pressures facing retail banking today, thereby driving a fundamental change in the structure of the industry i.e. digital-driven disintermediation of the banking value chain.

The widespread uptake of disruptive new technologies is exacerbating the pressures facing retail banking today, thereby driving a fundamental change in the structure of the industry i.e. digital-driven disintermediation of the banking value chain. Most European banks are not equipped for this change because of the limitations of their aging legacy systems. Although banks have been investing in digital propositions in the frontend, they have been reluctant to embark on core systems replacement. At Temenos, we believe that true digital transformation requires developing a coherent front-to-back proposition, built on a future-proof, modern core banking platform rather than on a complex web of legacy applications. Without a modern core, it is not possible to fulfill the emerging needs of the industry and to meet the heavy regulatory burden in an affordable way. The good news is that core banking transformations can now be executed easily and with acceptable levels of risk, because of the sophistication of packaged software now available and the lessons learnt and proven benefits delivered from successful transformations all over the world.

THE TECHNOLOGY MEGA-TRENDS IN RETAIL BANKING

Today, a nexus of four disruptive technologies – mobile, cloud, big data and social media – is becoming omnipresent in retail banking. Blockchain, the distributed transaction validation model behind digital currencies, is another technology likely to significantly impact banking, especially payments, in the future.

Mobile

With only 30% of accounts globally opened in a branch compared to 70%¹⁴ digitally (online or mobile) in 2013, branch significance as the primary banking channel has already been greatly reduced. Of the digital channels, mobile is fast becoming the largest banking channel by number of transactions.

Cloud

Regulators and policy-makers in Europe are starting to endorse cloud-based banking services, while becoming less concerned about security and data privacy.

Big data

A bank's ability to curate, manage and leverage big data, namely the vast stores of structured and unstructured information from within the bank, as well as from exogenous sources like social media sites, Partners, suppliers and customers, will be a key differentiator. The value of big data to the retail banking industry is estimated at more than GBP 6 billion over the next five years¹⁵. Banks are increasingly investing in this area – global IT spend on big data and analytics is expected to rise by 50% between 2015 and 2019, with the financial services industry poised to spend the most¹⁶.

Social media

One in three of the world's population is already an active social media user¹⁷. This is growing at 10% year-on-year. Apart from its emerging use as a digital channel in developing economies with young populations, like Turkey or Africa, social media provides banks with contextual awareness of their customers' preferences and feedback on their products and services.

Blockchain

Blockchain is expected to impact payment processing by reducing the need for intermediaries and forcing banks to re-examine their role in the payments ecosystem. By enabling banks to use a mutually shared infrastructure, some industry experts predict that Blockchain could reduce banks' infrastructure costs by USD 15-20 billion a year by 2022¹⁸.



17%

increase in RoE

by replacing core banking with third party vendors¹³

6m

customers

onboarded in first year of adoption¹³

99.9%

STP

supporting seamless real-time processing¹³

<15

minutes

time to open a new bank account for 77% of customers¹³

INCREASING PRESSURES ON THE RETAIL BANKING INDUSTRY

The widespread uptake of these technologies, taken together, is exacerbating the pressures facing the retail banking industry – demanding customers, rise of new competitors and increasing levels of regulation. This is happening while the industry continues to face tough market conditions that are not likely to ease in the foreseeable future.

THE CURRENT REALITY

The vast majority of established banks, particularly in Europe, have complex and fragmented legacy IT architecture pre-dating the digital era that is inflexible and expensive to run and maintain. For some, a history of mergers and acquisitions has resulted in multiple, overlapping legacy systems across their business lines and countries of operation.

THE CASE FOR CORE TRANSFORMATION

Legacy-based IT architectures have several disadvantages, reducing the banks' ability to compete in today's world.

High operational costs

Banks spend on average 11%¹⁹ of their revenues on IT, a percentage much higher than other industries which have already industrialised their processes with the help of modern off-the-shelf commercial software. Moreover, only 30%¹⁹ of banks' IT spend is on growth and innovation; the rest is on business-as-usual, coping with the legacy spaghetti.

High operational risk

Apart from the risk of technological obsolescence and skills shortages caused by running 30+ year old systems, a legacy landscape with manual hand-offs and re-keying of information in different systems increases the risk of processing errors. Multiple interfaces introduce multiple points of failure.

CORE BANKING TRANSFORMATIONS – WHY (NOT)?

Core banking platforms that support all retail transactions are critical to a bank's operation, but in the past, replacing them was sometimes likened to open-heart surgery. Historically, banks have been averse to core banking transformation because of the perceived risk and disruption to business, combined with a difficult to justify business case. Many of these concerns are no longer valid.

CONCLUSION

At Temenos, we believe the tipping point has been reached. The banking industry is changing so dramatically, it is no longer possible for banks to stay competitive and fulfil the needs of customers with their legacy IT landscapes. Many bank executives have tended to view digital transformation too narrowly, concentrating on stand-alone front-end features such as mobile apps or online spend analysis charts. Digital innovation built on batch systems with inflexible product engines, hard-wired channels and broken, manual processes, is not sustainable. A modern, digital front-end without a modern core banking platform will eventually hurt a bank, for it will be unable to provide customers the full front-to-back service that they have come to expect from providers of lifestyle and retail services, like Amazon and Uber.

Thought leadership by
Kanika Hope

Strategic Business Development Director



Thought leadership continued

PAYMENT SERVICES DIRECTIVE SHOULD BE A TIMELY SPUR

Digitisation offers banks the chance to recast their role as one of a trusted advisor to customers, but they need to act quickly before EU legislation potentially cedes that opportunity to others.

Digitisation offers banks the chance to recast their role as one of a trusted advisor to customers, but they need to act quickly before EU legislation potentially cedes that opportunity to others.

The digital revolution has moved from existential threat to potential survival strategy for the world's retail banks.

The observation, revealed in our third annual study into retail banking 'Retail Banking: in tech we trust', suggests that banks have finally woken up to the opportunities that technology offers them when it comes to capitalising on digitisation.

It is far too easy to be pessimistic about banks' futures. Non-bank players – unburdened by legacy IT, expensive branch networks, analogue processes, large headcounts – can theoretically offer better services at a lower price point and so muscle out the banks.

But that theory ignores the inherent strengths that banks retain. Banks enjoy trust, distribution, capital, scale – and lots of data. Digitisation presents banks with the opportunity to analyse and draw insights from data and serve these up to customers at the time and place they need them. In so doing, they would recast themselves as trusted virtual advisors, with all of the corresponding benefits in terms of customer loyalty and wallet share.

And this role of trusted advisor has become more valuable as financial services have unbundled. While we're unlikely to ever see the return of the single bank relationship, there is a limit to how many providers people will want to deal with. So, there is a growing role for aggregators, who can rebundle financial services for consumers, especially where the aggregator provides both the best prices as well as value-added advice.

The issue for banks is that they're not the only organisations in line to become financial services aggregators and new European legislation will level the playing field. PSD2, which hit the statute book earlier this year, requires banks to give third parties access to customer data (using Application Programming Interfaces or APIs) where this is what a customer wants. Banks have until 2018 to comply.

So pretty soon, non-banks such as comparison sites, internet platforms as well as fintech companies could have access to customers' financial transaction data, with which they would be able to recommend the most suitable products and services. And for most of these companies, data analytics is their core competence.

This is really an existential issue. If banks allow other companies to gain the initiative and become the distributors of financial services, they lose the ability to upsell and cross-sell. They cede control over pricing. They would be relegated to product manufacturers; a position for which, unlike many fintech competitors, they do not have the right cost structure.

In this context, it is a surprise banks haven't put up more of a fight around PSD2. It is inconceivable that, if the tables were turned, a company such as Alphabet wouldn't have resisted fiercely any attempt for it to open up the metadata it holds on its customers.

But, anyway, regulation can't be relied upon to hold back major shifts in consumer behaviour – just look at the music industry Canute-like attempts to stop online downloads.

The good news is that this might be the spur to innovation that the banking sector has been calling for and there is still time for banks to seize the initiative.



of bankers believe banking will be fully automated by 2020



of bankers believe that data management is a top priority

We are already starting to see examples of banks working in collaboration with fintech companies. To date, these partnerships – like the ones between Santander and Funding Circle in the UK or JP Morgan and OnDeck in the US – have mostly worked on the basis of referrals. But they will likely soon become 'fintegrations' where the services are offered direct to the consumer through the bank platforms using APIs.

The EIU report also suggests bankers are alive to the risks and changes in their industry. For example, 64% of respondents believe banking will be fully automated by 2020, while 57% believe more payments will flow through fintech firms than traditional banks by 2020. Banks also seem to be making many of the right investments – in hiring the best talent and modernising technology. And in terms of digital investment, data management is top priority, cited by 25% of respondents.

The forces of digitisation, accelerated by PSD2, are coming whether banks like it or not. The time is now for banks to capitalise on their position of strength to become trusted advisors to their customers. If they don't, someone else will – with potentially devastating consequences.

Thought leadership by
Ben Robinson
Chief Strategy Officer



"We are now seeing an ever increasing activity in the payments space driven by a number of factors including Instant Payments, payments platform modernisation, and PSD2 projects."

Darryl Proctor

Payments and Transaction Banking Product Director

An interview with Darryl Proctor, Payments and Transaction Banking Product Director at Temenos.

Q 2017 will be a key year in the world of payments, but what makes the Temenos Payments Hub solution so different?

A We live in a digital world. Having a true real-time digital core banking system with a payments hub designed by banks, for banks, which offers excellent breadth and depth of functionality is key for financial institutions. And with flexibility through configuration also being essential, this depth of functionality is the only way banks can meet the demands of their customers. Our hub is sufficiently agile to work with any core banking solution, however, the additional value and uniqueness it brings is that it allows those banks with our core solution to have a complete, seamless banking system without complex integration associated with separate systems. Banks can now offer their customers a harmonised payment experience with true straight through processing, not available anywhere else today. In addition, the solution provides fully centralised control with a 360° view of all transactions in real-time and weight based processing enabling easy prioritisation at customer level or according to payment volume or value.

And we aren't new to the world of payments; Temenos has been processing payments for over 20 years through our Core Banking solution which supports many millions of payments a day across the globe. Most, if not every, transaction that is generated within our core banking solution results in a payment. With our Payments Hub solution, we take that one step further servicing a critical part of the bank in a way that no other software vendor can; harmoniously.

Q The world of payments is moving very quickly, where do you see the market going and why?

A The global network payment services market is expected to witness growth at a CAGR of 7.7%²⁰ over the next five years. This is due to the widespread adoption of digital payment solutions by not just businesses and consumers, but also governments, banks, and financial institutions. During the forecast period, non-banking companies such as device manufacturers, technological

firms, retailers, and e-commerce payment providers are creating new and innovative payment platforms such as mobile wallets, integrated POS systems, wearables, and mobile applications. Digital payments are expected to account for approximately 20% of all retail transactions by 2021²⁰.

But it's not just digital in the traditional sense that banks need to be able to manage. Banks and other financial institutions have been active in investing (time and/or money) within the Blockchain space. Blockchain technology allows everyone to hold and make transactions as strangers but in a completely transparent manner without a mediator. This concept can be applied to the entire digital world, making any kind of exchange/transactions secure (and not just cryptocurrencies such as Bitcoin).

Real-time payments will play an enormous role in the evolution of the payments market. Across the world, real-time payments systems and infrastructures are being planned or rolled out, following the success of schemes such as Faster Payments in the UK and FAST in Singapore. This rising tide of real-time payments reflects growing consumer demand for real-time transactions, driven partly by the ubiquity of smartphones and other connected devices, which have catalysed consumer expectation for immediacy. It also reflects the digitisation of the supply chain in which real-time payments enable corporates to collect and analyse financial transaction data immediately, derive financial insights instantly, and drastically reduce the effort involved in reconciliation. As well as meeting consumers' rising expectations around payments, the banking industry is facing rising pressure from governments to create ubiquitous nationwide and regional real-time payments systems that can be used by all financial institutions. Given these twin drivers, real-time payments is expected to become the new standard for banks, acting as the banking world's answer to payment initiatives from new competitors such as Venmo (USA) and BlueCash (Poland). Let's not forget though, that in order to service real-time payments, you need to ensure that

7.7%
payment services
market growth over
the next five years

20%
of retail transactions are
expected to be digital
payments by 2021

your foundational core banking software can cope too. Many legacy, in house systems, are just not able to cope with this. Core transformation is as important as a modern payments platform in this space.

Q The digital bank of today/tomorrow needs a digital real-time core, how does the Payments Hub support the world of tomorrow?

A Being a truly digital bank is no longer a differentiator, it is essential to service delivery, and banks are now realising this. To survive (and profit) banks must transform their customers' experience and offer innovative banking solutions:

- Offering the right customer insights at the right moment, via the right channel;
- Drive massive efficiencies in the back office; ultimately, front office differentiation with back office automation;
- Draw insights in real-time and from multiple datasets; to ensure a quality, user experience;
- Speed of fulfilment is also critical; the digital solution must therefore be front-to-back;
- Stay ahead of market trends; with tools to design and deliver new banking products;
- Open APIs must be accessible; ensuring that easy access to innovation and services from third parties using APIs is available; and
- Other elements such as modularity, deployed in stages, allow for faster time-to-value and lower risk and upgradability (perhaps independently).

This ultimately comes down to using a single platform, a recent shift in banks decision-making highlighted within the recent 'Ovum Decision Matrix: Selecting a Digital Banking Platform, 2017–18'. Our Payments Hub offers this seamless integration with the core banking platform to ensure the level of straight through processing that's needed for a truly harmonious, customer experience; one that is truly digital.

Thought leadership continued

FOUR BANKING MODELS FOR THE DIGITAL AGE

Digitisation of the banking industry is making new banking business models possible. But, it is the combination of regulation and technology that is making new business models a necessity.

There are four strategic options open to banks. These vary in terms of the scope of banks' own activities as well as in terms of profitability. The traditional universal banking model and the infrastructure provider model are both asset intensive and low margin, which makes them unattractive. In addition, the universal banking model, in that it requires the bank to manufacture and distribute all of its products, is probably unsustainable. The aggregator model, top left, offers the possibility for very high profitability with low asset intensity, but will be difficult to defend. Thus, it is the vertically integrated but open platform model which offers the best route to sustainably high margins.

THE TECHNOLOGY DRIVEN CHANGE

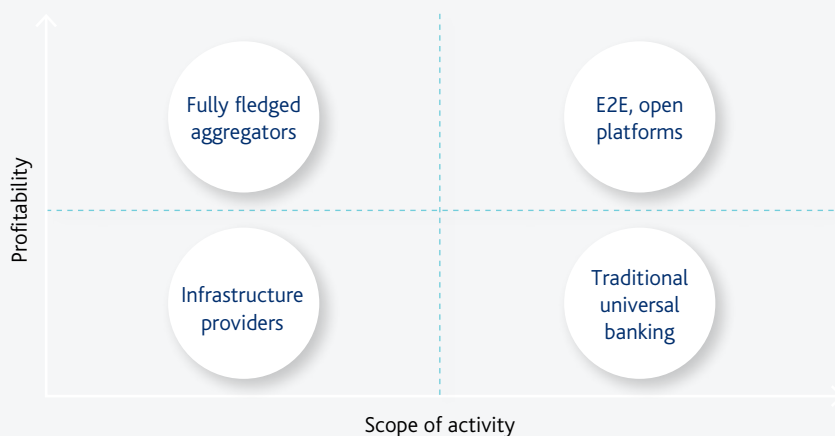
Banking is subject to the same technology-driven change as other industries and which make a creator economy possible. The internet has provided a platform for distributing goods and services that is global and cross-industry and which can be divorced from manufacturing, opening up banking to outside competition, especially from internet platforms. Advancements in data science and artificial intelligence make it possible to give faster and constantly-improving levels of online customer experience across much larger customer numbers, meaning companies with the best algorithms – and especially the most data – can dominate. And mobile has grown internet usage while simultaneously increasing the amount of time we spend online, making this the pre-eminent channel for customer engagement and extending the rewards to the platforms that succeed.

A NEW REGULATORY REGIME

But, as a heavily-regulated industry, regulation also plays a very important part in determining banking business models. It is the combination of new technologies and new regulation that is making new business models a necessity rather than just a possibility.

FOUR STRATEGIC BANKING MODELS

Banks of the future must choose where they want to compete in the value chain.



The open banking initiatives such as PSD2 in Europe, which obliges banks to share customer data with third party providers where a customer requests it, are intensifying the battle for distribution which technology changes had already initiated. From 2018, aggregators can get access to customers' transactional data via APIs. This will put them in a position to give ex ante recommendations based on customers' spending behaviour which before would only have been possible by acquiring that data through some other means, such as offering a payments platform (like Apple Pay).

On the other end of the scale, system safer directives such as Basel III, by forcing banks to set aside larger capital buffers against risk weighted assets, have the effect of making regulated banking activities more expensive and pushing riskier activities outside of the banking industry. In many areas of banking, regulatory arbitrage is likely a bigger advantage to newcomers than faster adoption of new technology.

Other new rules, such as the transparency directives like MiFID II, are also likely to have impacts on business models at once encouraging consolidation among fund providers while opening up a bigger opportunity for automated investment services.

NEW STRATEGIC IMPERATIVES

Against this background of changing regulation and changing technology, banks must appraise the ongoing viability of their business model. In effect, we believe that all banks will be forced to adopt one flavour of the following four business models.

DO NOTHING

The first option is the 'do nothing' option. While this may be tempting, in common with so many industries undergoing change, this option is the most dangerous.

Most banks operate a full-service model today. That is, they provide retail or corporate customers with a current account and a range of own-labelled products and services on top, such as mortgages and credit cards.

The problem with this model is that there is a proliferating number of providers at every point in the value chain offering individual products at a lower price point, with less friction and better customer service. Trying to compete with these providers is impossible because of legacy software, but also because it would unpick a web of cross-subsidies where profitable products prop up unprofitable ones.

Rather than wait for this unsteady edifice to come crumbling down, banks should rationalise their products offering, concentrating on areas where they command competitive advantage or areas that are highly strategic.

BECOME AN INFRASTRUCTURE PROVIDER

Another option is to become a service provider to other banks or fintech companies, as banks such as Bancorp and Solaris have opted to do.

The value proposition of such a model is to eliminate the need for others to engage in heavily regulated activities and take on the associated compliance burden, or – for a new entrant – even to have to apply for a banking licence at all. As noted earlier, regulation is pushing up the cost of doing regulated business and of compliance in general.

Such a model could be lucrative if the provider is able to achieve significant economies of scale, spreading the fixed compliance costs across a much larger volume of business. And such businesses will be run in the cloud to take advantage of the scale economies of shared infrastructure.

However, since the services provided are commodities and there is no room for network effects (where more users of the services makes the services better), this will not be a high margin business. What is more, since regulation is making cross-border activities more expensive, these infrastructure providers are likely to be domestic champions. How many providers can operate this model will depend on minimum efficient level of scale and whether there are limits to scale economies.

AGGREGATOR

A more profitable model to operate would be one of aggregating financial services.

In such a model, a bank would turn itself into a distributor of financial services products. That is, a bank would not manufacture financial products and services but instead source them from an ecosystem of Partners. In this way, the bank does not have to incur the costs of manufacturing products or compliance and can also provide customers with access to a broader range of products than if the bank tried to produce everything itself.

In order to make this model successful, the bank needs to become a virtual advisor, using customers' data to help them make better financial and operational decisions – effectively providing a customer with the right advice and/or other service at the right time and across the right channel for the customer to act smarter. The bank monetises this service, inter alia, by taking a small fee on all of the products and services the customer uses.

For a long time, the challenge to operating such a model was not technology – mobile has already opened up the channel to do so – but data. Without access to customers' transactional data, it was difficult to provide truly value-added advice: for example, helping customers to set savings goals is much less useful if you can't also help them to make savings. But PSD2 is changing that by allowing third parties access to banks' transactional data records. Now, internet platforms can add transactional data to the stores of contextual data they hold to be in a position to give very timely and relevant advice. Price comparison sites will be able not just to help you find the best deal, but tell you when you are eligible for such deals.

PSD2 has effectively made banks online addressable in the same way that smartphones with GPS made the taxi market addressable to Uber or every home having a DSL line made Airbnb possible.

The aggregator is really a model for the creator economy. A bank gains customer engagement by working with customers, helping them to better understand their financial affairs and the options open to them, but ultimately empowering them to make those decisions – making them a co-creator.

As a model for the creator economy, the aggregator model can be extremely lucrative. Operating such a model, a bank can generate massive economies of scale by potentially servicing millions of customers from the same software platform. But also, as a platform, there is the potential to generate network effects that could lead to increasing returns to scale. Firstly, there are the two-sided network effects whereby larger customer numbers leads to a larger number of ecosystem Partners which then, by offering the widest choice, attracts more customers and so. But, there are also the data network effects, whereby the bank learns more about how best to serve customers the more data it captures meaning it gives better and better services, attracting more data and so on. If the bank also opens up its platform for customer interactions with each other – with peers giving advice to each other, for example – then there are also interaction network effects enjoyed by the social network platforms.

The challenge with banks opting for the aggregator model is that it is difficult to argue that others couldn't do it better.

THIN, OPEN PLATFORM

A better strategic move would be to pursue a model that enables banks to both capture network effects and capitalise on their existing competitive advantages.

Banks competitive advantages are still numerous: trust (not as much as pre-crisis, but still more than many potential competitors), large customer bases, lots of data, strong execution capabilities across the value chain, access to cheap deposit funding and plenty of capital.

Moving to an aggregation-only model would mean leaving many of these advantages behind.

So, a better model would be a vertically integrated but open platform. It would be vertically integrated to take advantage of banks' execution capabilities and by extension their ability to offer superior levels of customer fulfilment (a key reason why Amazon is becoming more vertically integrated). However, it would be vertically integrated but thin with banks only offering a small number of own-labelled products where these are strategically important like current accounts (for data, cheap deposits) and payments (data) or where banks have a competitive advantage (like secured lending). And the platform would be open to allow banks to offer products and services from third-party providers, as in the aggregator model, but as a vertically integrated regulated bank could be delivered faster and with less friction.

As we wrote recently, the theory that the internet giants are asset-light distribution platforms is wrong. Many started out as such, but few stay that way. What most tech companies find is that to maximise their success, to generate greater network effects and to prevent losing out to new platforms, they need to acquire many assets and, in many cases, become more vertically integrated.

PSD2 has kicked off the platform race. Banks need to open up their distribution channels, to become aggregators, to have any chance of competing effectively. But, their best bet is to combine an open distribution with provision of a few strategic services sitting on top of a vertically integrated infrastructure. This seems the best way for banks to thrive in the creator economy.

Thought leadership by
Ben Robinson
Chief Strategy Officer

Thought leadership continued



Strategy in action

BANKING THE UNBANKED

Microsoft just launched its latest cloud advertising campaign.

Happily, it's a campaign featuring Temenos or, more specifically, the great work we're doing together with Microsoft to extend financial inclusion across the world.

WHY DOES FINANCIAL INCLUSION MATTER?

There are 7.3 billion people in the world, of whom roughly 4.8 billion are adults. However, only 2 billion adults have access to financial services. That is, c.60% of the world's adult population has no access to banking; an issue disproportionately affecting the young, the poor, the poorly educated and people living in rural areas – as well as developing economies.

This matters because, while we might sometimes love to hate bankers, a well-functioning banking system is critical for sustainable economic growth and wealth creation. People need a safe store for their savings. And a banking system is needed to match these savings with the needs of borrowers who need credit to acquire income-generating assets. Those assets can be tangible such as livestock, or intangible such as education.

This is how the microfinance industry came into being: to provide small amounts of finance to those who would otherwise be excluded from financial services, and so foster economic development.

WHY CAN'T FINANCIAL SERVICES BE OFFERED TO EVERYONE TODAY?

The issue is very much on the supply side. People want financial services, but financial groups aren't able to offer them across the right channels and at the right price point to meet that demand.

Fullerton Myanmar loan officer Min Thu, left, meets with Win Win Soe, who received a microfinance loan that helped her open a factory that makes noodle snacks.

c.60%
of the world's adult
population has no
access to banking

There are demographic factors at play, chiefly around low population density and large rural populations, that make it difficult for banks to build profitable branch operations to service these needs.

But the bigger challenge is around the size and frequency of transactions. If I borrow USD 10,000 to buy a new car and the bank's administrative costs are USD 100, or about 1%, that is not that material. If, however, I borrow USD 100 to buy some tools and the administrative fee is USD 100, then there is a problem. Typically these types of loans tend to have much shorter durations, raising distribution costs further. So interest rates tend to be high and formal banking becomes prohibitively expensive for billions of people.

HOW IS TECHNOLOGY HELPING TO BANK THE UNBANKED?

There are two key technologies that are resolving this supply side issue.

The first is mobile. Mobile technology removes the need for physical distribution. Your cell phone is your bank – meaning you can bank anytime and anywhere, even if you live in the most remote rural locations. And mobile penetration rates are dramatically higher than banking penetration rates. Today in sub-Saharan Africa, 88% of people don't have a bank account but only 31% don't have a mobile. So, mobile technology can help solve this problem – and do so now.

The other technology is cloud – or more accurately modern software running in the cloud. By automating processes, eliminating errors and so on, modern banking software enables financial firms to lower IT costs and to extract economies of scale from technology as they grow. The cloud takes this to next level, allowing these applications to infinitely scale with low overheads. By enabling firms to share IT infrastructure costs, the cloud lowers costs for all.

The use of the cloud in microfinance is still nascent, but based on our experiences so far, we see that by lowering infrastructure costs it can lower the cost of borrowing to the end customer by more than 90%

CHANGE IS EXPONENTIAL

Temenos has been involved with the microfinance industry almost since it started in 1993. Over that time, working with our clients, we have made great progress in banking the unbanked.

But the progress is exponential. It took Temenos 20 years to bring banking to 10 million people. With the help of advancing technology, it took us two years to bring banking to a further 10 million people.



Strategy in action

STANDARD CHARTERED BANK SELECTS TEMENOS WEALTHSUITE AS GLOBAL WEALTH MANAGEMENT PLATFORM

WealthSuite to be deployed across wealth management operations in over 30 countries.

Standard Chartered Bank, a leading international banking group, has selected the WealthSuite integrated wealth management solution for deployment in more than 30 markets.

Temenos' integrated wealth management solution, WealthSuite, delivers back office standardisation alongside front office differentiation. The award-winning WealthSuite, recently deployed at Nordea in Luxembourg, combines in one platform market-leading solutions for core banking, portfolio management, channels and analytics.

The deployment of one standard wealth management platform across Standard Chartered Bank's wealth management operations in more than 30 countries will enable it to save significant hardware and maintenance costs, introduce much higher levels of automation and extract economies of scale as it grows. The system upgrade allows for significantly enhanced customer service through faster fulfilment, better reporting and more personalisation given enhanced analytics and portfolio management capabilities. Clients can also expect better access to a suite of wealth management products and a more consistent customer experience across segments and markets.

"Banks across the world are making big strategic bets on the growth potential of the wealth management industry. Delivering that growth requires banks to offer a wide range of competitively-priced products and provide great customer experiences. To be successful, what will count is both a sound strategy and the technology to execute against it. With WealthSuite, our client will have the platform to sustainably differentiate its customer proposition in a highly competitive marketplace."

Andreas Andreades
Executive Chairman

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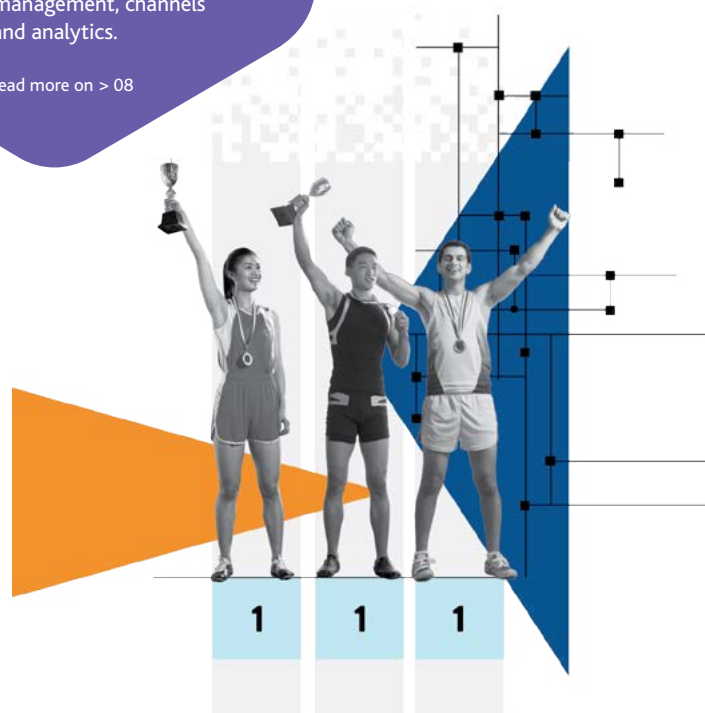
WealthSuite to be deployed to over 30 countries, enabling Standard Chartered Bank to save significantly on costs



WealthSuite

Temenos' integrated wealth management solution, WealthSuite, delivers back office standardisation alongside front office differentiation. The award-winning WealthSuite, recently deployed at Nordea in Luxembourg, combines in one platform market-leading solutions for core banking, portfolio management, channels and analytics.

[Read more on > 08](#)





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Corporate Social Responsibility Report

INVESTING IN A
SUSTAINABLE FUTURE**David Arnott**

Chief Executive Officer

"For over 20 years we, at Temenos, have been proud of our reputation for professionalism, integrity and the strong relationships we have built up with our clients."

MESSAGE FROM THE CEO

Starting from a small company of few people, we have grown to become a global leader in our field, delivering business excellence and long term value through superior financial performance to all our stakeholders. Our c.4,400 people are the driving force behind this success and an important factor in shaping a sustainable future for the Company. Guided by a strong Corporate Governance and leadership model, that ensures the highest level of ethics and transparency in a corporate culture of compliance and innovation, and a Business Code of Conduct that sets the direction in managing our operations in a responsible and sustainable way, we have been conducting our business with integrity, honesty and transparency, inviting and including all our stakeholders in our decision-making and honouring their expectations accordingly, while returning value to the society and the environment.

As a global company, we have been operating at an exceptionally high standard of integrity in complying with the laws and regulations of the countries in which we operate – in some cases higher standards than required by national laws or regulations. We have integrated sustainability into our policies and processes, our business planning, measurement and reporting systems, our management practices, decision-making and governance; in other words, into the way we operate. In this way, we have been better prepared to anticipate global business, social and environmental challenges and actively manage the risks and opportunities associated with them.

We expect every single person working for and with Temenos – our clients, investors, Partners, suppliers, regulators, non-governmental organisations (NGOs) and the media – to act equally responsibly and with integrity at all times and in all circumstances and ultimately live up to the Temenos standards.

In 2016, in order to make this expectation clear to all our stakeholders, we have launched an internal cross departmental project to explicitly align our Business Code of Conduct and our corporate policies with the ten principles of the United Nations Global Compact, as well as the OECD Guidelines for Multinational Enterprises. In addition, we are committed to measuring our non-financial performance and reporting on it along with our financial performance.

We are proud of the progress we have made for the past 20+ years. As we look to the future, we will continue to embrace our global role and create sustainable value for our clients, investors, employees, business Partners and the communities in which we operate.

David Arnott

Chief Executive Officer



ABOUT TEMENOS

Founded in 1993, Temenos Group AG, headquartered in Geneva, is the market-leading provider of mission critical software to financial institutions globally with more than 2,000 clients in 145 countries worldwide.

Temenos software provides financial institutions with a single, real-time view across the enterprise, enabling them to maximise returns while streamlining costs.

Mission, Vision and Core Values

Vision

Every financial institution to run on packaged, upgradable software – to create a better and more inclusive world of banking and finance.

Mission

Build real-time, integrated and open software for the banking and finance industry.

Values

- We believe in the power of people. People make things happen. People define our destiny;
- We place clients at the core of what we do. Everything starts and ends with our clients' goals;
- We see things differently from everyone else. Average people see difficulties, exceptional people see opportunities; and
- We inspire, through living up to our full potential. We dream big and pursue our goals fearlessly.

2017 Goals

- To introduce a fifth value, communicating our commitment and pledge to operate responsibly and be open, accountable and responsive to stakeholder concerns and expectations.

2016 non-IFRS financial highlights (constant currency)

- Total software licensing growth of 20%;
- Maintenance growth of 6%;
- Total revenue growth of 14%;
- Services margin of 9.1%, an improvement of 0.6 percentage points;
- EBIT margin of 29.4%, up 128bps;
- Cash flows of USD 258m, up 13%;
- Cash conversion of 114%, with DSOs down 27 days in the year; and
- Strength of cash flows and growth in profit support 2016 dividend of CHF 0.55 per share, an increase of 22% (2015: CHF 0.45 per share).

2016 operational highlights

- Outstanding performance in 2016, after landmark 2015, driven by continued high levels of client activity across tiers and segments;
- Pressure of digitalisation is driving banks' strategic decision-making and market growth;
- Temenos saw growth across all geographies in 2016, with Europe and Asia particularly strong;
- Vendor of choice for Tier 1 banks, as demonstrated by winning all the key large deals in the market, in particular Standard Chartered Bank and Bank of Ireland;
- Significant progress made in the US, with go-live of a top 20 US bank and winning of Commerce Bank, the 38th largest bank in the US, for its core replacement;
- Strength and quality of pipeline gives confidence for continued strong growth in 2017; and
- Partner ecosystem continues to mature, with strategic Partners involved in winning and implementing key large deals, and Partners involved in majority of implementations across client tiers.

Corporate Social Responsibility Report continued

CORPORATE GOVERNANCE

Corporate Governance at Temenos is set up so as to promote the long term interest of all of our stakeholders and foster a culture of transparency, business integrity, responsible decision-making and accountability, maintain internal checks and controls and help build public trust in the Company, by balancing the interests of all its stakeholders.

Board of Directors, Executive Chairman and Committees

Temenos is managed by the Board of Directors that consists of seven members: the Executive Chairman and six Non-Executive Directors, elected by the General Meeting of Shareholders.

Temenos is a typical software company where product, technology vision and deep market knowledge are instrumental in the success of the Company and it is common to have executive chairmen structures where founders/near founders have a critical role to play in the running of the Company. The role of the Executive Chairman is to support, advise, counsel and provide guidance to the Executive Committee, and directly to the CEO and CFO/COO on a regular basis. He also attends the monthly Product Board where product strategy and funding are decided and execution is monitored. The Chairman is very heavily involved in acquisitions and in key client/prospect relationships that often require the CEO and/or Chairman's participation to bring key deals to fruition as well as representing Temenos on key project deliveries through Steering committee representation. He works full-time in an executive capacity and is jointly responsible together with the CEO and CFO/COO to the Board of Directors for the development and delivery of the strategic plan and the annual business and financial plan.

The Board of Directors serves as the ultimate decision-making body of the Company, except for those matters reserved to or shared with the Shareholders. The Board of Directors maintains three Committees. Audit, Compensation and Nomination Committees (Committees) are governed by terms of reference defining their duties and compositions. These Committees are composed mainly of independent and Non-Executive Directors. These Committees report regularly and make recommendations to the Board of Directors which is empowered to make decisions.

The Audit Committee considers the Group's public reports, liaises with the external and internal auditors and reviews the Group's internal controls, compliance with corporate governance rules and any other matters that may be brought to its attention by the internal and/or external auditors. The external and internal auditors are in attendance at all Audit Committee meetings.

The Compensation Committee supports the Board of Directors in reviewing and making recommendations on compensation practices, guidelines and procedures and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the members of the Board of Directors and of the Executive Committee. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.

The Nomination Committee annually reviews the structure, size and composition required of the Board of Directors and makes recommendations to the Board of Directors with regard to any changes, establishes qualification criteria for Board of Directors' membership and gives full consideration to succession planning for both members of the Board of Directors and members of the Executive Committee.

The Board of Directors meets as often as business requires, but at least four times a year, the Audit Committee meets at least twice a year and the Compensation and Nomination Committees meet at least once a year.

The Board of Directors, together with its Committees, exercises inalienable and non-transferable functions as provided by law, by the Company's Articles of Association and by its bylaws. The Board of Directors decides in particular on significant acquisitions, disposals, strategic alliances, changes in the Group's structure and share repurchase programs though its responsibilities are not limited to this. Once a year, the Board of Directors reviews its conformity to corporate governance rules and evaluates its own performance.

Chief Executive Officer and Executive Committee

The Executive Committee, with the guidance and full support of the Executive Chairman, is responsible for execution of strategy and monitoring performance against it. The Executive Committee also sets targets for Group organic and acquisitions growth on a three year basis i.e. the strategic plan to be then formally approved by the Board of Directors. Finally, the Executive Committee approves all product investments, as well as acquisitions to be proposed to the Board of Directors.

The Executive Committee comprises the following members:

- Chief Executive Officer
- Chief Financial Officer/Chief Operating Officer
- Chief Technology Officer
- Group Product Director

Internal Audit and Controls

The Board of Directors is responsible for the Company's system of internal controls. Supervising the risk management process, effectiveness and efficiency of operations, accurate reporting, compliance with laws and regulations and safeguarding the interests of the Company are some of the main responsibilities of the Board of Directors.

Internal Audit at Temenos provides an independent assurance on effectiveness of internal controls. It operates based on an approved charter and follows International Standards for the Professional Practice of Internal Auditing issued by the Institute of Internal Auditors. This function's independent status is assured by the fact that the Internal Audit Director reports directly to the Chairman of the Audit Committee. Findings from internal audit reviews and/or internal control self-assessments, together with related action plans, are reported in detail to senior management. Summary reports are provided to the Audit Committee on a regular basis. Implementation of action plans is monitored on a monthly basis and status is reported to the Audit Committee.

Risk management is an integral part of the business process. Regular risk assessment is performed and key risks are reviewed by the Audit Committee and then by the Board of Directors itself. Internal audits are risk-based and aligned with risk management processes that are defined in a formal Temenos Risk Management Policy. Internal Audit plans are approved by senior management and the Audit Committee. Their scope covers all areas of Temenos including Sales, Product Development and Support, Services and IT. Internal Audit coordinates its activities with other assurance groups such as Product Quality and Information Security to ensure seamless coverage of key company risks. Internal Audit reports are issued to all stakeholders and the Audit Committee. There are monthly follow-ups on all open issues to ensure timely closure and mitigation of risks. Temenos is regularly audited by third parties to maintain various certifications that it holds – Capability Maturity Model Integration (CMMI), ISO9001, ISO27001, SSAE16, SOC1 and SOC2.

More information on Corporate Governance is available on www.temenos.com and in the Corporate Governance Report on pages 91-100.

OUR CSR APPROACH

Our Commitments

Temenos pledges to be open, accountable and responsive to stakeholder concerns and expectations and grow its business in a sustainable way that delivers value for anyone associated with it. We aim to go beyond compliance, drawing upon internationally recognised standards, in order to advance social and environmental responsibility and business ethics.

We are committed to:

- Building long term sustainable relationships with our stakeholders;
- Managing our operations in a responsible, secure and sustainable way;
- Helping our clients transform into smart, sustainable organisations; and
- Achieving both financial and non-financial value (business and social value) for our stakeholders.

Our Actions

At Temenos, we have gone beyond the requirements of the law and have started integrating corporate responsibility into our corporate strategy, business principles, policies and processes, decision-making and governance. In this way, we can better anticipate global business, social and environmental challenges and actively manage the risks and opportunities associated with them. Towards this direction, we have put in place the Temenos Responsibility Management System, a comprehensive internal mechanism with three functions:

- To manage our CSR strategy;
- To monitor, analyse and assess our Environmental, Social and Governance (ESG) footprint, with the use of non-financial KPIs; and
- To communicate and raise awareness about our CSR strategy to all stakeholders internally and externally.

MANAGING CORPORATE SOCIAL RESPONSIBILITY

Our commitment to assess and manage the impact of our operations is demonstrated in our Business Code of Conduct and our corporate policies. The members of the Board of Directors and the Executive Committee have endorsed the Code. Oversight of sustainability issues is part of the duties of our senior management, through the CSR and Ethics Committee.

TEMENOS RESPONSIBILITY MANAGEMENT SYSTEM



CSR and Ethics Governance

To ensure the effective implementation of our CSR strategy, Temenos has integrated responsibility into its organisational structure and Corporate Governance. Temenos has a Corporate Social Responsibility Department, responsible for managing the Group CSR strategy, interacting with stakeholders and driving the CSR initiatives.

In addition, we have instituted the CSR and Ethics Committee at the senior management level. The purpose of the Committee is to oversee Management's ('Management' includes members of Temenos senior management tasked with or who contribute to Temenos activities related to CSR and Ethics) efforts to foster a culture of Sustainability, Responsibility and Ethics within the Company. The Committee's role is one of oversight, recognising that Management is responsible for instilling Temenos' values throughout the Company. The members of the Committee are selected in such a way, so as to provide a broad connection across the Company functions.

The Committee consists of:

- Chief Financial Officer/Chief Operating Officer (Chairman of the Committee)
- General Counsel (Deputy Chairperson of the Committee)
- Group CSR Manager (Secretary)
- Group Human Resources Director
- Group Financial Controller
- Internal Audit and Risk Director

Ethical Business Conduct and Compliance Business Code of Conduct

The Temenos Business Code of Conduct is the foundation of our commitment to ethical business practices and legal compliance. The Code defines standards for business conduct everywhere we operate and provides guidance in addressing the business, legal and ethical issues encountered while performing daily work or making decisions on behalf of Temenos.

The Code, which can be found on our intranet and corporate website, applies equally to full-time, part-time or temporary employees globally. The Code is a key part of the employment contract and contractor agreement. All employees are required to acknowledge the Code when joining the Company. The objective of the Code is to ensure that all stakeholders are aware of the behaviours that are expected from them. Temenos will require Partners and suppliers to gradually comply with the Code and related policies and to verify compliance by providing respective information when requested.

To adapt to the new global landscape, to better serve the interests of a broader set of stakeholders and to raise awareness about our responsible and sustainable operation, we have launched an internal cross departmental project to explicitly align our Code with the ten principles of the United Nations Global Compact on the four issue areas of Human Rights, Labour, Environment and Anti-Corruption, as well as the OECD Guidelines for Multinational Enterprises. The updated Code is based on the solid fundamental principles that have sustained us and brought us success, but have been reviewed to better address the demands of the changing global business environment.

In addition to compliance with all relevant laws, regulations and standards, employees shall comply with the Code even if it stipulates a higher standard than required by national laws or regulations.

Corporate Social Responsibility Report continued

Reporting Concerns

Our responsibility is to communicate with our employees and build controls to prevent and detect unethical and non-compliant conduct; when we identify or learn of concerns or improper conduct, to investigate them fully and take appropriate action to remediate. If instances of possible non-compliance with the Code are detected, an internal communication/grievance mechanism is in place to record verbally, in print or electronically any related concerns through:

- The line Manager
- Group Human Resources Department
- Group Legal Department
- Internal Audit and Risk

In case of anonymous reporting, there is an anonymous reporting mechanism in place through anonymousreporting@temenos.com. This email address is accessed only by the Director of Internal Audit and Risk.

Preventing retaliation is critical for Temenos. The Company maintains and communicates an open-door policy and strictly prohibits retaliation against complainants who raise a compliance concern in good faith. Retaliation for raising questions or issues is prohibited, even if an investigation does not ultimately validate the concerns raised. Temenos is committed to handling all inquiries discreetly and preserving the anonymity and confidentiality of anyone requesting guidance or reporting a possible violation to the extent possible and within the limits allowed by the laws.

Temenos will take immediate disciplinary action, up to and including termination, of any employee who violates this Code. In 2016, no case of Code violation was reported through the respective communication/grievance mechanism.

Corporate Policies

The backbone of our Code are the corporate policies linked to it that provide detailed guidance on how to exercise good judgement when working and making decisions for Temenos. Temenos is a global company and our business is subject to the laws of many different countries. In order to conduct our business on a daily basis, we interact with a variety of stakeholders. We are committed to interacting with all of these stakeholders in a respectful, ethical manner and in compliance with all the local and international laws of the countries we operate in.

The policies are reviewed annually and reflect our continued commitment to ethical business practices and legal compliance.

Anti-Corruption and Bribery

It is Temenos' policy to conduct all of its business in an honest and ethical manner. Temenos takes a zero-tolerance approach to bribery and corruption and is committed to acting professionally, fairly and with integrity in all its business dealings and relationships wherever it operates and implements and enforces effective systems to counter bribery.

Temenos upholds all laws relevant to countering bribery and corruption in all the jurisdictions in which it operates. Temenos is bound by the laws of the countries in which it operates in respect of its conduct at home and abroad, including but by no means limited to the US Foreign Corrupt Practices Act (the 'FCPA') and the Bribery Act (UK) 2010.

Anti-corruption and Bribery training is part of the compulsory e-training modules that all employees have to take when joining Temenos and to repeat annually during their employment with Temenos. In 2016, we achieved a completion rate of 100% for the training.

Since transparency and accountability have been in the core of our operation since our early years, we have set up an internal global system designed to centralise the declaration and/or approval process for gifts, entertainment and contributions to better shield the Company from practices that could be perceived as unethical and contrary to our Anti-corruption and Bribery practices.

We also have Anti-corruption and Bribery provisions in our Partner and contractor agreements as well as in our procurement process with suppliers. In 2016, we introduced a risk assessment tool for our suppliers to identify the level of risk associated with bribery and corruption, ensuring that we can only engage with those that are legitimate businesses with a reputation for integrity. We have also set an Anti-corruption framework and guidelines, when engaging with third-party representatives that introduce Temenos to new markets and projects.

Temenos monitors compliance with the policy regularly through routine and ad hoc checks and audits across the organisation. In 2016, no case of corruption was drawn to the Board's attention through the available communication channel.

Export Controls and Sanctions

Companies operating internationally face a variety of complex legal and operational considerations related to compliance with export controls and sanctions and responding to alleged violations. This has become an area of increased government focus and enforcement.

Temenos complies with all applicable export control laws and sanctions worldwide when conducting business around the world. All Temenos employees, contractors, distributors and Partners are expected and required to comply with the Export Controls and Sanctions Policy.

Failure to observe sanctions and export controls may cause operational delays, expose the Company to regulatory investigations, severely damage our reputation, and create substantial legal exposure for Temenos including criminal and civil fines, and for individuals, fines and imprisonment.

Conflict of Interest

Conflicts of interest in both the public and private sectors have become a major matter of public concern worldwide. As a global market-leading software provider, Temenos might be faced with actual, potential or perceived conflicts of interest. Temenos is sensitive to the ways in which an employee's private financial affairs could create potential conflicts of interest. Ensuring that the integrity of the Company's decision-making is not compromised by employees' private interests, Temenos has in place business-specific policies and procedures that address the identification and management of actual, potential or perceived conflicts of interest that may arise in the course of business.

Risk Management and Internal Controls

Temenos' policy is to have adequate controls in all areas of its operation to ensure:

- Compliance with applicable laws and regulations;
- Preparation of reliable financial and management reports;
- Safeguarding of Company assets (both physical and intangible); and
- Efficient and effective use of resources.

It is Management's responsibility to design, implement and operate effective risk management practices and controls. This is achieved through regular assessment of risks, carrying out control activities such as segregation of duties, supervision, staff training, communication and monitoring.

It is the role of Internal Audit to, among others, evaluate effectiveness of risk management and internal controls, assess compliance with policies and procedures and provide assurance to Management and the Board of Directors.

All Temenos employees, contractors, Partners and suppliers are required to fully cooperate with Internal Audit if and when requested and to provide access to all records, property and personnel as stated in the Internal Audit Charter approved by the Audit Committee.

2017 Goals

- To introduce the updated Business Code of Conduct which will be aligned with the United Nations Global Compact and the OECD Guidelines for Multinational Enterprises.
- To launch an e-training program for the updated Code and policies.
- To introduce a variety of mandatory role-specific Code and policies' e-trainings that address the compliance risks of particular business functions.

MONITORING, ANALYSING AND ASSESSING THE IMPACT OF OUR OPERATIONS

Materiality Analysis

Based on the risk assessment of the impact of our operations and on the engagement process with our stakeholders, we have identified the following material CSR issues for the business and our key stakeholders.

Understanding and prioritising the issues that matter to our business and our stakeholders enables us to address the right issues and report on them effectively. Based on that materiality analysis, we have developed our CSR strategy and set our commitments. This allows us to evolve our strategy and tailor our reporting, so as to be aligned with the interests and changing needs of our stakeholders, as well as those of the Company.

We define issues to be material to our business in terms of:

- The importance of the issue to our key stakeholders;
- The potential impact on our operations or our supply chain;
- The degree to which this issue is aligned with our mission, vision and geographic presence; and
- The extent of the Company's influence on the issue.

The following material issues for Temenos and our key stakeholders have been identified:

- Business Performance
- Ethical Business Conduct
- Human Capital
- Client Focus
- Information Security and Data Privacy
- Responsible Procurement and Supply Chain
- Social Responsibility and Community Engagement
- Environmental Responsibility
- Technology and Innovation

We believe that regular, open and transparent communication with our stakeholders is the most suitable medium to assess the impact of our operations and our performance as a corporate citizen. That is why we have started integrating CSR considerations into our dialogue with our stakeholders, drawing upon international frameworks such as the United Nations Global Compact, the UN Guiding Principles on Business and Human Rights and the Global Reporting Initiatives' Sustainability Reporting Guidelines.

Stakeholder Engagement

Engaging with our key stakeholders informs our decision-making, strengthens our relationships and helps us deliver our commitments and succeed as a business. In order to achieve our goals, we recognise that we need to work in partnership with those stakeholders who share our commitment and have a stake in our business. These engagements may take many forms, in order to better understand the needs and expectations of our stakeholders (please see table).

2017 Goals

- To continue to work in close cooperation with our key stakeholders groups and look for new ways of communication and engagement, while integrating relevant stakeholders at early stages of decision-making at all levels.

Corporate Social Responsibility Report continued

STAKEHOLDER GROUPS	STAKEHOLDER KEY CONCERNS	EXAMPLES OF ENGAGEMENT
Employees	<ul style="list-style-type: none"> · Career advancement · Training and development · Job satisfaction · Employee recognition · Responsible and secure workplace 	<ul style="list-style-type: none"> · Employee survey: MyVoice · Career development framework: Pathfinder · Performance management process: Compass · Training and development: Temenos University · Internal communication: uni-T intranet, social media and HR and regional newsletters · Employee recognition: regional employee recognition awards, C-level awards, Chairman's Club · Internal global mobility scheme · Business Code of Conduct and linked policies · Employee volunteering and fundraising matching scheme
Clients	<ul style="list-style-type: none"> · Client satisfaction and success · Quality, security and responsibility in delivery and implementation · Data privacy and protection 	<ul style="list-style-type: none"> · Client surveys: Client Voice program and Improve Client Satisfaction project · Product Board and Steering Committees · Annual Temenos Community Forum · Temenos Innovation Jams · Temenos MarketPlace · Client newsletters and updates · Client Portal, Client Relationship Manager · Audits · Corporate Security Board · Business Code of Conduct, data privacy and protection and corporate security policies
Investors	<ul style="list-style-type: none"> · Economic performance · Transparent and ethical corporate governance · Accurate, timely and responsible communication 	<ul style="list-style-type: none"> · Annual General Meeting of shareholders · Annual Capital Markets Day · Roadshows, investor and analyst meetings · Financial press releases and webcasts · Annual report · Corporate website · Business Code of Conduct and linked policies
Suppliers and Partners	<ul style="list-style-type: none"> · Ethical and responsible business conduct · Long term partnership 	<ul style="list-style-type: none"> · Procurement policies · Annual Temenos Community Forum · Temenos Innovation Jams · Training and seminars · Annual Partners' Meeting · Audits and risk assessments
Local Communities	<ul style="list-style-type: none"> · Access to education and jobs · Improve local living conditions · Support in emergency situations 	<ul style="list-style-type: none"> · Cooperation with NGOs · Volunteering of company time and resources · Employee fundraising · Microfinance projects
Academic Communities and Potential Employees	<ul style="list-style-type: none"> · Collaboration and job opportunities · Joint R&D projects 	<ul style="list-style-type: none"> · Temenos Sales Academy · Internships · Collaboration in research programs · Lectures and presentations · Company visits · Career days

OUR PEOPLE

Responsible Workplace

At Temenos we believe that our people make the difference. It is embedded in our Core Values. What we created and achieved in 2016 was the result of the aspirations and goals of the 4,356 unique individuals working together as a team across 63 office locations in 41 countries servicing clients in 145 countries that make up Temenos today.

Our people are the most important asset of Temenos. We pride ourselves in maintaining a variety of cultures and expertise through our people, with 91 nationalities represented within the Company. Through such diversity we have a dynamic work environment in which we continue to gather a wealth of knowledge that contributes to our commercial success. Consistent success in our fast-paced, demanding sector, is only achievable with a team of highly committed and talented people. We strongly believe in adding value every day and we want our employees to feel the same.

Temenos aims to create an open, fair, equal opportunity and honest work environment where all employees are treated with respect and courtesy in an inclusive, productive and safe work environment. All employees and contractors are responsible for upholding this principle and work towards making Temenos a great place to work.

Temenos operates a highly collaborative environment of our global team, with remote cooperation and communication facilitated through web-based applications including Skype for Business as well as information sharing through SharePoint and Yammer. This enables our global business to be fully connected and allows teams to collaborate remotely across multiple countries simultaneously, sharing information seamlessly. All employees are provided regular updates throughout the year on the Company's strategy through CEO business updates, supplemented by clear communication from regional management and Human Resources, where each business line is fully aware and engaged with their responsibilities and strategic targets.

Fair Labour Standards and Respect for Human Rights

We respect and support the values of the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises and the International Labour Organization's (ILO) Declaration on Fundamental Principles and Rights at Work by integrating human rights considerations into our business operations. We respect government policies in the countries where we operate, while seeking ways to honour these global principles. We conduct regular audits to check internal compliance with these standards.

TOTAL HEADCOUNT

Our total headcount as of December 31, 2016 was 4,356 people (employees and contractors). During 2016, we invested heavily in hiring new people in Sales and R&D, while at the same time increasing the skill level of our

people in certain geographic regions, such as India. Our partnerships increasingly allow us to deliver a complete range of implementation and support services to our clients and complement our growth strategies.



Diversity, Inclusion and Equal Opportunity

As a global company with 91 nationalities represented in 41 countries supporting our clients in 145 countries, we pride ourselves on our diverse workforce at all levels of the Company. We are committed to attracting, developing, promoting and retaining a diverse workforce to better serve our diverse clients and to excel in the global marketplace, while creating an inclusive environment in which all employees can contribute their unique knowledge and experience to make a real impact on the world around us.

A diverse workforce that blends different cultural backgrounds and work experiences is an important success factor. Our business philosophy as well as our organisational structure are not tied to one location, but are based on diversity, as we operate 63 offices in 41 countries globally. The Company is managed using a matrix of regional and global business functions incorporating activities of sales, service operations, product development, product management, services management, marketing, key client relationship management and product support functions. The Company's product sales and services operations are divided into three main geographic regions: Europe, Middle East, Africa and Latin America; Asia Pacific; and North America. Our principal software development facilities are located in Switzerland, the United Kingdom and India. We also have other software development facilities in the United States, Canada, France, Romania, Belgium, Luxembourg and China as well as local development centres in a number of locations that give us proximity to our client base.

We encourage decentralised work processes and cooperation between our people across countries and regions, while having central processes on core activities, cooperation and decision-making. The Company management structure is one with regional directors, responsible for all business lines in each region. Our people come from a diverse pool of countries and regions and share skills, resources and support across geographies to promote synergies and learning across the organisation,

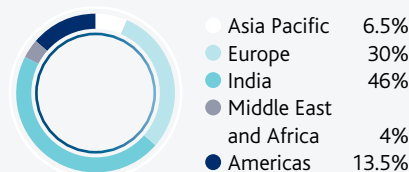
enhancing our reputation as a global but – at the same time – local Company, and ensuring we are best positioned to meet the needs of our clients. In addition, thanks to the diversity model we support, Temenos' software has multiple country model platforms, tailored to the individual language, currency, regulatory and reporting requirements of each country. This enables our software to be seamlessly integrated into banks around the world, adding incremental value from the very beginning of each project. At the same time, our Human Resources team is organised globally as well as across regions to cater to the needs of our people at both local and global level, with policies in place attuned to local conditions.

In addition, since the IT industry is still male-dominated in many countries, we are actively seeking to recruit women and support them in their career development, with the aim of achieving a more equal representation of male and female employees in the business. The principles and goals of the Universal Declaration of Human Rights are at the centre of our diversity initiatives. According to global studies, in 2016, fewer than 25% of information technology (IT) jobs in developed countries were held by women. That figure is about the same as 2015. Gender imbalance in IT has been recognised as an issue since at least 2005. At Temenos, we have focused early on gender diversity in the IT workplace and have invested in an equal opportunity environment for both men and women. In 2014, the proportion of women in our workforce was 28%, rising to 29% in 2015, to reach 31% in 2016, 6% higher than the average in the IT industry. We have incorporated gender diversity in our recruiting and hiring practices at all levels, with a special focus on the new generation, encouraging young women to choose a career in the IT industry, resulting in a female participation of 42% in the under 30 year old age segment of our workforce.

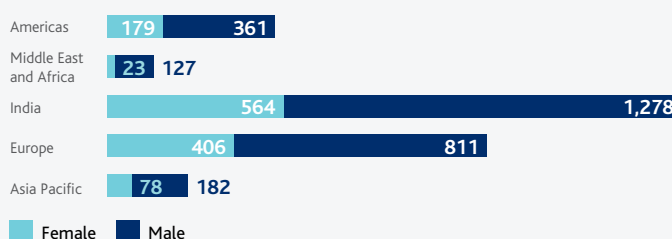
Corporate Social Responsibility Report continued

Employee distribution by region, gender and age

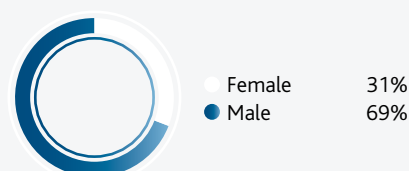
EMPLOYEES BY REGION



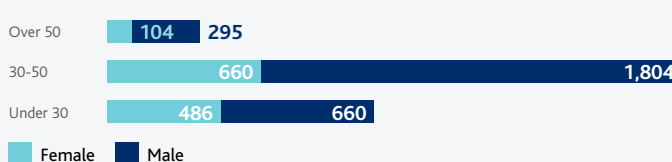
EMPLOYEES BY GENDER AND REGION



EMPLOYEES BY GENDER



EMPLOYEES BY GENDER AND AGE

**Elimination of Discrimination and Prevention of Harassment**

All employees and contractors are treated with respect and dignity. It is both a Temenos ethical standard and law in many countries that no one shall be discriminated against during recruitment and hiring, training, performance evaluation and promotion, or in any other provision in the terms and conditions of employment, based on race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability. Temenos is proud of the diversity of its people and believes in an equal employment opportunity for all.

The work environment at Temenos is free of any type of harassment based on race, religion, national origin, colour, gender, age, marital status, sexual orientation or disability or any other personal traits or characteristics that are not work-related. Any behaviour contrary to this principle will not be tolerated whether it is coming from an employee, client, Partner, or supplier.

Through the respective communication channel, employees are encouraged to report any concern of discrimination and harassment. Any retaliation with regard to any such report is strictly forbidden. Employees who feel that they are being harassed in any way, shape, or form, can choose to bring the matter to the line Manager, the Legal Department, the Human Resources representative or Internal

Audit through the Temenos Anonymous Reporting mechanism. An inquiry will be launched as quickly as possible, which will be conducted carefully and with full discretion, and any corrective or punitive action will be taken if appropriate. Temenos is committed to protecting any employee who reports harassment in good faith from any retaliation or other negative consequences.

Freedom of Association and Collective Bargaining

We respect the rights of our employees to join, or not to join, trade unions or similar external representative organisations in accordance with local laws and we engage in a constructive dialogue with employee representatives.

Against Forced and Child Labour

We do not accept forced or compulsory labour. We condemn forced or compulsory labour practices, such as withholding identity papers or requiring compulsory deposits. We comply with local minimum age laws and requirements and do not employ children. We ensure this through our global and local HR and recruitment policies.

2017 Goals:

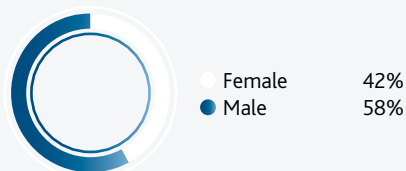
- To continue investing in an equal opportunity environment for both men and women by raising the proportion of women in our workforce.

Global Mobility, Health and Safety

At Temenos, we are committed to creating a healthy and safe work environment for all employees, contractors and visitors by integrating sound health and safety practices within our operations, as well as when travelling on business trips. As an IT company we rely heavily on our people to conduct our business. Our people are the most important and valuable asset in the Company as they constitute the Temenos culture and help the Company reach its business targets and bring exceptional value to its stakeholders.

We have integrated Health and Safety (H&S) in the management of our business in such a way that all activities are considered through the protection of our people at the office and on business travel and prevention of all types of accidents perspective. We meet the requirements of the H&S laws applicable in the countries in which we operate. In order to advance a strong H&S culture at all our offices globally, better monitor and manage our H&S systems and comply with all respective regulations worldwide, we have established local H&S procedures and identified and assigned responsibilities and accountabilities at the local level of our offices.

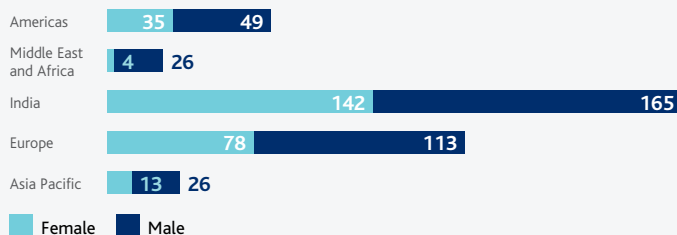
NEW EMPLOYEES HIRED BY GENDER



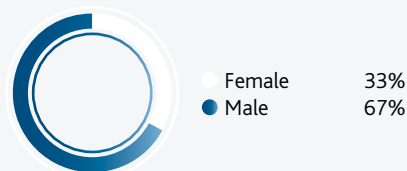
NEW EMPLOYEES HIRED BY REGION



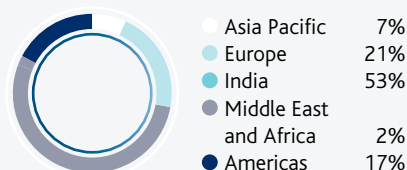
NEW EMPLOYEES HIRED BY GENDER AND REGION



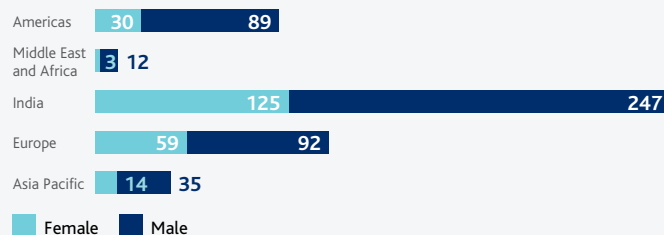
EMPLOYEES LEAVING TEMENOS BY GENDER



EMPLOYEES LEAVING TEMENOS BY REGION



EMPLOYEES LEAVING TEMENOS BY GENDER AND REGION



H&S is an integral part of the Temenos Responsibility Management System. All employees and contractors are expected to perform their work in compliance with the H&S laws, regulations, policies and procedures of their locations. Local Facilities Managers or assigned H&S representatives at all office locations are responsible for ensuring that systematic policies and procedures are established to prevent workplace hazards and risks at their source and for seeking continual improvement. Incidents can be reported by employees to their line Manager or the Local Office Manager or the HR Manager or the Facilities Manager at a local level or Internal Audit at a global level through the Temenos Anonymous Reporting mechanism. Incidents and concerns that are reported are investigated and appropriate corrective actions or preventive measures are taken.

As a global organisation, international mobility forms an integral part of our service delivery to clients and our strategic plans for future growth. A globally mobile and dynamic workforce is key to providing and developing our expertise across the globe and maintaining our competitive advantage. The Company has created global mobility and travel policies and procedures, so as to provide the framework for properly managing and addressing issues arising from working overseas on an international assignment or travelling globally.

Towards that direction, Temenos offers all its employees:

- International travel insurance for the employees and their dependents travelling with them;
- International medical assistance when travelling and reimbursement of medical expenses for the employees and their dependents travelling with them; and
- International liability insurance.

2017 Goals

- To introduce a Global Health and Safety Policy, as part of the Temenos Business Code of Conduct.
- To offer customised H&S training to employees and contractors on security measures while travelling in high-risk countries in cooperation with an external international security expert company.
- To introduce extended coverage with additional benefits in our international travel insurance program to adapt to the latest developments related to global travel.

MyVoice

Direct communication and engagement with our employees is one of the most important aspects of the Temenos culture and philosophy and a way of building a stronger link between the Company and its people. Employee feedback is vital for Temenos, so as to shape the direction

of our policies and initiatives and get assurance that they are tailored in such a way that cater to the needs of our people.

Every two years we carry out an employee engagement survey to gain feedback on what it is like to work at Temenos and how we can work together to make Temenos an even better place to work. The survey is conducted on an anonymous and confidential basis by CEB, a third party survey provider, so that employees can openly give their feedback. It is administered under the Safe Harbor certification which guarantees confidentiality to all respondents that participate in the surveys. Previous surveys have identified career management, relevant training and communications as some of the key areas and these have all been addressed through improvement initiatives to make Temenos a better place to work.

The 2016 MyVoice employee engagement survey took place during May and June 2016 covering all Temenos employees in all regions plus the employees that joined Temenos through acquisitions, although their HR systems and processes have not been fully aligned yet. The 79% response rate shows that our people care about Temenos.

MYVOICE 2016

79% response rate
55 questions
13 categories answered

Corporate Social Responsibility Report continued

The objective of the MyVoice employee engagement survey was to assess the health of the organisation from a human perspective. MyVoice gives Temenos the employees' perception of strengths and improvements areas. This allows management to align actions with employees' priorities.

Using the MyVoice feedback, the Company shaped its global strategy accordingly and identified a number of key initiatives, as part of the HR action plan for 2016-17. In addition, we were also able to identify areas of improvement specific to geographies or divisions that were addressed locally.

Talent and Development

Learning and development is imperative for Temenos' success and growth and its competitive advantage. The talent and development program at Temenos consists of a variety of components such as career development frameworks (Pathfinder), career and performance management (Compass), learning opportunities and employee recognition programs which overall support the leadership and organisational development strategies at Temenos.

Excellent performance is based on a clear strategy in each area of responsibility and a strong team that drives its execution. In order to excel in a highly dynamic and complex business environment, our diverse and increasingly virtual teams require strong managers. We aim to continuously improve our project management teams and foster a unique performance culture.

Career Development Framework (Pathfinder)

Using feedback from the annual employee engagement survey, a career development framework – Pathfinder – has been developed and rolled out that provides employees with a clear understanding of the expectations in the current roles and the opportunities they have to develop their future career at Temenos.

Pathfinder's bespoke Career Development Framework sets out what skills, knowledge and behaviours (competencies) are needed in a particular job family and role at a specific level within a function. The framework defines a structure where all roles within a job family carry out similar tasks and require broadly similar skills and competencies, but operate at different levels of bands, where competencies are aligned as per career progression and growth. Pathfinder clarifies the 'paths' for development of competencies and progression criteria that enable individuals to proactively manage their own career, performance, training and development needs at Temenos by aligning both their hard skills (technical/functional) and soft skills (behavioural).



As a part of Pathfinder, twelve core organisational behaviours were identified, with an aim to live our four company values in practice through all talent management processes. At Temenos behaviours are considered a key part of career development without de-emphasising the importance of skills and knowledge as critical competencies to achieve within a role. This allows for a clear dialogue during career conversations on performance, career aspirations, training and development plans at Temenos.

Career and Performance Management (Compass)

At Temenos we want to enable our people to achieve their full potential, by focusing on their career development and planning. Career management through Pathfinder is supported by a performance management process in the Compass tool, which provides employees with feedback on their work and helps them create a development plan to build on their strengths and improve their skills, knowledge and behaviours. The performance management process has been split into two phases in the Compass platform: Year-end review and Start-of-year plan.

Learning and Training Opportunities

At Temenos, we understand what competencies (skills, knowledge and behaviours) our people need to excel in their roles and what they need to develop to grow further in their career. We provide core training, professional learning and personal development opportunities delivered through various channels that form part of the employee's learning portfolio.

Various learning paths and trainings are provided through both internal and external training partners which allows employees to execute their development approach using a style that suits their needs and personality.

To emphasise flexible and collaborative learning opportunities, we have introduced a training calendar on our intranet, where employees can self-register for any ongoing training, follow up on any training sessions and engage with Talent and Development to improve the overall learning experience at Temenos.

Celebrating Excellence

Recognition of great work and key contributions by both individuals and teams is critical to Temenos. To support this, the Company has been running quarterly Regional Employee Recognition Awards and annual Chairman's Club for sales that reward outstanding achievement. For the first time in 2016, Temenos launched the annual C-Level recognition award program which aims at distinguishing employees in the different regions or corporate business divisions for their outstanding contributions, positively impacting the Temenos business. Through these recognition programs, we welcome all employees at all levels to embrace the opportunity to appreciate great work and recognise efforts of performance excellence of their colleagues, team members, peers and supervisors. In 2016, we celebrated 69 individual and 15 team successes as part of quarterly regional recognitions, and twelve accolades as part of C-Level annual recognition.

2017 Goals

- To identify new needs and introduce management development training across all levels to adapt to a changing global environment.

INFORMATION SECURITY AND DATA PRIVACY

As a market-leading software provider, supplying banks and other financial institutions all over the world with mission critical banking software, Temenos recognises that information security arrangements for data are fundamental to our clients. Temenos understands that unauthorised use or access to corporate confidential information or client personal data could cause serious damage to our clients.

To mitigate this risk, Temenos implements a global information security program accompanied by supporting policies which is designed to maintain the confidentiality and integrity of data and IT services as well as ensuring that services are available as required. In addition, information security and data protection and privacy is part of the Temenos Business Code of Conduct.

As part of its business, Temenos processes personal data about its employees, suppliers, Partners and clients as well as their clients. Temenos recognises the importance of ensuring that personal data is treated in a secure and lawful manner, without adversely affecting the rights of individuals. The Company's approach to privacy is based on European data protection laws and standards but this approach will also take into account local requirements, where Temenos operates.

The Temenos Information Security Department is in charge of developing and overseeing the implementation of information security controls to ensure data confidentiality, integrity and availability. In addition, through the Temenos Data Protection and Privacy policy, Temenos promotes a culture of security and awareness relating to personal information. Temenos is always seeking to enhance its information and security systems and management to protect confidential and personal data used in the business.

Temenos policies and procedures are based on international security standards, taking into account best practices and recommendations from the industry. The policies cover areas such as: confidentiality, data protection and privacy, intellectual property and responsible and secure use of IT infrastructure. As part of the Temenos information security program, the Temenos office sites for Product Analysis and Client Support and Temenos Application Management and Shared Service Centre and related support processes are certified as ISO27001 compliant. In addition, Temenos maintains SSAE16 attestations for controls related to clients' data. This covers TriNovus and Akcelant in the US as well as TEMENOS T24 in Azure.

Acknowledging that employee awareness on information security and data privacy topics is essential, Temenos delivers periodic information security awareness training to its employees and expects them to integrate security into their day-to-day activities.

Temenos maintains vigilance over its security and privacy arrangements with a proactive approach as it recognises that incidents may occur due to unforeseen events. To this end, Temenos is developing robust security incident management procedures, in order to minimise the impact of any incident for its clients and their end users. In 2016 no substantiated complaints regarding breaches of client privacy and losses of client data were reported.

2017 Goals

- To launch a mandatory annual Security e-training program to ensure awareness and understanding of any updates to the Code and policies.

Corporate Social Responsibility Report continued

CLIENTS

Focus on Client Engagement

Client Voice

Client-centricity and client success have been at the heart of our corporate values since the Company was founded. In order to have a consistent view of each step of our clients' journey, we launched the Temenos Client Voice in 2012 and have been repeating it on an annual basis since then. The program, owned by our Chief Executive Officer, covers all products and regions. The program is critical to Temenos as it enables us to track and analyse the clients' perception of their experience of working with Temenos. It is supported both at a senior management and regional level, with the client satisfaction process itself being led by a cross departmental team with members from Sales, Marketing, Support and Services teams.

The Temenos Client Voice program was first launched with an initial survey in February 2012. It is based on the 'Net Promoter' methodology, which classifies participants from those least likely to recommend a firm to those most likely to advocate for a firm, detractors, passives and promoters. The percentage of detractors is then subtracted from the percentage of promoters to arrive at the Net Promoter Score. In doing so, it serves to effectively concentrate the organisation on always giving outstanding service and moving client opinion from negative or neutral to highly positive (a promoter has a satisfaction score of nine or ten out of ten). However, the discipline of Net Promoter, which is used widely by B2B companies, goes deeper than just tracking a metric, it is a whole system designed to operationalise client data throughout the organisation in order to drive change, systemise learnings and improve client experiences.

On an annual basis Temenos invites its entire client base, across its full range of products and platforms, to participate in a detailed relationship survey.

Client Satisfaction

In order to drive our focus on client experience further, a complementary initiative to the Temenos Client Voice program, the Improve Client Satisfaction Project, was launched in March 2014. The aim of the Improve Client Satisfaction Project is to cement the Company's focus on client satisfaction and make Temenos an even more client-centric company. The project is sponsored by the Temenos Client Director and managed by the Head of Marketing Operations. Within the project, each department is represented by a carefully selected individual/group of individuals. They are tasked with setting KPIs and actions to enhance satisfaction in their areas according to the feedback collected through the Temenos Client Voice program.

The representatives are also responsible for making sure that the actions are completed and that the target improvements within their areas are achieved. The KPIs and actions are tracked and reported on a monthly basis at the executive level. They are also reviewed regularly based on incoming feedback in order to ensure that they remain relevant and continue addressing the correct areas.

Clients receive updates on Temenos initiatives and activities through various media, from specific updates and newsletters to presentations at our annual Temenos Community Forum. Since the program was launched, we have seen a significant improvement in our Net Promoter Score and our clients have shown their support and approval of the program.

Since the metric was launched, our NPS has improved by over 39 percentage points with the largest improvement following the launch of the Improve Client Satisfaction Project. Our satisfaction scores across the board have also followed this trend. To date we have completed seven survey waves, collecting over 4,000 responses across all our accounts. Since 2015, we have been incentivising our clients to participate in the survey. The Company matched every survey submission with a donation and we were able to donate USD 20,000 to The Global Fund for Children.

2017 Goals

- To continue to focus efforts on improving satisfaction in those areas which have the largest impact on client engagement, including product, support and services.
- To strive for higher participation in the Client Voice program to obtain more and more representative feedback, bringing the annual number of participants to over 1,000 individuals from our client organisations.
- To raise our Net Promoter Score by a further 5 percentage points.
- To improve our overall satisfaction score (an average of all participants' scores, as opposed to promoters less detractors) by at least 1 percentage point across every aspect of the business.
- To introduce a new platform for hosting our survey, in order to give our clients an improved client feedback experience.

Client Centric Services

Separate from, but complementary to the programs above, Temenos provides its clients with a dedicated client portal as well as an in-region Client Relationship manager. The Client Portal gives clients a rich repository of easily searchable materials, such as user guides, that enable self-discovery, easy acquisition of knowledge and support. The portal also includes a 24/7 chat function to assist with navigating the site and to handle straightforward enquiries. The Company also offers its clients a Client Relationship Manager, who provides a single point of contact between the client and the Company to handle all support requirements, addressing whatever product or function. Through the combination of the Client Portal and the Client Relationship Manager, Temenos offers its clients the means to quickly and effectively learn more about the solutions and handle enquiries that arise.

Integrating Responsibility into our Management Systems

In order to deliver consistency across all client touchpoints, Temenos utilises management systems that are certified by accredited bodies and adhere to international standard certifications. In that way, we ensure a more systematic and effective approach to CSR issues.

- ISO 9001:2008 Quality Management.
- ISO 27001:2013 Information Security.
- CMMI for Development ML 3.
- CMMI for Services CL 3.
- SSAE16 SOC 2, type II.

All Temenos products and people are covered by these certifications, with the possible exception of recent acquisitions which typically conform within a period of 18-24 months post acquisitions. Full coverage across products and services is unique among Temenos' peer group.

SUPPLIERS AND PARTNERS

Temenos suppliers are expected to adhere to the highest standards of ethical behaviour and regulatory compliance. In addition, they are expected to comply with all applicable laws and regulations and to ensure that all goods and services provided by them are high quality and conform to all applicable legal standards.

We have incorporated CSR considerations into our procurement practices, as responsible procurement practices are now part of the Temenos Responsibility Management System. We constantly improve our responsible procurement by obtaining the understanding and support of suppliers for the policies and building strong partnerships with them. We have also introduced effective audit mechanisms for identified cases of high-risk suppliers, as well as grievance mechanisms for both employees and suppliers on procurement issues.

More specifically, we are in the process of introducing the new Global Procurement Policy. In 2016 we revised and updated the existing Procurement Policy. The new policy includes two main initiatives for suppliers which are considered critical for our business and touch upon the material issues identified through the materiality analysis: a supplier qualification process and an annual supplier performance and risk assessment as part of a centralised governance model for active supplier management. The suppliers that are critical for our business are defined as follows:

- Supplier provides goods and/or services which are supplied to our Clients;
- Supplier has access and/or processes our Employee or Company data;
- Supplier connects to our Company systems or requires access to Temenos intellectual property or confidential information; and
- Supplier provides technical or IT services and/or software products which involve intellectual property licensing.

In 2016 we also developed a standard request for proposal template that includes a supplier questionnaire covering CSR areas such as business and ethical conduct, environment, human rights, impact on society, client privacy and information security apart from financial and legal compliance requirements and is aligned with the ten principles of the UN Global Compact. The supplier questionnaire is used both during the supplier qualification process and the annual supplier performance and risk assessment activities.

In addition, in 2016, as part of Temenos' continued commitment to enhancing our internal compliance programs we extended our sanctions screening program to our suppliers residing in specific sanctioned countries and incorporated that as a new part in the Temenos Export Controls and Sanctions policy. Under the expanded sanctions screening program we performed two screenings of suppliers with registered offices in sanctioned countries.

In order to minimise the risk, optimise the cost, delivery and quality, joint innovation and address sustainability issues more effectively, we consolidated the number of active suppliers from 4,018 to 3,045, even though our top 50 suppliers accounted for more than 50% of our total spend for 2016.

Employees work only with Company-approved suppliers and Partners, avoid all forms of one-sided preferential treatment of a supplier and have the Anonymous Reporting mechanism to report any concerns they might have related to a possible breach of the Company-supplier/ Partner business relationship.

2017 Goals

- To officially launch the Global Procurement Policy and procedure and the Temenos Supplier Code of Conduct that will include CSR considerations and be aligned with the ten principles of the United Nations Global Compact.
- To introduce a Supplier Code of Conduct that will be linked to the Business Code of Conduct, be available on the Temenos website together with the Temenos Purchase terms and conditions, invoicing requirements (clear and complete supplier invoices help to ensure timely payment) and the grievance mechanism for suppliers.
- To implement supplier risk assessments to approximately 200 current suppliers considered critical to our business (equivalent to 75% of the total spend for 2016) as a first step in our active supplier management initiative.
- To run the supplier qualification process to all new suppliers considered critical to our business.



Corporate Social Responsibility Report continued



COMMUNITIES AND SOCIETY

Community Investment

As a global corporation, we understand the responsibility that comes with that role and we are committed to supporting and enhancing the quality of life of the communities where our employees, Partners, and clients live and work, by applying our technology, talent, and financial resources. Our people work with local non-governmental organisations around the world, volunteering their time and talent to build sustainable communities. By offering financial support, sharing our business expertise as well as the effort and talent of our employees, collaborating with clients and Partners, we are making positive, measureable contributions to the local communities.

Temenos can contribute with monetary contributions, as well as knowledge, expertise, used equipment and logistics. The types of our philanthropic donations or non-commercial sponsorships – both international and local – are the following:

- Corporate monetary contributions;
- Corporate monetary contributions that complement the donations or volunteer efforts of our employees;
- Corporate donations of used IT equipment;
- Employee fundraising (volunteering their time and/or money); and
- Volunteering (donation of professional service, management expertise, skills and time to non-profit organisations or local communities).

Our community investment is focused on the following strategic priorities:

- Poverty Alleviation and Local Economic Development
- Children
- Youth Development
- Technology and Innovation
- Environment
- Emergency Relief

At Temenos we are looking for ways to go beyond financial resources and consider how to make best use of our assets, resources, expertise, advocacy, and relationships to support and enhance the local communities. In addition, we aim to align our community investment with our mission and the strategic issues of our business to create shared value. We look for Partners rather than as the principal actor in promoting local development and creating long term benefits and sustainable results that can outlast company support. In that sense, our flagship community investment program focuses on Poverty Alleviation and Local Economic Development.

Poverty Alleviation and Local Economic Development

As a global market-leading software provider for the Banking and Finance sector, Temenos understands the responsibility that comes with that role and is committed to finding ways to use technology to enable social change, by supporting disadvantaged local communities, enhancing their living standards as well as their work skills and capabilities and helping them gain access to finance, health and jobs.

Access to finance is integral to social economic development. There are 2.8 billion adults around the world who do not have adequate access to basic banking services. And without access to basic financial services the poor are locked out of the formal economy as observers, unable to gain control over their own economic future, resorting to saving in the form of livestock or other tangibles which cannot be employed to the needs of the family or community or often turning to unregulated entities.

Microfinance and community, the business of providing financial services for people who have historically been excluded from access to formal financial services, is the vehicle for empowering underserved communities that are locked out of the formal economy to gain access to basic and affordable financial products and services that meet their unique needs delivered in a responsible and sustainable way.

Towards that direction, our microfinance and community banking initiative is the business of promoting and extending financial intermediation to the periphery of formal financial markets. We support financial services providers by providing them with the latest tools and technologies that can help reduce transaction costs and make the poor bankable and gain access to much needed credit to manage business, agriculture and other critical needs such as basic management of cash flow for family and community support.

Temenos has been active in the microfinance industry since 2000. During this time, we have made great progress in fighting economic inequality, by promoting and supporting financial intermediaries on the front line. Empowering disadvantaged communities by adapting and deploying our banking and finance technology and expertise to provide greater access to finance on fair and sustainable terms makes us proud of the work we do on a daily basis because of its potential to contribute to the economic and social development in developing countries. We feel honoured to be associated with so many local leaders, banks, cooperatives and non-bank financial institutions that seek to extend opportunity for self-help through access to finance.

It is the kind of work that produces shared value for both the business and for society, as it is the provision of financial services with a social mission. The work of Temenos through microfinance and community banking also contributes to the global effort of eradicating poverty (SDG no. 1), of promoting inclusive and sustainable economic growth (SDG no. 8), encouraging gender equality and the empowerment of women (SDG no. 5), and the importance of alliances for achieving the goals (SDG no. 17), as stated in the 17 UN Sustainable Development Goals (SDGs) of the 2030 Agenda for Sustainable Development.

Temenos works with 240 small banks across 36 countries in Africa, Southeast Asia and parts of Latin America, where formal commercial banks have neither the means nor the interest in serving relatively low value accounts. We have learned through more than 16 years of business practice in this important sector that the lack of access to basic financial services does not lie on the demand side – everybody would like access to affordable and accessible banking services. The problem is the cost of servicing a relatively low value account, deposit or loan in a way that it is profitable for the provider and affordable to the client. It is a supply-side issue and this is where Temenos technology and expertise come in.

Temenos has packaged its core banking software in such a way as to dramatically reduce the costs of installation and training, one of the biggest challenges. The technology for this sector is much more highly configured with best practice screens, workflows and products that can be modified from templates reducing implementation costs. Innovations in method have helped us achieve the success we have had far. Now, in partnership with Microsoft, Temenos presents its core banking technology as a service in the Microsoft Azure cloud. This takes us much further and much closer to the unbanked. A subscription-based service takes away all the complexity of managing systems and eliminates the need for local hardware and infrastructure. With Temenos channel technology and specialist microbanking Partners such as Software Group and a cloud model, Temenos becomes a direct Partner in the success of the financial institution – on a shared success business model.

We have learned how to dramatically reduce the cost of a transaction, payment, loan application, new accounts or any other bank interaction. It is important that costs be reduced for both the bank and the client. Pushing banking costs to the client does not solve the problem. Temenos technology costs are reduced drastically with configuration and different project methodology, as well as with cloud deployment. But we also understand client costs. Using mobile banking and very smart last-mile technology Temenos can bring the banking service to the client without the need for a visit to a traditional branch and all the associated client costs; time off from productive work, bus fares, sourcing paper documents etc. The ubiquitous nature of mobile phones has allowed Temenos to deliver digital services to the most remote areas 'where there is a phone there is a bank' with mobile devices, agency banking and the ability to connect systems to existing business and financial infrastructure no longer requiring physical interaction between bank staff and their clients for every transaction. As the transaction costs plummet the ability to serve great numbers of people previously excluded expands exponentially.

Costs of cloud-based transactions in a digital relationship can be reduced by 90% or more, giving many more people access to affordable quality financial services.



Our banking and finance expertise, with 16 years of microfinance experience, combined with a strong global partnership with Microsoft enables our core banking system to run as a service reaching ever smaller, more remote microfinance intermediaries and outlaying branches and agents. Temenos MicroBankingSuite runs on the Windows Azure platform through a global partnership with Microsoft, resulting in a cloud-based, Software-as-a-Service (SaaS) multi-tenancy solution.

Through the integration of specialised channel technology, we can now extend banking services to disadvantaged communities in the most remote regions on simple phones using USSD or low-cost smart devices, reducing costs, so as to make banking these communities a viable and sustainable business. By sharing technologies and resources and providing skills, training and education through our community banking initiatives, Temenos can enhance the lives of people in communities that would otherwise be unreachable. With access to finance to mitigate daily risks, find small enterprise and improve the yields and efficiencies of agriculture, these communities can uplift themselves by improving financial literacy, education, housing, health and economy.

Temenos has already reached many corners of the world to help small to medium businesses in Mexico, Africa, Southeast Asia, and parts of Latin America and is looking to offer solutions to help people help themselves.

"It's really exciting to see how technology can transform a person's life even in the remotest area of the world; the concept of having a bank officer literally out in the field with a tablet who is opening a loan, taking payments, doing banking in the middle of nowhere, helping people help themselves find a path out of poverty."

Murray Gardiner
Business Director
MicroBankingSuite

[Read more on > 60](#)

Corporate Social Responsibility Report continued



Children

Temenos has set as a strategic priority the protection and welfare of children in need globally, irrespective of their colour, race, religion, nationality, or socio-economic status. In cooperation with leading and respectable non-profit organisations in the communities where we operate, our goal is to help improve the living conditions of children, by providing them with a healthy start, the opportunity to learn and protection from harm, while advocating and protecting their basic human rights and providing them with emotional and psychological support.

In 2016, we supported three organisations at a global, as well as at a local level, where Temenos has a significant number of employees:

- The Global Fund for Children;
- The School for Children with Hearing Disabilities in Bucharest, Romania; and
- The 'Save a Child's Heart' initiative in Bucharest, Romania.



Environment

We recognise the importance of protecting the environment and we support a precautionary approach to environmental challenges on our own initiative and an environmentally responsible way of conducting our business operations. We are committed to being an environmentally responsible neighbour in the communities where we operate, while participating in global efforts to improve environmental protection and understanding.



Youth Development

Temenos is committed to motivating, inspiring, counselling and setting young people on the right path in life, with equal opportunities for a better education or employment regardless of their social or economic situation. We find ways to share with young people our knowledge and expertise, as well as our passion for technology and offering them access to new technologies, aimed at helping them achieve more for themselves and support their communities.

In addition, unemployment among young people is a significant challenge nowadays. We are committed to supporting business educational programs, offering internships, as well as empowering young people by providing them with training and access to a real workplace. We give them the opportunity to experience a truly global business environment and help them choose and shape their professional path within and/or outside Temenos.

Technology and Innovation

As a global IT company, Temenos encourages the development of a social platform for innovation and exchange of ideas, by creating opportunities for young innovators around the world as well as our own employees to connect to share new, pioneering ideas, opportunities and learning experiences. Temenos provides knowledge, know-how and access to business and technology and supports technology transfer and application initiatives, by facilitating the communication between young innovators and the business world.



MarketPlace

One of the main challenges for an established organisation is getting ideas from the drawing board to market. Developed as a self-service, online digital store, the Temenos MarketPlace provides a showcase platform for both Temenos and its wider community of fintech providers. The store platform leverages cloud technologies and Software-as-a-Service (SaaS) provisioning to enable banks and financial services organisations to immediately experience the latest innovations in financial services technology. The Temenos MarketPlace has an ever-growing range of widgets, integrations, security, financial solutions and much more that will in years to come provide a 'build your own' bank platform.

[Read more on > 21](#)

Innovation Jams

Temenos' latest initiative to bring fintech companies into its ecosystem is the Innovation Jams. They are regionalised, demo-based events focused on fintech innovation and are supported by an industry expert guest speaker. The Innovation Jams are based on the success of the initial Innovation Jam at Temenos Community 2015 in Istanbul. In 2016, Innovation Jam events were held in Miami, Singapore, London and Dubai in March and April, and the winners of these regional events were invited to participate in the grand finale at TCF 2016 in Barcelona.

[Read more on > 22](#)



Ridley Run 2016 – Run for a Turtle in India

Temenos joined the Ridley Run 2016 – Run for a Turtle to create awareness and save Olive Ridley Turtles from extinction. Olive Ridley, an endangered turtle species reach the Chennai shores from December to March every year with the ocean currents, from as far as the Pacific Ocean. They nest on Chennai beaches at night, laying eggs as they have been doing for 180 million years.



The Global Fund for Children

For more than ten years, Temenos has been supporting the Global Fund for Children (GFC). GFC finds, funds, and strengthens hundreds of community-based organisations around the world that transform the lives of children in their communities. The 2016 campaign focused on the Syrian refugee crisis, by providing them with psychosocial support, mentors, and connecting them to financial and educational resources, as well as on empowering rural girls and combating and raising awareness on trafficking and child labour issues in Africa.



"Save a Child's Heart" in Romania

In September 2016, Temenos supported the "Save a Child's Heart" project. The first pediatric cardiovascular clinic and a centre of excellence opened in a new building in Bucharest with 85 bed capacity and equipped with the latest generation medical devices. Acad. Prof. Dr. Dan Mircea Enescu – supported by a US medical team – successfully operated on 8 children between 11 months and 16 years at Grigore Alexandrescu Children's Hospital in only 4 days.



"We Are All The Same" in Romania

For more than ten years, Temenos has been supporting the School for Children with Hearing Disabilities in Bucharest, Romania, in collaboration with Rotary Athenaeum Club from Rotary International.

In May 2016, a new after-school activity room for 35 children with hearing disabilities who reside in the boarding school was inaugurated. The activity room was equipped with a library, 15 computers, video and audio equipment and special games adapted to children with special needs. The school had no dedicated space for playing, so the children had to spend their leisure time in their bedrooms. These children come from very low-income families, so they do not have the opportunity to leave from the boarding school.

In December 2016, 30 primary school children with hearing disabilities were accompanied by Temenos volunteers to do Christmas shopping and choose presents.



The Music Academy, Chennai in India

Temenos supported the Music Academy in Chennai, India, in order to encourage young people to get involved in the arts of music and dance.



Temenos Sales Academy

In line with our commitment to motivate, inspire, counsel and help young people find the right path in life, Temenos launched its first Sales Academy in October 2016 in Luxembourg with 17 young talents (9 sales and 8 presales) coming from all over the world. Through an intensive twelve month program for young professionals in the areas of Finance, IT or Technology, we aim to give back to the community that supports our operation and success and create a new generation of young professionals in sales and presales by providing them with business and technical banking software training, banking knowledge, sales as well as soft skills training. After all, our core values are at the centre of this program: People Power, Client Core, Inspire Better and See Different.

Our trainees come from all over the world. The Sales Academy participants are trained together in Luxembourg for three to six months, before moving back to their countries, to the local Temenos offices for further on the job training.

2017 Goals

- To increase the capacity of the Sales Academy, in order to accommodate 25 young graduates.



Corporate Social Responsibility Report continued



Floods in India

In the summer of 2016, our people reached out to the flood-affected areas in Chennai to rebuild two government schools in the city that experienced unprecedented rain followed by floods. The floods were so disastrous that even the airport was flooded forcing all flights to Chennai to be routed to Bangalore for a week. Army and Navy were deployed to carry out the relief work, along with other civic bodies.

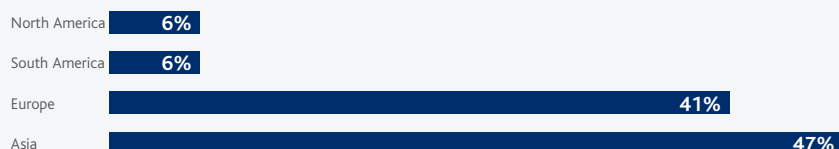
Temenos employees supported the reconstruction project of two schools: Panchayat Union Middle School, Moongulery, Pammal and Dr. MGR Government Higher Secondary School, by renovating badly damaged classrooms and labs, replacing badly eroded classroom flooring, building a new headmistress room and computer labs, paving assembly areas and repainting the entire premises.

Emergency Relief

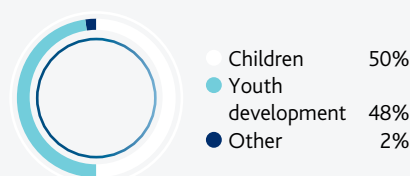
We are committed to supporting the local communities where we operate, when affected by unexpected events or disasters of any kind as well as providing assistance to non-profit organisations and emergency relief agencies to prepare and respond to these humanitarian crises.



2016 DONATIONS BY REGION



2016 DONATIONS BY CSR AREAS



Corporate Monetary Contributions

We rely on the efforts of all our employees, to help us identify emerging issues and local community needs, where Temenos can reach out, design programs, contribute to the communities and monitor the progress.

We cooperate with our people in our local offices on the review, evaluation and selection procedure that is based on local community-need assessments. Our community investment is aligned with our mission, business strategy, employee concentration and CSR strategic priorities, ranging from long term programs to short term initiatives. Temenos evaluates the effectiveness and impact of its community investment by maintaining contact with organisations it supports both to improve management of existing projects and to identify future opportunities and by communicating its CSR program to the Company's stakeholders.

In order to maximise the social impact of our corporate donations, in 2017, we are going to move the focus from the donations' budget. Instead, we are going to focus on the social change we would like to create, the actual impact.

In addition, the Temenos Internal Audit team conducts yearly independent, objective – across the group – audits of the Company's corporate monetary contributions, in relation to Anti-bribery and Corruption and Conflict of Interest Policies. The results of these audits are shared with the CSR and Ethics Committee and the Audit Committee. The list of all donations (both monetary and IT infrastructure), non-commercial sponsorships, volunteering and community service activities is communicated to the CSR and Ethics Committee.

Corporate Monetary Contributions and Employee Fundraising

Temenos encourages all employees to actively engage in community service and fundraising activities for a social cause for non-profit organisations based in the countries, where we operate, by giving them the chance to boost their fundraising efforts through corporate matching of the raised funds.

Donations of Used IT Equipment

We work at a local level to donate desktops, laptops, screens, printers and other IT equipment that are no longer used by the Company to non-profit organisations or schools based in the countries where we operate. All laptops and desktops are cleaned of all data and software before being donated due to confidentiality, licensing and data protection issues.

Employee Volunteering and Community Service

Temenos actively supports employee engagement in community service and volunteering projects. Employees are encouraged to offer their time and expertise to support local community organisations, as well as donate management time and expertise to support non-governmental organisations in the Company's core activities.

2017 Goals

- To focus 2017 monetary contributions on poverty alleviation and local development initiatives for a bigger impact.
- To support Women's Microfinance Initiatives through monetary contributions and/or employee volunteering.
- To provide sabbatical leave and cover the expenses of selected employees with certain expertise to contribute their time, skills, and experience to support microfinance institutions and other poverty-focused social enterprises worldwide, in cooperation with a global non-governmental agency.
- To match up to five employee fundraising activities (min. USD 1,000 – max. USD 5,000) focusing on poverty alleviation and local development.
- To raise awareness about Temenos' social campaign against financial exclusion within our client – Partner network.



ENVIRONMENT

At Temenos, we recognise the importance of protecting the environment. While fully complying with all relevant environmental laws and legislation at our office locations globally, we support a precautionary approach to environmental challenges on our own initiative and an environmentally responsible way of conducting our business operations. We are committed to assessing, monitoring, managing and reporting on the environmental impact of our operations through innovation, technology and change of attitude. We respect the principles of sustainable development, aiming at actively minimising the environmental impact of our operations, while striving for continuous improvement by putting in place policies, management systems and targets to improve our performance.

Environmental responsibility is an integral part of the Temenos Responsibility Management System. Temenos encourages all its employees to integrate sustainable practices in their daily work and work-related activities, by:

- Offering office waste reusing or recycling capabilities in the offices;
- Recommending environmentally friendly transportation means such as walking, cycling or carpooling;
- Introducing ways to optimise energy management and water consumption in our offices in cooperation with building owners; and
- Reducing business travel through the use of technology.

We are particularly focused on minimising CO₂ emissions as a result of our business activities. As a global IT company, we are aware that our biggest environmental impact comes from business travel. The Company has invested heavily in adopting the latest audio, video and web conferencing technologies, so as to facilitate collaboration through virtual platforms, while reducing our carbon footprint related to business travel and employee commuting. We make extensive use of in-house video conferencing facilities and require any travel to be approved electronically by senior management to ensure it is justified and necessary in light of both the needs of the business and our overall environmental impact. Furthermore, our employees use a number of tools to facilitate remote communication including teleconferencing, chat, and functionality to share digital content and even their laptop screen with others. Training is largely conducted through online sessions and webinars. We also support employees to work from home and participate in local environmental initiatives in the countries we operate in.



We are currently in the process of mapping our environmental footprint in relation to business travel, employee commute, energy and water consumption and introducing ways to conserve resources in select locations globally with the largest employee concentration.

2017 Goals

- To introduce a Global Environment Policy, as part of the Temenos Business Code of Conduct.
- To set up an internal mechanism to measure and manage the environmental impact of business travel.
- To incorporate Environmental Responsibility considerations into our Suppliers' Risk Assessment.

Corporate Social Responsibility Report continued

ABOUT THIS REPORT

Unless otherwise indicated, the information provided in this report reflects the situation as of 31 December 2016 and covers the activities during the financial year 2016. This report contains Standard Disclosures from the GRI Sustainability Reporting Guidelines, but has not fulfilled all the requirements of the 'in accordance' options. In addition, it serves as Temenos' annual Communication on Progress under the United Nations (UN) Global Compact. The table describes the location of relevant report content for each of the UN Global Compact's ten principles.

CONTACT

The 2016 Temenos CSR Report explains our policies, procedures, programs and performance on our material environmental, social, and governance (ESG) issue areas as well as how we address other important corporate responsibility issues. We welcome your feedback on the activities and programs described in the report, as well as the issues you expect to see addressed in the future. Please email your comments to the Global CSR Manager – csr@temenos.com.

UN GLOBAL COMPACT INDEX

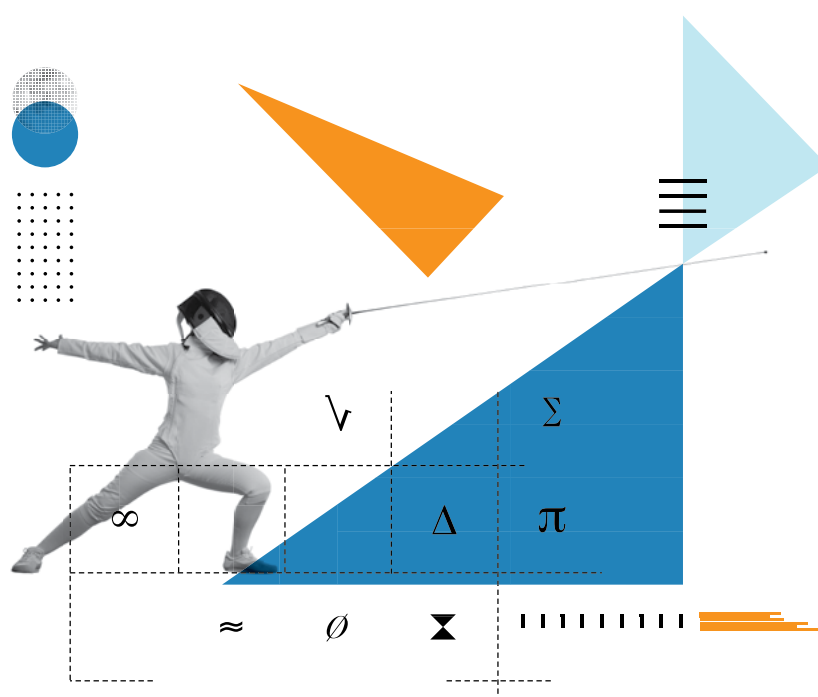
PRINCIPLE	DESCRIPTION	REPORT SECTION
HUMAN RIGHTS		
1	Businesses should support and respect the protection of internationally proclaimed human rights; and	Our People, Suppliers and Partners
2	Make sure they are not complicit in human rights abuses.	Our People, Suppliers and Partners
LABOUR		
3	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;	Our People, Suppliers and Partners
4	The elimination of all forms of forced and compulsory labour;	Our People, Suppliers and Partners
5	The effective abolition of child labour; and	Our People, Suppliers and Partners
6	The elimination of discrimination in respect of employment and occupation.	Our People, Suppliers and Partners
ENVIRONMENT		
7	Businesses should support a precautionary approach to environmental challenges;	Environment
8	Undertake initiatives to promote greater environmental responsibility; and	Environment, Suppliers and Partners
9	Encourage the development and diffusion of environmentally – friendly technologies.	Environment
ANTI-CORRUPTION		
10	Businesses should work against corruption in all its forms, including extortion and bribery.	Managing CSR (Business Code of Conduct/Corporate Policies), Communities and Society (Corporate Monetary Contributions), Suppliers and Partners







GOVERNANCE



Board of Directors

COHESIVE LEADERSHIP

**ANDREAS ANDREADES**

Executive Chairman
Cypriot, born in 1965

Mr. Andreas Andreades joined Temenos in 1999, initially in the position of Chief Financial Officer, before assuming the responsibilities of the Deputy Chief Executive Officer in 2001 and then the Chief Executive's role from July 2003 until July 2011, when he was appointed Chairman of the Board of Directors. In July 2012 he was appointed Executive Chairman of the Temenos Board of Directors. Since he joined Temenos, the Company has grown from less than 150 employees to more than 4,000 and to more than 2,000 customers and exceeding USD 630 million in annual revenues and achieving a market capitalisation of more than USD 5 billion, establishing it as the global leader in banking software. Since 2003 the market capitalisation of Temenos has grown by approximately 90 times or a compound average of 40% p.a.

Mr. Andreades started his career with KPMG in London in 1988 and then with Pepsico between 1994 and 1999. Mr. Andreades holds a Master's engineering degree from the University of Cambridge and is a UK chartered accountant.

As Executive Chairman Mr. Andreades supports, advises, counsels and provides guidance to the Executive Committee. He provides guidance and support directly to the CEO and CFO/COO on a regular basis. He also attends the monthly Product Board where product strategy and funding are decided and execution is monitored. The Chairman is very heavily involved in acquisitions and in key client/prospect relationships that often require the CEO and/or Chairman's participation to bring key deals to fruition as well as representing Temenos on key project deliveries through Steering committee representation. He therefore works full time in an executive capacity and is jointly responsible together with the CEO and CFO/COO to the Board of Directors for the development and delivery of the strategic plan and the annual business and financial plan.

**SERGIO GIACOLETTO-ROGGIO**

Vice Chairman, Independent and Non-Executive Director
Swiss, born in 1949

Mr. Sergio Giacometto-Roggio's current portfolio of positions includes Chairman of Oberthur Technologies Holding and Operating Partner with Advent International. In December 2008, Mr. Giacometto-Roggio retired from Oracle Corporation where he had been a Company Officer and Executive Vice President for Europe, Middle East and Africa since 2000. Prior to joining Oracle in 1997, Mr. Giacometto-Roggio was President, Value-Added-Services for Europe at AT&T. Earlier in his career, Mr. Giacometto-Roggio spent 20 years with Digital Equipment Corporation in various senior management and executive roles in services, sales, marketing and information management. Mr. Giacometto-Roggio holds a Master Degree in Computer Science from the University of Turin, Italy.

**GEORGE KOUKIS**

Non-Executive Director
Greek and Australian, born in 1946

As founder of Temenos, Mr. George Koukis was Chairman of the Board of Directors until July 2011. Mr. George Koukis has been active in the software industry for more than 40 years, having begun at Qantas where he was heavily involved with the computerisation of the company's management accounting department. He then spent six years with Management Science America in Australia where he held various management positions, including that of the managing director. Mr. Koukis holds a degree in commerce from the University of Technology in Sydney, Australia and is a registered CPA. Mr. Koukis is currently Chairman of the Board of Trustees of the Classical Opera, a non-profit organisation based in the United Kingdom and is a Board member in seven private companies acting mainly in IT and Green Technologies.

Mr. Koukis is a Fellow of King's College London and he is also an Adjunct Professor at the University of Technology Sydney, Australia.

**IAN COOKSON**

Independent and Non-Executive Director
Swiss, born in 1947

Mr. Ian Cookson has been active in the financial services sector for over 30 years and has built one of the most efficient IT operations in Private Banking worldwide. Chief Operating Officer of EFG International and a member of the Executive Committee until September 2007, he was previously a member of the Executive Committee of EFG Bank (since 2002). Prior to this, Mr. Cookson was the Deputy Chief Executive Officer of EFG Bank (1997-2002), Chief Operating Officer of Banque de Dépôts, Geneva (1991-1997) and the Head of Management Services of CBI-TDB Union Bancaire Privée (1986-1991).



THIBAUT DE TERSANT

Independent and
Non-Executive Director
French, born in 1957

Mr. Thibault de Tersant is a member of the Board of Dassault Systèmes and has been executive Vice President and CFO of the company since 1988 and Senior EVP since 2006. During his tenure in Dassault Systèmes, Mr. de Tersant, who manages an organisation in charge of Finance, Legal, Sales Administration, Pricing, Contracts Negotiations, Internal Control and M&A, has conducted more than 80 successful acquisitions totalling around USD 5 billion. He oversaw Dassault Systèmes' successful initial public offering on the Paris and Nasdaq stock exchanges in 1996, as well as a secondary offering in 1997. Mr. de Tersant has more than 25 years of experience in the software industry. Mr. Thibault de Tersant is a graduate of the ESSEC Business School and of the Institut d'Etudes Politiques de Paris.



ERIK HANSEN

Independent and
Non-Executive Director
Danish, born in 1952

Mr. Erik Hansen is a recognised software industry veteran with over 30 years of experience as a senior executive at leading software companies. Mr. Hansen is currently Chairman of the Board of Myriad Group AG having previously been CEO and Board Member at Day Software (2008-2011) which was acquired by Adobe in 2010. Prior to this, Mr. Hansen held several senior leadership roles at companies including TIBCO Software (2000-2004), TA Triumph Adler (1994-1997) and Apple (1990-1994), both in Europe and in the United States. Mr. Hansen holds a degree from the business college in Horsens, Denmark.



AMY YIP

Independent and
Non-Executive Director
Chinese (Hong Kong), born in 1951

Ms. Amy Yip has over 35 years of experience in global financial markets covering different aspects of the industry. She is currently a Managing Partner of RAYS Capital Partners Limited, an Executive Director of Vitagreen, Hong Kong, an INED of AIG Hong Kong, a member of the Supervisory Board of Deutsche Börse AG, Frankfurt and a non-official member of the Commission on Strategic Development of the Central Policy Unit of Hong Kong Special Administrative Region. Ms. Yip began her career at the Morgan Guaranty Trust Company of New York (1978-1985), going on to hold progressively senior appointments at Rothschild Asset Management (1988-1991) and Citibank Private Bank (1991-1996). Ms. Yip also served as an Executive Director of Reserves Management at the Hong Kong Monetary Authority from 1996 to 2006, where she was responsible for the investment of the assets of the Exchange Fund of Hong Kong. In 2006, Ms. Yip returned to the private sector as the Chief Executive Officer of DBS Bank (Hong Kong) Limited (2006 to 2010), where she was concurrently Head of the Wealth Management Group at DBS Bank. Ms. Yip was awarded the Bronze Bauhinia Star in the Hong Kong Special Administrative Region in July 2000. Ms. Yip holds an M.B.A. from Harvard Business School and a BA from Brown University.

Executive Committee

EXPERT MANAGEMENT

**DAVID ARNOTT**

Chief Executive Officer
British, born in 1969

Mr. David Arnott has been Chief Executive Officer of Temenos since July 2012. Mr. Arnott previously served as Chief Financial Officer of Temenos from April 2001. Prior to joining the Group, he worked as Chief Financial Officer of Société Européenne de Communication in Luxembourg. Mr. Arnott also held a number of senior finance positions within the Anglo American group, a mining and precious metals trading company. Prior to this Mr. Arnott was a management consultant with Deloitte where he qualified as a Chartered Accountant. Mr. Arnott holds a Bachelor of Sciences from the University of Southampton and a Master's Degree from the University of Freiburg, Germany. In the 16 years since Mr. Arnott joined Temenos, the Group has grown from 300 employees to more than 4,300, over 2,000 customers and exceeding USD 630 million in annual revenues – establishing it as a global leader in banking software.

**MAX CHUARD**

Chief Financial Officer and
Chief Operating Officer
Swiss, born in 1973

Mr. Max Chuard has been Chief Financial Officer of Temenos since July 2012 and is responsible for finance, planning, treasury, information technology, investor relations, compensation and benefits and internal controls for Temenos. Mr. Chuard is also responsible for mergers and acquisitions, and has conducted more than ten successful transactions totalling around USD 600 million over the last eleven years. In December 2015, in addition to his CFO role, Mr. Chuard was appointed as Chief Operating Officer, having the responsibility to oversee all aspects of client delivery including on-premise implementations and the partner programme. Mr. Chuard has been with Temenos since 2002 where previously he held the position of Director of Corporate Finance and Investor Relations. Prior to joining the Group, Mr. Chuard started his career as a business analyst at JP Morgan and subsequently held a senior position at SWICORP, a Swiss merchant bank. Mr. Chuard holds a Master of Science in Finance from the University of Lausanne (HEC Lausanne), Switzerland.

**ANDRÉ LOUSTAU**

Chief Technology Officer
British, born in 1958

Mr. André Loustau has been Chief Technology Officer of Temenos since 2001 and has worked with Temenos and its predecessor companies since 1984. Before that, Mr. Loustau was an application developer at Grindlays Bank. Mr. Loustau has held various roles in development, implementation and sales within Temenos, prior to assuming the responsibilities of the Chief Technology Officer. During his tenure, Temenos' product set has undergone constant and significant progress, leading a series of pioneering innovations in the industry including – the first banking systems to use a Windows GUI, first real-time, 24x7 banking system, and the first banking system to be running in the cloud.

**MARK WINTERBURN**

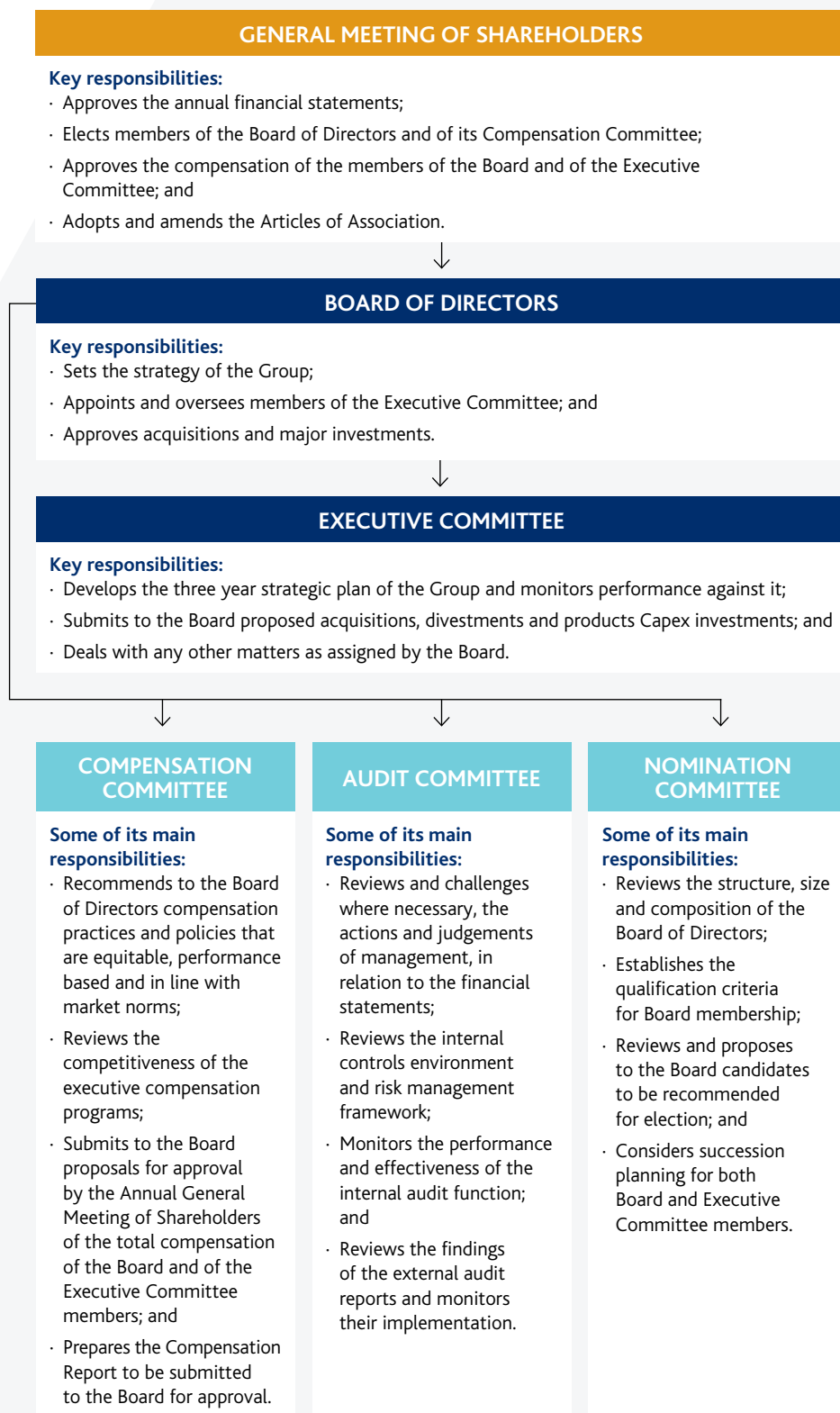
Group Product Director
British, born in 1960

Mr. Mark Winterburn has been Group Product Director of Temenos since joining in 2011. Mr. Winterburn has over 35 years' experience in IT, 30 of them in financial services. Prior to joining Temenos, Mr. Winterburn held the position of VP Solutions Management and Product Development at Misys, and held a number of senior positions at Lloyds TSB, with a proven track record of driving large and complex IT change programmes. He has studied Leadership, Product, Cultural and Change Management at Harvard Business School, Cranfield University and Henley Management School. Mr. Winterburn studied a Software Engineering diploma at Coventry University, England.

Corporate Governance

GOVERNING
THE GROUP

OUR GOVERNANCE FRAMEWORK



Corporate Governance continued

INTRODUCTION

This report has been prepared in compliance with the Directive on Information Relating to Corporate Governance (DCG), its Commentary issued by SIX Swiss Exchange (www.six-exchange-regulation.com/en/home/issuer/obligations/corporate-governance.html) and the Ordinance against Excessive Remuneration in Listed Companies limited by Shares (OaEC) available at www.admin.ch/opc/fr/classified-compilation/20132519/index.html.

In the present annual report, the corporate governance information has been summarised in a separate section, whereas references to other parts of the annual report have been included in certain instances in an effort to avoid duplication.

In order to enhance readability, the present corporate governance section follows the suggested structure as described in the annex of the DCG.

There are some references to the Articles of Association and to the Organisation bylaws of the Company; both documents are available at www.temenos.com/en/about-temenos/investor-relations/corporate-governance/.

Unless otherwise indicated, the information provided in this report reflects the situation as of 31 December 2016.

Temenos Group AG is hereinafter referred to as 'the Company'.

Temenos Group AG and its affiliated companies are hereinafter referred to as 'Temenos Group', 'Temenos' or 'the Group'.

The executive management of the Group is hereinafter referred to as 'the Executive Committee'.

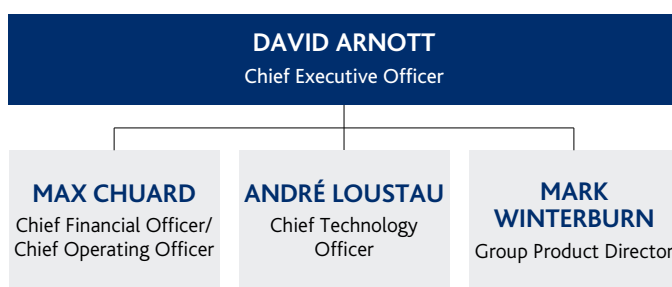
1. GROUP STRUCTURE AND SHAREHOLDERS

1.1 Group structure

The ultimate holding company, Temenos Group AG, is registered in Geneva, Switzerland, where the Group is also headquartered.

1.1.1 The Temenos Group is organised and managed by the Chief Executive Officer who is heading and supported by the Executive Committee.

As of the publication date of this annual report, the Executive Committee comprises the following members:



The Group is managed using a matrix of regional and global business functions incorporating activities of sales, service operations, product development, product management, services management, marketing, key customer relationship management and product support functions.

The Group's product sales and services operations are divided into three main geographic regions:

- Europe, Middle East, Africa and Latin America;
- Asia Pacific; and
- North America.

Temenos being a truly global multi-product company leverages skills from around the world, having its principal software development facilities in Chennai (India), London/Hemel Hempstead (United Kingdom) and Renens (Switzerland). The Group has also other software development facilities including in the United States, Canada, France, Romania, Belgium, Luxembourg and China.

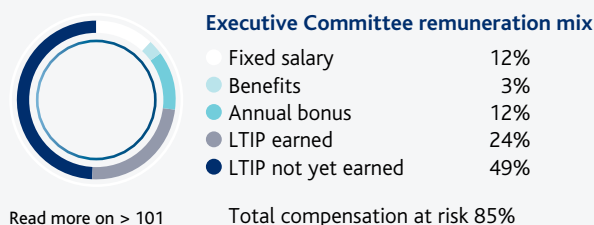
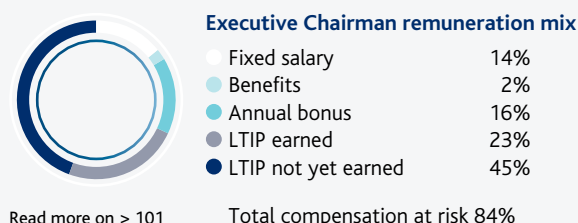
1.1.2 Temenos Group AG is the sole listed company of the Group.

Name	Temenos Group AG
Domicile	2 Rue de L'Ecole-de-Chimie, 1205 Geneva, Switzerland
Listed at	SIX Swiss Exchange
First listing date	26 June 2001
Market capitalisation	CHF 4,936,137,692*
Security Number	1245391
ISIN number	CH0012453913
Symbol	TEMN
Reuters	TEMN.S
Bloomberg	TEMN SW

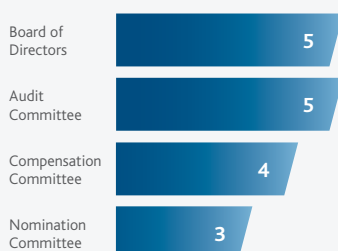
* Based on the issued share capital as of 31.12.2016 composed of 69,621,124 shares.

Please refer to the Information for Investors' section on page 187 for statistics on Temenos shares.

GOVERNANCE DASHBOARD



Meetings held in 2016



Read more on > 97

1.1.3 Please find below the main non-listed companies belonging to the Group:

(All companies are directly or indirectly wholly owned subsidiaries of Temenos Group AG, unless otherwise indicated.)

Name	Domicile	Country of Incorporation	Share Capital
Edge IPK Limited	London	United Kingdom	2,764 GBP
Fairs Limited	London	United Kingdom	50,000 GBP
FE Mobile Limited	London	United Kingdom	100 GBP
Financial Objects (UK) Limited	London	United Kingdom	466,667 GBP
Financial Objects Limited	London	United Kingdom	950,528 GBP
Financial Objects Software (India) Private Limited	Chennai	India	3,258,020 INR
Finch Software Limited	Port Louis	Mauritius	10,000 EUR
Genisys Technology Limited	London	United Kingdom	51,505 GBP
Igefi S.A.	Renens	Switzerland	100,000 CHF
Igefi Canada Inc.	Winnipeg	Canada	10 class A shares (no par value)
Igefi Deutschland GmbH	Trier	Germany	100,000 EUR
Igefi France Sàrl	Paris	France	7,500 EUR
Igefi Group Sàrl	Strassen	Luxembourg	31,000 EUR
Igefi Hong Kong Limited	Hong Kong	Hong Kong	1,000 HKD
Igefi Ireland Limited	Dublin	Ireland	100 EUR
Igefi Licensing Sàrl	Renens	Switzerland	1,900,000 CHF
Igefi Singapore Pte Limited	Singapore	Singapore	20,000 SGD
Igefi Software India Private Limited	Chennai	India	4,500,520 INR
Igefi UK Limited	Southampton	United Kingdom	5,000 GBP
Igefi US LLC	Boston	USA	100 USD
Lydian Associates Limited	London	United Kingdom	20 GBP
Odyssey Financial Technologies GmbH	Frankfurt am Main	Germany	25,000 EUR
Odyssey Financial Technologies PLC	London	United Kingdom	50,000 GBP
Odyssey Financial Technologies S.A.	La Hulpe	Belgium	62,000 EUR
Odyssey Group S.A.	Bertrange	Luxembourg	21,904,670 EUR
TEMENOS (Malaysia) Sdn Bhd	Kuala Terengganu	Malaysia	500,000 MYR
TEMENOS (NL) BV	Amsterdam	Netherlands	18,152 EUR
TEMENOS (Thailand) Co. Limited	Bangkok	Thailand	100,000,000 THB
TEMENOS Africa (Pty) Limited	Sunninghill	South Africa	100 ZAR
TEMENOS Australia Pty Limited	Sydney	Australia	2 AUD
TEMENOS Belgium S.A.	La Hulpe	Belgium	200,000 EUR
TEMENOS Bulgaria EOOD	Sofia	Bulgaria	10,000 BGN
TEMENOS Canada Inc.	Moncton	Canada	560,586 shares (no par value)
TEMENOS Denmark ApS	Copenhagen	Denmark	50,000 DKK
TEMENOS Deutschland GmbH	Frankfurt am Main	Germany	25,000 EUR
TEMENOS East Africa Limited	Nairobi	Kenya	10,000 KES
TEMENOS Ecuador S.A.	Quito	Ecuador	672,000 USD
TEMENOS Egypt LLC	Cairo	Egypt	200 EGP
TEMENOS Finance Luxembourg Sàrl	Bertrange	Luxembourg	37,500 EUR
TEMENOS France SAS	Paris	France	500,000 EUR
TEMENOS Headquarters S.A.	Geneva	Switzerland	100,000 CHF
TEMENOS Hellas S.A.	Athens	Greece	105,000 EUR
TEMENOS Hispania SL	Madrid	Spain	10,000 EUR
TEMENOS Holdings France SAS	Paris	France	28,010,000 EUR
TEMENOS Holdings Limited	Road Town	British Virgin Islands	40,105 USD
TEMENOS Holland BV	Amsterdam	Netherlands	19,000 EUR
TEMENOS Hong Kong Limited	Hong Kong	Hong Kong	2 HKD
TEMENOS India Private Limited	Chennai	India	2,962,000 INR
TEMENOS Investments BV	Amsterdam	Netherlands	18,000 EUR
TEMENOS Israel Limited	Ramat Gan	Israel	100 NIS
TEMENOS Japan KK	Tokyo	Japan	10,000,000 JPY
TEMENOS Kazakhstan LLP	Almaty	Kazakhstan	14,400,000 KZT
TEMENOS Korea Limited	Seoul	Republic of Korea	50,000,000 KRW
TEMENOS Luxembourg S.A.	Bertrange	Luxembourg	1,181,250 EUR
TEMENOS Mexico SA de CV	Mexico City	Mexico	10,760,900 MXN
TEMENOS Middle East Limited	Nicosia	Cyprus	17,100 EUR
TEMENOS North Africa LLC	Casablanca	Morocco	10,000 MAD
TEMENOS Philippines, Inc	Makati City	Philippines	10,000,000 PHP
TEMENOS Polska Sp. Zo.o	Warsaw	Poland	50,000 PLN
TEMENOS Romania SRL	Bucharest	Romania	120,000 RON
TEMENOS Singapore Pte Limited	Singapore	Singapore	65,010,000 SGD

Corporate Governance continued

TEMENOS Software Brasil Limitada	Sao Paulo	Brazil	150,000 BRL
TEMENOS Software Canada Limited	Vancouver	Canada	48,000 CAD
TEMENOS Software Luxembourg S.A.	Bertrange	Luxembourg	29,500,000 EUR
TEMENOS Software Shanghai Co. Limited	Shanghai	China	140,000 USD
TEMENOS Systems Ireland Limited	Dublin	Ireland	4 EUR
TEMENOS UK Limited	London	United Kingdom	2,198,844 GBP
TEMENOS USA, Inc.	Wilmington	USA	1 USD
TEMENOS Vietnam Company Limited	Hanoi	Vietnam	890,000,000 VND
TriNovus Systems LLC	Lubbock	USA	1,741,651.85 USD
Viveo France SAS	Paris	France	5,300,000 EUR
Viveo Group SAS	Paris	France	16,248,900 EUR
Wealth Management Systems Limited	London	United Kingdom	525,000 GBP

1.2 Significant shareholders

Please find below the list of shareholders who hold more than 3% of the voting rights as of 31 December 2016 as per information that has been published on the reporting and publication platform of the Disclosure Office of SIX Swiss Exchange pursuant to Art. 120 of the Financial Market Infrastructure Act.

Beneficial owner	Number of voting rights	Percentage of share capital
Martin and Rosmarie Ebner	10,505,329	15.77%
Massachusetts Mutual Life Insurance Company	5,990,839 ¹	8.99%
George Loening	3,624,872 ²	5.44%
Aviva plc	2,973,713 ³	4.46%

Based on the registered capital as of 31.12.2016 composed of 66,617,568 shares.

⁽¹⁾ Out of this number, 200,217 voting rights are delegated by a third party and can be exercised at one's own discretion.

⁽²⁾ Out of this number, 2,616,181 voting rights are delegated by a third party and can be exercised at one's own discretion.

⁽³⁾ Out of this number, 372,678 voting rights are delegated by a third party and can be exercised at one's own discretion.

For more recent information on major shareholders, please refer to page 187.

Disclosure notifications made in accordance with Article 120 of the Financial Market Infrastructure Act are publicly available on the SIX website at www.six-exchange-regulation.com/en/home/publications/significant-shareholders.html.

1.3 Cross-shareholdings

There are no cross-shareholdings to report.

2. CAPITAL STRUCTURE

2.1 Capital

On 31 December 2016, the registered ordinary share capital amounted to CHF 333,087,840 consisting of 66,617,568 registered shares, each with a par value of CHF 5. All the shares are fully paid-up. Each recorded share with voting rights entitles its holder to one vote. On 20 February 2017, the new registered ordinary share capital was published following the registration of the 3,003,556 shares that were created out of conditional capital (Article 3 quarter (1) of the Articles of Association) in 2016. The registered ordinary share capital currently amounts to CHF 348,105,620 consisting of 69,621,124 registered shares, each with a par value of CHF 5.

Temenos has an authorised capital totalling CHF 69,500,000 and a conditional capital totalling CHF 20,871,130 for shares that may be issued on the exercising of share options granted to employees of the Group. Additional conditional capital totalling CHF 33,039,520 exists for shares that may be issued in conjunction with financial instruments.

2.2 Authorised and conditional capital

Authorised capital

Pursuant to the Articles of Association (Article 3ter), the Board of Directors is authorised to increase the share capital by 6 May 2017, by an amount not exceeding CHF 69,500,000 by issuing up to 13,900,000 fully paid-in registered shares with a nominal value of CHF 5 each. An increase in partial amounts is permitted.

The Board of Directors shall determine the date of issue of such new shares, the issue price, type of payment, conditions of exercising pre-emptive rights, and the beginning of the dividend entitlement. The Board of Directors may issue new shares by the means of a firm underwriting by a banking institution or syndicate with subsequent offer of those shares. The Board of Directors may allow the expiry of pre-emptive rights which have not been exercised or it may place these rights as well as shares, the pre-emptive rights for which have not been exercised, at market conditions.

The Board of Directors is authorised to restrict or withdraw the pre-emptive rights and rights of advance subscription of existing shareholders and allocate them to third parties if (i) the shares are to be used for the take-over of another company or enterprise, of parts of an enterprise or of participations or for the financing of such transactions; or if (ii) the shares are to be used for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchanges.

Conditional capital for employee participation

Pursuant to the Articles of Association (Article 3 quater (1)), the share capital may be increased by an amount not exceeding CHF 20,871,130 by issuing up to 4,174,226 new registered shares to be fully paid-in with a nominal value of CHF 5 each through the exercise of the rights that the direct or indirect subsidiaries of the Company (the 'Subsidiaries') or the Company itself may grant to officers, Directors and employees at all levels of the Company and the Subsidiaries. The pre-emptive rights as well as the right for advance subscription of existing shareholders are precluded.

The issue of shares or respective option rights through the Subsidiaries or through the Company to officers, Directors and employees of the Company and the Subsidiaries, is subject to one or more regulations to be issued by the Board of Directors on the basis of the following general rules: (i) new shares may only be issued to the Subsidiaries or to the Company for purposes of distribution to Directors, officers or employees of the Company and the Subsidiaries; (ii) new shares to be issued through the Subsidiaries or through the Company to employees of the Company or the Subsidiaries shall be issued against paying-in the nominal value of CHF 5 per each share in cash.

Conditional capital for financial instruments

Pursuant to the Articles of Association (Article 3 quater (2)), the share capital may be increased by an amount not exceeding CHF 33,039,520, by issuing up to 6,607,904 new registered shares to be fully paid-in with a nominal value of CHF 5 each, to be divided as follows: first, for the amount of CHF 8,386,120, that corresponds to 1,677,224 new registered shares, through exercise of conversion and/or option rights, which are granted in connection with bonds or similar obligations or other financial instruments of the Company or one of its group companies; and second, for the amount of CHF 24,653,400, that corresponds to 4,930,680 new registered shares, by the exercise of option rights which are granted by the Company or one of its group companies to existing shareholders or third parties. In the case of the issuance of bonds, similar obligations, or other financial instruments linked with conversion and/or option rights, and in the case of the issuance of option rights, the pre-emptive rights of shareholders are excluded. The owners of conversion or option rights from time to time are entitled to the new shares.

The conditions of the option rights, including the exercise period and exercise price, are to be determined by the Board of Directors, whereby the exercise price may be fixed at a price lower than the market or intrinsic value.

The Board of Directors shall be authorised to restrict or exclude the advance subscription rights of shareholders: (1) if debt issues in connection with conversion rights or warrants or other financial instruments or options issues are for the purpose of financing or refinancing the acquisition of an enterprise, parts of an enterprise, or participations or new investments; or (2) if such debt or other financial instruments or options are issued on the international capital markets and for the purpose of a firm underwriting by a banking institution or a consortium of banks with a subsequent offering to the public; or (3) if such debt or other financial market instruments or options are issued for the purpose of the participation of strategic partners. In such cases, the following shall apply: the terms and conditions of the convertible bonds or warrants or other financial instruments or options shall correspond to market conditions (including dilution protection provisions in accordance with market practice), taking into account the specific situation, and the new shares shall be issued pursuant to the relevant conversion or exercise rights in connection with bond or warrant or options issuance conditions. Conversion rights may be exercised during a maximum ten (10) year period, and warrants or options may be exercised during a maximum seven (7) year period, in each case from the date of the respective issuance.

2.3 Changes in capital

	31.12.16 CHF 000	31.12.15 CHF 000	31.12.14 CHF 000
Ordinary issued share capital	333,088	333,088	349,442
Conditional share capital	53,911	68,928	68,928
Authorised share capital	69,500	69,500	71,524

On **31 December 2013**, the registered share capital amounted to CHF 360,115,740 consisting of 72,023,148 shares. Further to the decision of the General Meetings of Shareholders held on 28 May 2014, the capital was reduced by cancellation of 2,134,786 shares repurchased under a share buyback programme.

On **31 December 2014**, the registered share capital amounted to CHF 349,441,810 consisting of 69,888,362 shares. Further to the decision of the General Meetings of Shareholders held on 6 May 2015, the capital was reduced by cancellation of 3,270,794 shares repurchased under a share buyback programme.

On **31 December 2015**, the registered share capital amounted to CHF 333,087,840 consisting of 66,617,568. No change of capital occurred during 2016.

On **31 December 2016**, the registered share capital amounted to CHF 333,087,840 consisting of 66,617,568 registered shares, each with a par value of CHF 5.

Further to the registration in February 2017 of 3,003,556 shares that were created out of conditional capital during 2016 (for Employee Share Option Schemes), the registered share capital currently amounts to CHF 348,105,620 consisting of 69,621,124 registered shares.

For more information on changes in capital, please refer to the Financial Statements of the Company.

2.4 Shares and participation certificates

All equity securities of Temenos are in the form of registered shares, each with a par value of CHF 5. Each share confers the right to one vote at the Annual General Meeting of Shareholders and all shares are fully entitled to receive dividends. The Articles of Association do not provide for privileged voting rights shares. The Company does not issue participation certificates.

In compliance with Temenos policy to distribute a sustainable to growing dividend and taking into account the growing maturity of the Group and the strength of future cash flows, the Company intends to pay an annual dividend of CHF 0.55 on 17 May 2017, subject to shareholder approval at the Annual General Meeting of Shareholders on 10 May 2017. The dividend record date will be set on 16 May 2017 with the shares trading ex-dividend on 15 May 2017. Like in the past years the 2016 dividend will be paid as a distribution of capital contribution reserves and therefore be exempted of withholding tax (share premium dividend).

2.5 Dividend-right certificates

The Company does not issue profit sharing certificates.

2.6 Limitations on transferability and nominee registrations

There are no restrictions on the transfer of shares.

Corporate Governance continued

2.7 Convertible bonds and options

Regarding options please refer to note 25 of the consolidated financial statements.

In **April 2013**, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.75% paid annually on 25 July. The bond will mature on 25 July 2017 at a redemption price of 100% of the principal amount.

In **March 2014**, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.00% paid annually on 31 January. The bond will mature on 31 January 2019 at a redemption price of 100% of the principal amount.

In **May 2015**, the Group issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 2.00% paid annually on 17 June. The bond will mature on 17 June 2022 at a redemption price of 100% of the principal amount.

3. BOARD OF DIRECTORS

3.1 Members of the Board of Directors

As at 31 December 2016, the Board of Directors comprises the following members:

Name	Position
Andreas Andreades	Executive Chairman
Sergio Giacometto-Roggio	Vice-Chairman, Independent and Non-Executive Director
George Koukis	Non-Executive Director, Temenos founder
Ian Cookson	Independent and Non-Executive Director
Thibault de Tersant	Independent and Non-Executive Director
Erik Hansen	Independent and Non-Executive Director
Amy Yip	Independent and Non-Executive Director

Please refer to pages 88 and 89 for their biographies.

Except George Koukis who was Executive Chairman of Temenos until July 2011, none of the non-executive members of the Board of Directors has or has had any senior management position within the Group, nor any significant business connections with the Group.

3.2 Other activities and vested interests

Except those mentioned in the biographies section of this annual report, no member of the Board of Directors has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organizations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups; and
- Official functions and political posts.

3.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC.

According to Article 29 of the Articles of Association, no member of the Board of Directors may hold more than four additional mandates in listed companies and ten additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

- Mandates in companies which are controlled by the Company or which control the Company;
- Mandates held at the request of the Company or any companies controlled by it. No member of the Board of Directors or of the executive management shall hold more than ten of such mandates; and
- Mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or executive management shall hold more than ten of such mandates.

'Mandates' shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

All members of the Board of Directors comply with this Article 29.

3.4 Elections and terms of office

Name	First elected
Andreas Andreades	2001
Sergio Giacometto-Roggio	2012
George Koukis	2001
Ian Cookson	2012
Thibault de Tersant	2012
Erik Hansen	2013
Amy Yip	2014

As per the press release of 20 July 2016, Mr. Peter Spenser will be proposed for election as a new member of the Board of Directors at the forthcoming AGM to be held on 10 May 2017.

3.5 Internal organisational structure

3.5.1 Allocation of tasks within the Board of Directors

The Board of Directors shall elect a Vice-Chairman from amongst its members and a secretary. It may also appoint one or more committees from amongst its members.

Executive Chairman

The Executive Chairman is responsible for preparing and convening the meetings of the Board of Directors as well as for the implementation of the Board resolutions. In case of his absence, the Vice-Chairman shall call the Board meetings. The Executive Chairman supervises the preparation of the General Meeting of Shareholders.

Temenos is a typical software company where product, technology vision and deep market knowledge are instrumental in the success of the Company and it is common to have executive chairmen structures where founders/near founders have a critical role to play in the running of the Company. It is of paramount importance that Temenos retains the vision that has established it as a leader in its industry.

Taking into account his deep understanding of the market, his previous CEO and CFO roles within the Group, the Executive Chairman's input and significant value add are key and instrumental for the other members of the Board of Directors and for the Executive Committee members, especially on all strategic matters.

Vice-Chairman

In case the Executive Chairman is unavailable or absent, the Vice-Chairman calls meetings of the Board of Directors; also, in case the Executive Chairman is unavailable or absent, the Vice-Chairman chairs meetings of the Board of Directors. The Vice-Chairman has the authority to call meetings reserved exclusively for Independent Directors to allow them to discuss certain issues outside full Board of Directors meetings. The agenda of such meetings are set by the Vice-Chairman.

The Vice-Chairman serves as liaison between the Independent Directors and the Executive Chairman and CEO. The Vice-Chairman acts as the preferred contact for the other Independent Directors.

The Vice-Chairman makes himself available to hear the shareholders' comments and suggestions and, where possible, answers their questions after consulting with the Executive Chairman.

3.5.2 Members list, tasks and area of responsibility for each Committee of the Board of Directors

The Audit, Compensation and Nomination Committees are governed by terms of reference defining their duties and compositions which are available at www.temenos.com/en/about-temenos/investor-relations/corporate-governance/. These Committees are composed mainly of Independent and Non-Executive directors. These Committees report regularly and make recommendations to the Board of Directors which is empowered to make decisions.

Name	Audit Committee	Compensation Committee	Nomination Committee
Andreas Andreades			Chairman
Sergio Giacoletto-Roggio	Member	Chairman	Member
George Koukis			
Ian Cookson	Member	Member	Member
Thibault de Tersant	Chairman		
Erik Hansen		Member	
Amy Yip			Member

Audit Committee

The Audit Committee considers the Group's public reports, liaises with the external and internal auditors, and reviews the Group's internal controls, compliance with corporate governance rules and any other matters that may be brought to its attention by the internal and/or external auditors. The external and internal auditors are in attendance at all Audit Committee meetings.

Compensation Committee

The Compensation Committee shall support the Board of Directors in reviewing and making recommendations on compensation practices, guidelines and procedures and in preparing the proposals to the General Meeting of Shareholders regarding compensation of the members of the Board of Directors and of the Executive Committee. It may submit proposals and recommendations to the Board of Directors in other compensation-related issues.

For more details on the role of the Compensation Committee please refer to its terms of reference and to the Compensation Report, in particular to page 102.

Nomination Committee

The main duties of the Nomination Committee are: (i) to annually review the structure, size and composition required of the Board of Directors and make recommendations to the Board of Directors with regard to any changes; (ii) to establish qualification criteria for Board of Directors' membership and (iii) to give full consideration to succession planning for both members of the Board of Directors and members of the Executive Committee.

3.5.3 Working methods of the Board of Directors and its Committees

The Board of Directors meets as often as business requires, but at least four times a year, the Audit Committee meets at least twice a year and the Compensation and Nomination Committees meet at least once a year.

In 2016, the following numbers of meetings were held:

	Meetings	Attendance	Average duration
Board of Directors	5	97.1%	3h
Audit Committee	5	100%	3h
Compensation Committee	4	100%	1h
Nomination Committee	3	100%	0.5h

All physical meetings were held at Temenos offices in Geneva. Moreover, both the external and internal auditors attended all the Audit Committee meetings in 2016.

At the meetings of the Board of Directors and of its Committees, those members of the Executive Committee who have the relevant information and expertise required for the respective body to perform its duties are present. Such persons do not take part in any resolutions.

Furthermore, and during each Board of Directors meeting, a business report is presented by the Chief Executive Officer. Together with the financial report presented by the Chief Financial Officer, this information enables the Board members to assess the course of the Group's business activities on a regular basis.

3.6 Definition of areas of responsibility

The Board of Directors, together with its Committees, exercises inalienable and non-transferable functions as provided by law, by the Company's Articles of Association and by its bylaws. The Board of Directors decides in particular on significant acquisitions, disposals, strategic alliances, changes in the Group's structure and share repurchase programs though its responsibilities are not limited to this.

Once a year, the Board of Directors reviews its conformity to corporate governance rules and evaluates its own performance.

Based on Article 17 of the Articles of Association and Article 3.5 of the Organisation bylaws of the Company, the Board of Directors has delegated the day-to-day operational management and conduct of business operations of the Group to the Chief Executive Officer who is heading and supported by the Executive Committee, except where the law or the Articles of Association provide differently.

Chaired by the Chief Executive Officer, the Executive Committee is responsible for execution of strategy and monitoring performance against it. The Executive Committee also sets targets for Group organic and acquisitions growth on a three year basis i.e. strategic plan to be then formally approved by the Board of Directors. Finally, the Executive Committee approves all product investments, as well as acquisitions to be proposed to the Board of Directors.

Corporate Governance continued

3.7 Information and control instruments vis-à-vis the Executive Committee

The Board of Directors is responsible for the Group's system of internal controls. Supervising the risk management process, effectiveness and efficiency of operations, accurate reporting, compliance with laws and regulations and safeguarding the interests of the Group are some of the main responsibilities of the Board of Directors.

- Prior to each Board of Directors meeting, members of the Board of Directors receive reports, summarising recent financial results and operational developments.
- The Chief Executive Officer and Chief Financial Officer/Chief Operating Officer personally report at each Board meeting.
- The Group's performance management process ensures that Group targets as agreed with the Board of Directors are delegated to senior management during the first quarter of every financial year.
- The Internal Audit function provides an independent assurance on effectiveness of internal controls. This function's independent status is assured by the fact that the Internal Audit Director reports directly to the Chairman of the Audit Committee.
- Findings from internal audit reviews and/or internal control self-assessments, together with related action plans, are reported in detail to senior management; summary reports are provided to the Audit Committee on a regular basis. Implementation of action plans is monitored on a monthly basis and status is reported to the Audit Committee.
- Risk management is an integral part of the business process. Regular risk assessment is performed and key risks are reviewed by the Audit Committee and then by the Board of Directors itself.
- The organisational structure ensures that specialised functions like Quality, Security and IT continuously support the management of risks. IT Director and Chief Security Officer report to the Audit Committee at least once a year.

4. EXECUTIVE COMMITTEE

4.1 Members of the Executive Committee

As at 31 December 2016, the Executive Committee comprises the following members:

Name	Position
David Arnott	Chief Executive Officer
Max Chuard	Chief Financial Officer/ Chief Operating Officer
André Loustau	Chief Technology Officer
Mark Winterburn	Group Product Director

Please refer to page 90 for their biographies.

4.2 Other activities and vested interests

Except those mentioned in the biographies section on page 90, no member of the Executive Committee has any:

- Activities in governing and supervisory bodies of important Swiss and foreign organisations, institutions and foundations under private and public law;
- Permanent management and consultancy functions for important Swiss and foreign interest groups; or
- Official functions and political posts.

4.3 Rules in the Articles of Association on the number of permitted activities pursuant to Art. 12 para. 1 point 1 OaEC

According to Article 29 of the Articles of Association, no member of the executive management may hold more than one additional mandate in a listed company and five additional mandates in non-listed companies.

The following mandates are not subject to these limitations:

- Mandates in companies which are controlled by the Company or which control the Company;
- Mandates held at the request of the Company or any companies controlled by it. No member of the Board of Directors or of the executive management shall hold more than ten of such mandates; and
- Mandates in associations, charitable organizations, foundations, trusts and employee welfare foundations. No member of the Board of Directors or executive management shall hold more than ten of such mandates.

'Mandates' shall mean mandates in the supreme governing body of a legal entity which is required to be registered in the commercial register or a comparable foreign register. Mandates in different legal entities that are under joint control are deemed one mandate.

All members of the Executive Committee comply with this Article 29.

4.4 Management contracts

No management tasks have been delegated to third parties.

5. COMPENSATION, SHAREHOLDINGS AND LOANS

5.1 Content and method of determining the compensation and the shareholding programmes

The executive management compensation plans seek to align executive management and shareholders' interests by making a significant portion of compensation depend on achieving increased shareholder value for the long term and to enforce a performance-orientated environment that rewards superior value creation and the achievement of outstanding results.

Compensation of the non-executive members of the Board of Directors comprises fixed compensation elements only.

The executive members of the Board of Directors and the executive management may be paid fixed and variable compensation. The Board of Directors may determine that variable compensation is dependent on the achievement of certain performance criteria.

In 2016, Temenos introduced a policy for share ownership and retention that is applicable to the Executive Chairman of the Board of Directors and to the members of the Executive Committee. Further information is available in the Compensation Report on page 104.

5.2 Rules in the Articles of Association

5.2.1 According to Article 27 of the Articles of Association of the Company, performance criteria shall be determined by the Board of Directors or, where delegated to it, the Compensation Committee and may include criteria relating to individual performance, performance of the Group or parts thereof as well as performance in relation to the market or other companies, taking into account the position and level of responsibility of the employee. The Board of Directors or, where delegated to it, the Compensation Committee shall determine the performance criteria impact on variable compensation (short and long term incentives), including actual achievement and potential maximum achievement, the relative weight of the performance criteria and the respective target-levels.

Compensation may be paid or granted in cash, shares, or in the form of other types of benefits. Compensation of executive members of the Board of Directors or members of the executive management may also be granted in the form of stock appreciation rights and similar financial instruments. The Board of Directors or, where delegated to it, the Compensation Committee shall determine grant, vesting, blocking, exercise and forfeiture terms and conditions of these kinds of compensation; in particular, it may provide for continuation, acceleration or removal of vesting and exercise conditions, for payment or grant of compensation based upon assumed target achievement, or for forfeiture, in each case in the event of pre-determined events such as a change-of-control or termination of an employment agreement.

The Company may procure the required shares through treasury shares or upon creation of shares out of conditional capital.

Compensation may be paid by the Company or companies controlled by it.

According to Article 26 of the Articles of Association, if the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the executive management during a compensation period for which the General Meeting of Shareholders has already approved the compensation, the Company or companies controlled by it shall be authorised to pay to such member(s) a supplementary amount during the compensation period(s) already approved. The total supplementary amount per compensation period shall not exceed 40% of the aggregate amount of compensation of the executive management last approved by the General Meeting of Shareholders.

5.2.2 There are no rules in the Articles of Association on loans, credit facilities and post-employment benefits for members of the Board of Directors and Executive Committee.

5.2.3 According to Article 25 of the Articles of Association, the General Meeting of Shareholders shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

- Compensation of the Board of Directors for the next fiscal year; and
- Compensation of the executive management for the next fiscal year.

The Board of Directors may submit for approval by the General Meeting of Shareholders proposals in relation to maximum aggregate amounts of compensation relating to different periods, in relation to amounts for specific compensation elements for the same or different periods.

In the event a proposal of the Board of Directors has not been approved by the General Meeting of Shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a General Meeting of Shareholders.

Notwithstanding the above provisions, the Company or companies controlled by it may pay out compensation prior to approval by the General Meeting of Shareholders subject to subsequent approval by a General Meeting of Shareholders.

6. SHAREHOLDERS' PARTICIPATION RIGHTS

6.1 Voting-rights restrictions and representation

6.1.1 According to the Company's Articles of Association, only shareholders entered in the share register as shareholders or as usufructuaries may exercise the voting rights linked to the shares or the other rights connected with these voting rights. The Articles of Association do not contain any restrictions to voting rights.

6.1.2 Not applicable.

6.1.3 Not applicable.

6.1.4 Not applicable.

6.1.5 Shareholders registered in the share register with voting rights on a determined date are entitled to attend the General Meeting of Shareholders and to exercise their votes. Each shareholder may be represented at the General Meeting of Shareholders by any other person who is authorised by a written proxy, by a legal representative or by the independent proxy holder.

6.1.6 There are no rules in the Articles of Association about electronic participation to the General Meeting of Shareholders or instructions to the independent proxy holder. However the shareholders may provide electronically their voting instructions to the independent proxy holder.

6.2 Quorums required by the Articles of Association

There are no statutory quorums. The General Meeting of Shareholders shall pass its resolutions and carry out its elections by a simple majority, unless qualified majority is required by law for a specific agenda item.

6.3 Convocation of the General Meeting of Shareholders

The General Meeting of Shareholders is convened by publication of the invitation and the agenda, at least twenty days before the date of the meeting, in the Swiss Official Gazette of Commerce (Schweizerische Handelsamtsblatt, Feuille Officielle Suisse du Commerce). Shareholders representing at least 10% of the share capital may convene an Extraordinary General Meeting.

6.4 Inclusion of items on the agenda

One or more shareholders representing shares of an aggregate nominal value of at least CHF 1 million may, up to 45 days before the date of the General Meeting, request an item to be included on the agenda. Such request must be in writing and shall specify the items and the proposals of these shareholders.

6.5 Entries in the share register

Pursuant to Article 13 paragraph 1 of the Articles of Association, shareholders entered in the share register as shareholders with voting rights on a specific date determined by the Board of Directors (approximately 10-15 days before the General Meeting) are entitled to attend and vote at the General Meeting.

Corporate Governance continued

7. CHANGES OF CONTROL AND DEFENCE MEASURES

7.1 Duty to make an offer

There is no 'opting out' or 'opting up' clause in the Articles of Association.

7.2 Clauses on changes of control

In case of change of control in Temenos, all outstanding stock appreciation rights (SARs) will become immediately vested and exercisable.

SARs are considered to be outstanding only if the corresponding/ relevant service period has started (where such relevant service period is specified as part of the grant documentation). If not specified, they will be considered as outstanding automatically.

8. AUDITORS

8.1 Duration of the mandate and term of office of the lead auditor

8.1.1 PricewaterhouseCoopers SA was re-elected as the statutory and group auditor at the Annual General Meeting of Shareholders held on 10 May 2016 for a period of one year (first elected in 2003).

8.1.2 Since 2011 the lead auditor for the Group audit is Mr. Guillaume Nayet.

8.2 Auditing fees

Included in general and administrative expenses is an amount of USD 1,548,958 representing audit fees charged to Temenos Group AG by PricewaterhouseCoopers for (i) the audit of the group consolidated financial statements and of statutory accounts in various jurisdictions (USD 1,454,958) and (ii) USD 94,000 of other audit fees related to work than can only be performed by the Group auditor such as the audit of the Compensation Report.

8.3 Additional fees

In addition, other fees of USD 1,400,000 have been incurred by PricewaterhouseCoopers through the provision of tax advisory and other professional services.

Please find below a breakdown of the additional fees:

	USD 000
Tax compliance	310
Transactions	288
Non-audit fees – audit related	598
Tax advisory	546
Other advisory	256
Non-audit related	802
Total non-audit fees	1,400

8.4 Information instruments pertaining to the external audit

The Audit Committee is responsible for monitoring the performance of external auditors, checking their independence, approving their annual audit plan and fees, and reviewing their findings on internal control procedures as well as steps taken by the auditors to respond to changes in regulatory audit standards and other requirements. At the end of at least one Audit Committee meeting during the year, the Audit Committee members spend time with the external auditors without the presence of management. The external auditors formally report to the Audit Committee during its meetings and have direct access to its Chairman when necessary. The Chairman of the Audit Committee then reports at each meeting of the Board of Directors. Please also refer to paragraphs 3.5.2 and 3.5.3 above.

At the beginning of the year, the Audit Committee pre-approves an amount of permitted services that may be performed by the external auditors. Such services are then reviewed on a regular basis at Audit Committee meetings. For any other audit or non-audit related services beyond the above-mentioned limit, authorisation is required from the Chairman of the Audit Committee upon recommendation from the Chief Financial Officer.

9. INFORMATION POLICY

Temenos is committed to open and transparent communication with its shareholders and wider stakeholders.

Updates

Temenos publishes an audited annual report for the year to 31 December and an audited interim report for the six months to 30 June. Temenos also reports figures on a quarterly basis. All of this information and additional company-specific information is available at www.temenos.com/en/about-temenos/investor-relations/.

In addition, those interested can sign up on the Temenos website by clicking to the Subscribe button at www.temenos.com/en/about-temenos/investor-relations/ to receive financial news, key customer signings as well as all press releases issued in accordance with the ad hoc publicity rules; moreover, all these press releases are available at www.temenos.com/en/about-temenos/investor-relations/financial-press-releases/.

Contacting Temenos

For any investor relations enquiries please contact the Company at TemenosIR@temenos.com and for management dealings enquiries/ disclosure of shareholdings notifications at companysecretarial@temenos.com.

Meeting Temenos

On 10 May 2017, Temenos will hold its Annual General Meeting, in Geneva, Switzerland. This occasion affords shareholders the opportunity to put their questions to the Board and learn more about the Group's strategic direction.

Meetings between Directors, institutional shareholders and other market professionals are held regularly as a part of Temenos' investor relations programme. Furthermore, all Directors are available to meet shareholders if requested.

Dates of publication of 2017 quarterly results and Temenos conferences are published on the Company's website and updated regularly at www.temenos.com/en/about-temenos/investor-relations/calendar/.

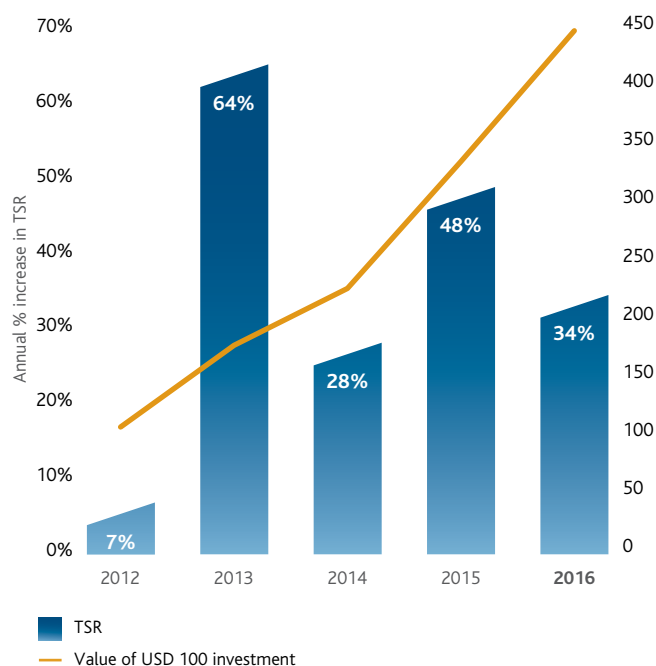
Compensation Report

COMPENSATION
REPORT

"I am pleased to present to you our 2016 Compensation Report. 2016 was another very successful year for Temenos, with an increase in total shareholder return of 34% for the calendar year."

The graph below shows the five year history of growth p.a. and cumulative growth, the CAGR being 35%.

Growth in Total Shareholder Return (TSR)

LETTER FROM THE CHAIRMAN
OF THE COMPENSATION COMMITTEE

With growth in non-IFRS total software licensing of 21% this year, Temenos has again increased its market share and has sustained its position in the market as the global leader in banking software. Temenos' success, past and future, is the result of the skills and dedication of its people; reward, motivation and retention of these individuals in driving this success is key to our remuneration policy.

The Compensation Committee is focused on ensuring we have the support of our shareholders on the compensation and as such we have gathered feedback from our stakeholders this year which we have taken into account. In 2016, we have made the following improvements that we believe build even stronger links between executive compensation and shareholder value.

- We have added share ownership rules for the Executive Chairman and members of the Executive Committee which have already come into effect in 2016;
- We have disclosed targets and achievement levels for the short term variable this year;
- We are adding malus and clawback provisions in our LTIP plans in future grants; and
- We have reviewed our peer group to ensure it is as representative as possible.

Our objective is to be clear, comprehensive and transparent on the pay and benefits of our members of the Board of Directors and Executive Committee and to comply with Swiss law and best corporate governance practice. Our intention is to provide information to meet the requirements under the:

- Swiss Code of Obligations, article 663 b bis;
- Ordinance against Excessive Remuneration in Listed Companies Limited by Shares (OaEC);
- SIX Directive on Information Relating to Corporate Governance; and
- Swiss Code of Best Practice for Corporate Governance.

The Compensation Committee remains committed to dialogue with shareholders, and we welcome regular feedback on our compensation policies. We hope that, on this basis, we will receive your support at the AGM in 2017.

Sergio Giacometto-Roggio

Chairman of the Compensation Committee

Compensation Report continued

COMPENSATION POLICY AND PRINCIPLES

Temenos' executive compensation programmes are designed with two main goals in mind:

- Pay for Performance alignment: by making the major portion of compensation dependent on achieving increased shareholder value for the long term; and
- Fostering a performance-based corporate culture through variable compensation.

Temenos is committed to building long term shareholder value. In order to ensure we encourage and drive this value creation, **85% of the compensation is performance driven and therefore at risk and will not be earned unless the executive team delivers on stretch long and short term targets.**

Executive compensation consists of:

- (i) Fixed cash compensation and benefits;
- (ii) Variable cash linked to short term performance targets (i.e. current financial year); and
- (iii) Equity based variable compensation that is linked to long term performance targets.

Compensation of the non-executive members of the Board of Directors comprises fixed compensation only.

Performance criteria are set by the Board of Directors and may include criteria relating to the performance of the Group or parts thereof, performance in relation to the market or other companies, as well as individual performance. The Board of Directors determines the extent to which the performance criteria impact variable compensation, including maximum opportunity, and the relative weight of the performance criteria. The Board of Directors also oversees the conditions linked to the grant, vesting, exercise and the forfeiture of equity based incentive programmes.

ORGANISATION AND COMPETENCIES

Executive Officers

The Executive Officers who served in the 2016 financial year are:

Board of Directors:

- Andreas Andreades, Executive Chairman

Executive Committee:

- David Arnott, Chief Executive Officer
- Max Chuard, Chief Financial Officer and Chief Operating Officer
- André Loustau, Chief Technology Officer
- Mark Winterburn, Group Product Director
- Mike Davis, Client Director, member of Executive Committee until 9 March 2016.

Non-Executive Directors

The Non-Executive Directors who served in the 2016 financial year are:

- Sergio Giacometto-Roggio, Vice Chairman
- Ian Cookson
- Erik Hansen
- George Koukis
- Thibault de Tersant
- Amy Yip

The role of the Compensation Committee

The Compensation Committee is authorised by the Board of Directors to:

- Recommend to the Board of Directors compensation practices and policies for Executive Directors, including the Executive Chairman, Chief Executive Officer and other members of the Executive Committee;
- Align the interests of executive directors and senior managers to the long term interests of the Company and its shareholders by recommending compensation practices and policies that are equitable and performance based;
- Review the competitiveness of the Company's executive compensation programmes and thereby ensure the attraction and retention of Executive Directors and senior managers who are key in delivering the Company's business objectives; and
- Confirm that compensation packages for Executive Directors and senior managers are in line with market norms.

To fulfil its duties, the Compensation Committee typically meets at least three times during the year on the following cycle:

- **November** – to review the Compensation Committee terms of reference, to review compensation practices and policies for the forthcoming financial year, to approve fixed compensation and principles for variable short term and long term incentives for Executive Directors and members of the Executive Committee;
- **February** – to approve the performance targets for variable short term incentive, and to approve the long term variable compensation grant including performance targets; and
- **March** – to recommend prospective compensation to be submitted for approval at the annual general meeting of shareholders.

During 2016, the Compensation Committee additionally met in October to review shareholder engagement strategy and long term incentive strategy.

The Compensation Committee comprises three Independent and Non-Executive Directors:

- Sergio Giacometto-Roggio, Chairman
- Ian Cookson
- Erik Hansen

The Compensation Committee members are elected annually by shareholders.

Approval process

Before submission to the shareholders for approval, the recommendation of compensation packages for Board and Executive Committee members are governed as follows:

Compensation of	Recommended by	Approved by
Executive Chairman of the Board	Compensation Committee	Board of Directors
Executive Committee	Compensation Committee	Board of Directors
Non-executive members of the Board	Chief Executive Officer	Chairman of the Board

Benchmarking process

To ensure executive compensation is correctly set in the context of industry practice, the Compensation Committee reviews benchmark data collated from a range of organisations in the technology sector.

Temenos has reviewed its Comparator Group for 2016. The Group has been selected based on the following criteria:

- Companies targeted for hiring talent into Temenos;
- Software companies that have similar operating characteristics to Temenos in terms of global reach, target markets, competitive dynamics and complexity;
- Major European software companies; and
- Financial services software companies that industry analysts rank as global top performers.

Based on shareholder feedback, we have reviewed the peer group and aligned it to further represent our market. Temenos is approximately at the median market capitalisation of our peer group of USD 5.4 billion, and at USD 0.6 billion just slightly lower than the median revenue of our peer group of USD 1 billion.

A large part of our comparator group are companies based in the USA. This is due to the fact that the majority of the global software players originate in the USA (73 of the top 100 global software companies are based in the US according to research by PWC in 2014 with only around 10 being European software companies) and therefore they represent a significant part of our direct competitors.

As a result the following 17 companies have been selected for the benchmark:

Organisation	Country	Organisation	Country
ACI Worldwide	USA	Micro Focus International plc	UK
AVG	Netherlands	Netsuite	USA
Broadridge Financial Solutions	USA	Quality Systems	USA
Fidelity National Information Services	USA	SDL	UK
Fidessa Group plc	UK	Simcorp	Denmark
Fiserv	USA	Software AG	Germany
Jack Henry and Associates	USA	SS&C	USA
Intuit	USA	The Sage Group	UK
Logitech International	Switzerland		

Shareholder engagement

We routinely engage with shareholders to discuss business, performance, compensation and governance matters.

Specifically with regard to executive compensation, in October 2016 we communicated by letter with our main shareholders outlining our compensation philosophy and inviting them to a meeting with Temenos management or Board members at their convenience.

The Chairman of the Compensation Committee engaged in face-to-face meetings or conference calls with our largest shareholders and a number of shareholder advisory groups. We have listened and taken into account the feedback we received. As already mentioned in the Letter of the Chairman of the Compensation Committee, some of the points raised by our shareholders have been addressed. These include implementing a share ownership policy, reviewing our peer group and disclosing the targets for the short term variable plan.

Regular shareholder dialogue is a key priority of our Management and Board.

Votes on compensation

As set out in the Articles of Association, the General Meeting of Shareholders shall approve annually and separately the proposals of the Board of Directors in relation to the maximum aggregate amount of:

- Compensation of the Board of Directors for the next fiscal year; and
- Compensation of the Executive Committee for the next fiscal year.

The Board of Directors may submit for approval by the General Meeting of Shareholders proposals in relation to maximum aggregate amounts of compensation relating to different periods, or in relation to amounts for specific compensation elements for the same or different periods.

In the event a proposal of the Board of Directors has not been approved by the General Meeting of Shareholders, the Board of Directors shall determine, taking into account all relevant factors, the respective maximum aggregate amount of compensation or partial maximum amounts for specific compensation elements, and submit the amount(s) so determined for approval by a General Meeting of Shareholders. The Company may pay out compensation prior to approval by the General Meeting of Shareholders subject to subsequent approval by a General Meeting of Shareholders.

If the maximum aggregate amount of compensation already approved by the General Meeting of Shareholders is not sufficient to also cover compensation of one or more members who become members of or are being promoted within the Executive Committee during a compensation period for which the General Meeting of Shareholders has already approved the compensation, the Company is authorised to pay the member a supplementary amount during the compensation period already approved. The total supplementary amount per compensation period shall not exceed 40% of the aggregate amount of compensation of the executive management last approved by the General Meeting of Shareholders.

Compensation Report continued

SHARE OWNERSHIP

In 2016 Temenos introduced a policy for Stock Ownership and Retention for the Executive Chairman of the Board and members of the Executive Committee. Owning company stock helps align executives' financial interests with those of shareholders.

The following amount of shares must be held:

Executive Chairman	4 times annual fixed salary
CEO	5 times annual fixed salary
CFO/COO	3 times annual fixed salary
CTO and Product Director	1 time annual fixed salary

The Executive Chairman, CEO and CFO/COO have met the requirements by 31 December 2016. The CTO and Product Director must hold the required amount of Temenos shares by 31 December 2017.

The number of shares to be held are calculated based on the closing stock price of 31 December of the prior year and the fixed salary for the year. For example, the number of shares required to be held on 31 December 2017 is calculated based on the on share price of 31 December 2016 and fixed salary for the year 2017. This allows the Executives sufficient time to take any required actions.

SARs do not count towards meeting the guidelines. The shares that count are Temenos ordinary shares.

PAY FOR PERFORMANCE APPRAISAL

To align with shareholders' interests, Temenos executive compensation programme is designed to foster a pay-for-performance culture.

The chart below shows a percentage split of aggregate compensation of the Executive Committee for 2016. The fixed salary and benefits are the only unconditional, ie non risk components; short term variable is dependent on the achievement of the results for 2017 and long term variable is dependent on the achievement of the results for the three year period 2017 to 2019 inclusive.

In 2016, 85% of total compensation was variable and conditional upon performance targets and therefore at risk.

Based on the outstanding growth delivered in 2016 one third of the LTIP is earned and the STI targets were exceeded.

The compensation for the Executive Chairman and the Executive Committee was made up as follows:



The 'LTIP earned' is the part of the 2016 grant relating to the delivery of EPS and product revenue targets for the financial year 2016. The target for 2016 has been met and the component of the 2016 LTIP grant can no longer be forfeited, even though subject to time vesting criteria until 2019. The 'LTIP not earned' is the part of the 2016 grant relating to the delivery of the EPS and product revenue targets for the financial years 2017 and 2018 that are still at risk.

With regard to the Long Term Incentive Plan, the table below shows the trend of achievement of non-IFRS EPS targets:

SAR scheme	Proportion vested based on targets met
2007	100%
2008	forfeited
2009	60%
2010	30%
2011	forfeited
2012	12.8%
2013	101%
2014	100%
2015	Achievement assessed on vesting in February 2018
2016	Achievement assessed on vesting in February 2019

Targets will continue to be set at challenging levels and reflect long term performance in order to maintain the direct link between pay and performance.

COMPENSATION COMPONENTS

Summary of Compensation elements for employees

The table below explains the compensation elements for 2016:

	Fixed salary and benefits	Variable short term incentive (bonus or commission)	Variable long term equity incentive
Eligibility	All employees.	All employees.	Executive Chairman, Executive Committee members and senior managers.
Basis for funding	Continuity of service, role and experience.	Role and experience with a 90% threshold on the global or regional targets to be achieved prior to the fund accumulating.	Continuity of service over 3 years plus achievement of 3 year non-IFRS EPS targets and non-IFRS product revenue targets.
Payout	Monthly or bi-weekly depending on jurisdiction.	After performance for the financial year has been audited.	On Board of Directors approval of the results for the final year of the Stock Appreciation Rights (SARs) plan.
Payout subject to	Forfeiture rules	No	Yes
	KPIs	No	Yes
Performance range for Executive Directors and Executive Committee members and senior managers	None	0% to 150% of fixed salary, 0% below 90% target threshold.	Up to 140% of on target LTIP value if all targets are exceeded by 20%, 0% below 85% target threshold.
Settlement	Cash	Cash	Shares on a net basis.
Malus and clawback clauses	Not applicable.	Yes	Yes

Compensation Report continued

Compensation elements for the Executive Chairman and Executive Committee Members (executives)

The elements of the above table, together with their objectives, are as follows:

Fixed salary

- To compensate executives for their expected day-to-day management, leadership and contribution to the business.

Benefits

- To provide a level of security in health and retirement and, should it be required, in disability and death.

Variable short term incentive

- To make a significant portion of executive overall annual compensation variable and dependent on delivery of the Company's annual key targets of licence revenue, cash collection, non-IFRS EBIT and non-IFRS EPS growth.
- The variable short term incentive is paid in cash.

Variable long term equity incentive

- To provide a balance of total compensation, via long term equity incentives, that is variable and linked directly to long term shareholder value creation.
- To incentivise sustainable future performance in non-IFRS EPS growth and non-IFRS product revenue growth. Product revenue is defined as software licensing, including Software as a Service, and maintenance revenues.
- To retain executives for the long term.

The Executive Chairman works in an executive capacity full time and is jointly responsible, together with the CEO and CFO/COO for the delivery of the business plan. His role is described in more detail on page 96. His compensation reflects his executive role and as such is made up of a fixed salary, benefits, variable compensation as an annual incentive and Stock Appreciation Rights as a variable long term incentive.

2016 Variable Short Term Incentive

For 2016, the Variable Short Term Incentive became payable on 14 February 2017 after the year-end results were approved by the Board of Directors and released to the market. The incentive for 2016 is due in cash.

For the executives, on target performance is rewarded at 100% of fixed salary.

Performance criteria

Annual targets for executives are set by the Board based on recommendations by the Compensation Committee.

In 2016, the incentive plan was based on the following targets:

- For Executive Chairman, CEO and CFO/COO:
 - Non-IFRS total software licensing (40%)
 - Non-IFRS EPS (30%)
 - Operating cash flow (30%)
- For CTO and Group Product Director:
 - Non-IFRS total software licensing (50%)
 - Cash inflows (30%)
 - Non-IFRS operating profit (20%)
- Annual incentive payouts for other senior managers are based on a mix of corporate and specific regional objectives.

The targets and respective achievements for Mr. Andreades, Mr. Arnott and Mr. Chuard are set out in the table below. As they had a cap of 100% in 2016 the final payout was 100%:

2016 Target	Percentage of bonus	Target	Actual	Threshold	% of achievement	% Paid
Non-IFRS total software licensing	40%	247	256	90%	104%	100%
Non-IFRS EPS	30%	1.98	2.07	90%	105%	100%
Operating cash flow	30%	247	258	90%	104%	100%

2016 long term equity incentive

The Company grants Stock Appreciation Rights (SARs) to executives and senior managers with performance and vesting criteria. We continue to favour the use of SARs over restricted stock as they necessitate a growth in the share price, which itself is dependent on strong Company performance, before they have any value to the receiving executives. In this way we incentivise the management team to deliver strong revenue growth and profitability over the long term.

The tables below provide an overview of the schemes in place together with their performance criteria and pricing. The level and value of awards is commensurate with an Executive's contribution to the business.

SARs are valued on a fair value basis by an independent organisation using the Enhanced American Model so as to comply with IFRS 2.

Overview of Executive SAR schemes

Target population	Performance criteria	Pricing of long term equity awards
Executive Chairman, Executive Committee members and senior managers	Grant conditions linked to the achievement of annual and 3 year cumulative non-IFRS EPS and/or non-IFRS product revenue targets, vesting after more than three years.	To ensure pricing integrity, long term equity awards are not issued at a discount to market price; they are priced at the closing market price on the day preceding the grant date.

The Schemes currently in place are outlined in the table below:

Year of grant	No of SARs awarded for Executive Chairman and Executive Committee	Weighted average exercise price USD	Weighted average fair value USD	Grant date	Vesting date
2016	1,316,000	44.30	10.00	15 February 2016 and 7 March 2016	On Board of Directors approval of the results for the year ending 31 December 2018
2015	1,230,000	35.45	9.73	28 November 2014 ¹	On Board of Directors approval of the results for the year ending 31 December 2017
2014	1,180,000	34.38	9.84	28 February 2014	On Board of Directors approval of the results for the year ending 31 December 2016, that was 14 February 2017 (after market close)

⁽¹⁾ Although the grant for 2015 was issued in November 2014 upon the approval of the strategic plan 2015-2017 by the Board of Directors, the value has been included in the 2015 Compensation Report as it constitutes compensation for 2015. No other grant was given in 2015.

Vesting conditions

Vesting of the SAR awards is subject to active employment until the end of the respective vesting period, and subject to achievement of performance targets described below.

The targets for each of the executive team SAR schemes are outlined below:

Year of grant	Vesting condition
2016	60% on Non-IFRS EPS Targets, 40% on Non-IFRS Product Revenues
2015	60% on Non-IFRS EPS Targets, 40% on Non-IFRS Product Revenues
2014	100% on Non-IFRS EPS Targets

The targets for non-IFRS EPS are based on a CAGR of 15% for the three year period. Targets for non-IFRS product revenues are considered commercially sensitive and it would be detrimental to the interests of the Company to disclose them in advance. The performance against those measures will be disclosed on vesting subject to sensitivity no longer remaining.

Vesting profile

The vesting profile of SARs awarded in 2015 and 2016 is the greater of:

- One third of each plan is based on achievement of annual results for each year of the three year plan. There is no overachievement element on the awards linked to annual targets and achievement is binary either 0 or 100%
- Cumulative target achievement being greater than 85% of the sum of the annual targets. On the cumulative target there is a potential overachievement as explained below.

Compensation Report continued

Over/under achievement of executive team SAR scheme

For achievement between 85% and 100% of target a pro-rated reduced amount will vest. For every 1% overachievement of the three years cumulative non-IFRS EPS target, an additional 2% of SARs may be granted up to a maximum of 140% of the total grant.

Any over or underachievement is calculated based on the table below. Intermediate performance is pro-rated on a straight-line basis between the data points shown.

Cumulative non-IFRS EPS or non-IFRS product revenues: Achieved as % of Cumulative target	85%	92.5%	100%	110%	120%
Proportion vesting	0%	50%	100%	120%	140%

Achievement

Under the 2014 executive team SARs scheme, which vested on 14 February 2017, the non-IFRS EPS performance targets and respective achievements were:

Year	Target	Actual achievement	Growth on prior year
2014	\$1.44	\$1.44	18%
2015	\$1.73	\$1.73	20%
2016	\$2.07	\$2.07	20%
Cumulative	\$5.24	\$5.24	20% CAGR

The cumulative non-IFRS EPS achievement of USD 5.24 equates to an achievement on target of 100%, representing 100% of the SARs granted which vested on 14 February 2017; that is 1,180,000 SARs vested in total for the Executive Chairman and Executive Committee.

Contract terms for the Executive Chairman and Executive Committee members

The contractual notice periods of the Executive Chairman, being the sole executive member of the Board of Directors, and members of the Executive Committee do not exceed twelve months; there are no severance payment clauses.

In case of a change of control of Temenos Group AG, all SARs granted will become immediately vested and exercisable provided that their respective vesting period has started. A case of change of control occurs when a third party acquires the control of more than 50% ownership in Temenos Group AG.

In case of dismissal for cause, all unvested options and stock appreciation rights are forfeited. In case of termination, conditions vary by role and are described in each plan.

Compensation elements for Non-Executive Directors

The Non-Executive Directors were compensated in 2016 with a fee for their Board duties, together with a supplementary fee for Audit and Compensation Committees' chairs.

Summary of key compensation changes in 2016

In 2016, the changes were as follows:

- As approved at the AGM in May 2015, the Executive Chairman and Executive Committee received a salary increase of 5% effective from 1 January 2016.
- LTIP awards are now granted in the year for which approval has been obtained. Hence for 2016 compensation, the LTIP approved by the AGM in 2015 was issued in February 2016.
- The Board fees paid to Non-Executive Directors increased from USD 95,000 to USD 100,000. The fees for the Chairman of the Audit Committee and for the Chairman of the Compensation Committee increased from USD 32,500 to USD 35,000.
- Mr. Davis stepped down from the Executive Committee on 9 March 2016 following the promotion of Mr. Chuard to CFO/COO.

COMPENSATION FOR FINANCIAL YEAR UNDER REVIEW

This section (pages 109 to 111) has been audited by Temenos' auditors, PricewaterhouseCoopers.

As individuals are paid in currencies other than US dollars, the amounts in the tables below are converted into US dollars using the average exchange rate for 2016 and the average exchange rate for 2015 respectively. Comparison between these two years may be distorted through the exchange rate fluctuations.

The Long Term Incentive Plan (LTIP) Value included in the tables below represents the full fair value of the on target achievement at the time of grant. The SARs value to the individual is only realised once (i) non-IFRS EPS and non-IFRS product revenue targets are achieved (which triggers vesting), (ii) the time vesting criteria have been satisfied and (iii) when the stock price rises above the grant price. The valuation method, conditions and grant details are explained in the paragraph titled Compensation Components.

Board of Directors

The total compensation for the Board of Directors including social security charges totals USD 6.0 million compared to a total maximum compensation of USD 6.3 million approved by the shareholders at the AGM on 6 May 2015.

Out of the total Executive Chairman's 2016 compensation of USD 5.1 million, USD 2.6 million has been earned, and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2017-2018 are achieved and the time vesting criteria have been satisfied. The amount earned includes the proportion of LTIPs at fair value for which targets have been achieved even though time vesting criteria have not yet been satisfied.

Name	Board function	Fiscal year	Base salary	Variable short term incentive	All other compensation ¹	Total compensation before LTIP	LTIP value	Total compensation	Employer social security charges ²	Total compensation including social security charges	Maximum shareholder approval
A. Andreades ³	Executive Chairman	2016	619,136	619,136	131,972	1,370,244	3,710,250	5,080,494	194,457	5,274,951	
		2015	601,338	630,809	129,921	1,362,068	3,356,850	4,718,918	122,978	4,841,896	
S. Giacometto-Roggio ⁴	Vice Chairman	2016	135,000	—	—	135,000	—	135,000	9,131	144,131	
		2015	127,500	—	—	127,500	—	127,500	9,153	136,653	
G. Koukis	Member	2016	100,000	—	20,012	120,012	—	120,012	7,199	127,211	
		2015	95,000	—	20,494	115,494	—	115,494	8,146	123,640	
T. de Tersant ⁵	Member	2016	135,000	—	—	135,000	—	135,000	11,935	146,935	
		2015	127,500	—	—	127,500	—	127,500	11,925	139,425	
I. Cookson	Member	2016	100,000	—	—	100,000	—	100,000	6,426	106,426	
		2015	95,000	—	—	95,000	—	95,000	7,173	102,173	
E. Hansen	Member	2016	108,744	—	—	108,744	—	108,744	—	108,744	
		2015	102,173	—	—	102,173	—	102,173	—	102,173	
A. Yip	Member	2016	100,000	—	—	100,000	—	100,000	6,426	106,426	
		2015	95,000	—	—	95,000	—	95,000	8,445	103,445	
Total Board of Directors		2016	1,297,880	619,136	151,984	2,069,000	3,710,250	5,779,250	235,574	6,014,824	6,300,000
		2015	1,243,510	630,809	150,416	2,024,735	3,356,850	5,381,585	167,819	5,549,403	

⁽¹⁾ All other Compensation includes life, medical, disability, accident insurances, pension and car allowance.

⁽²⁾ Social security charges comprise actual charges on base salary and other compensation, and estimated social security charges to be paid for bonus and LTIPs (based on the fair value) granted in the year of compensation.

⁽³⁾ Mr. Andreades' total compensation includes fees of USD 100,000 for his Board duties, the remainder represents compensation for his executive duties. Mr. Andreades' long term incentive plan compensation corresponds to the full fair value, as at grant, of the 2016 executive team SAR award. The variable short term incentive is 100% of the on-target amount, payable in February 2017. The LTIP for Mr Andreades consists of 2 grants: 325,000 SARs were granted on 15 February 2016 at a grant price of USD 43.69 and a fair value of USD 9.93; and 46,000 were granted on 7 March 2016 at a grant price of USD 49.12 and a fair value of USD 10.50.

⁽⁴⁾ Mr. Giacometto-Roggio's fees comprise a basic fee of USD 100,000 (USD 95,000 for 2015) annually plus USD 35,000 (USD 32,500 for 2015) annually for his duties as Chairman of the Compensation Committee. He does not receive additional fees for his duties as Vice-Chairman of the Company.

⁽⁵⁾ Mr. de Tersant's fees comprise a basic fee of USD 100,000 (USD 95,000 for 2015) annually plus USD 35,000 (USD 32,500 for 2015) annually for his duties as Chairman of the Audit Committee.

Compensation Report continued

Executive Committee

The total compensation for the Executive Committee including social security charges totals USD 15.3 million compared to a maximum compensation of USD 17.5 million approved by the shareholders at the AGM on 6 May 2015. The lower spend was mainly due to the departure of Mike Davis from the Executive Committee and the fact that the short term variable was on or close to target, not at maximum.

The total of all compensation, in US dollars, earned in 2016 and 2015 by the members of the Executive Committee is shown below. From the total compensation of USD 13.9 million, USD 7.6 million has been earned and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2017-2018 as set out in the report are achieved. The amount earned includes the proportion of LTIPs for which targets have been achieved even though the time vesting criteria have not yet been satisfied.

The Executive Committee members included in 2015 and 2016 were Mr. Arnott, Mr. Chuard, Mr. Loustau and Mr. Winterburn. Mr. Davis stepped down from the Executive Committee on 9 March 2016. His compensation until 9 March 2016 is included in the table below.

Function	Fiscal year	Base salary	Variable short term incentive ¹	All other compensation ²	Total compensation before LTIP	LTIP value ³	Total compensation	Employer social security charges ⁴	Total compensation including social security charges	Maximum shareholder approval
Executive Committee	2016	1,933,743	2,265,104	224,981	4,423,828	9,441,420	13,865,248	1,477,208	15,342,456	17,500,000
	2015	2,173,826	1,702,476	276,173	4,152,476	8,611,050	12,763,526	1,585,391	14,348,917	

⁽¹⁾ The variable short term incentive is capped at 100% of the on-target payable amount for CEO and CFO/COO. The variable short term incentive is payable in February 2017.

⁽²⁾ All other Compensation includes life, medical, disability, accident insurances, pension and car allowance

⁽³⁾ The LTIP for the Executive Committee consists of 2 grants: 844,000 SARs were granted on 15 February 2016 at a grant price of USD 43.69 and a fair value of USD 9.93 and 101,000 were granted on 7 March 2016 at a grant price of USD 49.12 and a fair value of USD 10.50.

⁽⁴⁾ Social security charges comprise actual charges on base salary and other compensation, and estimated social security charges to be paid for bonus and LTIPs (based on the fair value) granted in the year of compensation.

Highest paid member of the Executive Committee

Mr. Arnott, CEO, was the highest paid executive in 2016 with compensation, in US dollars, as shown below. 87% of his total compensation in 2016 was variable and conditional upon the 2016-2018 performance targets that are yet to be achieved. Out of the total 2016 compensation of USD 6.6 million, USD 3.3 million has been earned, and the remainder will only be earned if the non-IFRS EPS and non-IFRS product revenue targets for the period 2017-2018 as set out in the report are achieved and the time vesting criteria have been satisfied.

Name	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	LTIP value ¹	Total compensation	Employer social security charges	Total compensation including social security charges
David Arnott	2016	799,058	799,058	54,292	1,652,408	4,982,760	6,635,168	576,967	7,212,135
Chief Executive Officer	2015	779,358	841,707	108,095	1,729,160	4,475,800	6,204,960	575,213	6,780,173

⁽¹⁾ The LTIP for the CEO consists of 2 grants: 432,000 SARs were granted on 15 February 2016 at a grant price of USD 43.69 and a fair value of USD 9.93 and 66,000 were granted on 7 March 2016 at a grant price of USD 49.12 and a fair value of USD 10.50.

Compensation in CHF

Pursuant to Article 958d alinea 3 of the Swiss Code of Obligations compensation amounts may be quoted in the most significant currency of the business activity, in Temenos' case it is USD, but must also be quoted in CHF. The amounts quoted below in CHF for the Board of Directors, the Executive Committee and Highest Paid Executive Committee member respectively are calculated taking the USD amount converted at the average exchange rate for the year. The swiss franc weakened during 2016 compared to 2015 and as a result, the exchange rate used in 2016 was 0.985 (2015: 0.962) which explains the higher growth in the year-on-year compensation when translated into CHF.

Function CHF	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
Board of Directors	2016	1,278,834	610,051	149,753	2,038,638	3,655,803	5,694,441	232,117	5,926,558
	2015	1,196,412	606,917	144,719	1,948,048	3,229,709	5,177,756	161,462	5,339,219

Function CHF	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
Executive Committee	2016	1,905,366	2,231,865	221,679	4,358,910	9,302,870	13,661,780	1,455,530	15,117,310
	2015	2,091,492	1,637,995	265,713	3,995,200	8,284,905	12,280,105	1,525,344	13,805,449

Name Function CHF	Fiscal year	Base salary	Variable short term incentive	All other compensation	Total compensation before LTIP	Long term incentive	Total compensation	Employer social security charges	Total compensation including social security charges
David Arnott Chief Executive Officer	2016	787,332	787,332	53,495	1,628,159	4,909,640	6,537,799	568,500	7,106,299
	2015	749,840	809,827	104,001	1,663,668	4,306,278	5,969,946	553,427	6,523,373

LOANS GRANTED TO MEMBERS OF GOVERNING BODIES

As of 31 December 2016 and 31 December 2015 the Company had no outstanding loans to members of the Board of Directors and Executive Committee. No loans were granted to persons related to the latter.

Compensation Report continued

SHAREHOLDINGS AND EQUITY INCENTIVES

Non-Executive Directors

Name	Position	31 December 2016	31 December 2015
		Shares	Shares
S. Giacoletto-Roggio	Vice-Chairman	11,000	15,000
I. Cookson	Member	18,250	18,250
T. de Tersant	Member	3,000	3,000
E. Hansen	Member	11,000	11,000
G. Koukis	Member	–	–
A. Yip	Member	–	–

Executive Chairman and Executive Committee members

As of 31 December 2016

Name	Position	Shares	Grant year ¹	Plan	SARs		
					Exercise price USD	Number of vested SARs	Number of unvested SARs
A. Andreades	Executive Chairman	1,057,134	2014	2014 scheme ²	34.38		360,000
				2015 scheme	35.45		345,000
			2016	2016 scheme	43.69		325,000
					49.12		46,000
D. Arnott	CEO	409,933	2014	2014 scheme ²	34.38		480,000
				2015 scheme	35.45		460,000
			2016	2016 scheme	43.69		432,000
					49.12		66,000
M. Chuard	CFO/COO	284,140	2014	2014 scheme ²	34.38		240,000
				2015 scheme	35.45		230,000
			2016	2016 scheme	43.69		258,000
					49.12		35,000
A. Loustau	CTO	500	2012	2013 scheme	14.75	227,504	
			2014	2015 scheme	35.45		45,000
			2016	2016 scheme	43.69		45,000
M. Winterburn	Group Product Director	500	2012	2013 scheme	14.75	227,508	
			2014	2015 scheme	35.45		75,000
			2016	2016 scheme	43.69		65,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2014 scheme vested on 14 February 2017.

No options and/or shares were held on 31 December 2016 and 2015 by persons related to the members of the Board of Directors and of the Executive Committee.

As of 31 December 2015

SARs, Options and Performance Shares								
Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	Number of vested Options/SARs	Number of unvested SARs	Number of unvested Profit Shares ²
A. Andreades	Executive Chairman	438,725	2012	2013-15 scheme ²	15.21	–	750,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	360,000	–
				2015 scheme	35.45	–	345,000	–
D. Arnott	CEO	4,000	2008	2009 scheme	11.37	6,915	–	–
			2011	2012 scheme	16.34	3,384	–	–
			2012	2013-15 scheme ²	15.21	–	1,050,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	480,000	–
				2015 scheme	35.45	–	460,000	–
M. Chuard	CFO/COO	11,322	2012	2013-15 scheme ²	15.21	–	680,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	240,000	–
				2015 scheme	35.45	–	230,000	–
A. Loustau	CTO	–	2012	2013-15 scheme ²	15.21	–	450,000	–
			2014	2013 Profit share	–	–	–	441
			2014	2015 scheme	35.45	–	45,000	–
			2015	2014 Profit share	–	–	–	1,434
M. Winterburn	Group Product Director	–	2012	2013-15 scheme ²	15.21	–	450,000	–
			2014	2013 Profit share	–	–	–	1,705
			2014	2015 scheme	35.45	–	75,000	–
			2015	2014 Profit share	–	–	–	1,552
M. Davis	Client Director	1,513	2009	2010 scheme	23.44	1,214	–	–
			2011	2012 scheme	16.34	1,471	–	–
			2012	2013-15 scheme ²	15.21	–	174,999	–
			2013	2013-15 scheme ²	21.29	–	100,000	–
			2014	2013 Profit share	–	–	–	2,046
			2014	2014 scheme	34.38	–	100,000	–
				2015 scheme	35.45	–	75,000	–
			2015	2014 Profit share	–	–	–	1,522

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2013-15 scheme vested on 10 February 2016. The 2013 and 2014 Profit shares vested on 1 January 2016.

Compensation Report continued

OPTIONS AND SARs OUTSTANDING

The following table lists all options and SARs outstanding as at 31 December 2016. This includes the SARs outstanding for the Executive Chairman and Executive Committee members shown in the tables on page 95 and all other staff eligible for options and SARs.

Grant year	Plan	Exercise price USD	Total number of outstanding SARs/options	Number of vested SARs	Number of vested SARs with restriction for selling	Number of vested options	Number of unvested SARs
2006	2006	9.78	1,667	1,667			
2007	2007	13.99	10,644	10,644			
2007	2007	15.56	2,371	2,371			
2008	2008	22.57	23,832	23,832			
2008	2009	10.91	31,893	31,893			
2009	2009	7.30	20,870	20,870			
2009	2009	14.46	590	590			
2009	2010	22.98	22,131	22,131			
2010	2010	24.98	29,902	29,902			
2010	2010	26.26	359	359			
2011	2011	31.94	3,000			3,000	
2011	2011	15.75	45,829	45,829			
2011	2012	15.88	6,185	6,185			
2012	2012	13.70	5,515	5,515			
2012	2012	17.46	8,205	8,205			
2012	2012	16.15	2,615	2,615			
2012	2013	14.64	15,210		15,210		
2012	2013	14.75	1,448,836	119,249	1,329,587		
2012	2013	15.21	76,050		76,050		
2012	2013	15.53	7,605		7,605		
2013	2013	16.55	15,210		15,210		
2013	2013	16.80	11,154		11,154		
2013	2013	18.65	15,210		15,210		
2013	2013	20.83	401,257	87,931	313,326		
2013	2013	20.85	5,070		5,070		
2013	2013	22.40	6,570	1,500	5,070		
2013	2013	21.85	2,535		2,535		
2013	2013	23.72	2,641		2,641		
2013	2013	25.10	4,135	1,600	2,535		
2014	2014	34.04	30,000				30,000
2014	2014	34.38	1,320,000				1,320,000
2014	2014	35.33	105,000				105,000
2014	2015	35.15	241,100				241,100
2014	2015	35.45	1,653,000				1,653,000
2015	2015	32.83	135,000				135,000
2015	2015	34.49	5,000				5,000
2015	2015	35.29	436,500				436,500
2015	2015	35.34	87,500				87,500
2015	2015	36.85	5,000				5,000
2015	2015	46.79	3,000				3,000
2015	2015	47.19	25,000				25,000
2016	2015	44.00	17,000				17,000
2016	2015	46.53	16,000				16,000
2016	2016	43.69	1,783,000				1,783,000
2016	2016	49.12	169,000				169,000
2016	2016	53.38	2,000				2,000
2016	2016	54.07	3,000				3,000
2016	2016	54.11	5,000				5,000
2016	2016	57.07	191,660				191,660
2016	2016	63.10	6,000				6,000
2016	2016	63.17	5,000				5,000
2016	2016	65.92	8,000				8,000
2016	2016	68.74	5,000				5,000
Total			8,483,851	422,888	1,801,203	3,000	6,256,760

The weighted average exercise price is USD 32.84

The restriction on selling the 2013-2015 shares resulting from SAR exercise expires on 11 February 2017. The SARs from the 2014 scheme vest on 14 February 2017.

DILUTION

A stock appreciation right (SARs) is an incentive given to employees that aligns their interest with shareholders and is equal to the appreciation of company stock over an established time period. Similar to employee stock options, SARs are beneficial to the employee when company stock prices rise; the difference with SARs is that employees do not pay the exercise price but receive the sum of the increase in stock or cash. This means that the dilution on outstanding SARs is only known at the time of exercise as it is dependent on the share price at that time. As an example, if 1,000 SARs at a grant price of USD 35 are exercised when the share price is USD 70, then the gain is USD 35,000, equivalent to a 500 share dilution.

When issuing SARs the Compensation Committee reviews the planned dilution to ensure that it remains within our target of no more than 2% pa on a CAGR basis. The dilution for the period 2013-2016 on a CAGR basis was 1.1% pa, this being the vesting period of the last two SAR schemes which paid out at or close to target. This compares to an EPS growth of 19% pa on a CAGR basis for the same period.

The total cumulative dilution as of 31 December 2016 of all outstanding SARs and stock options was 6%. This is based on the assumption that all SARs are exercised at the 31 December 2016 closing share price of CHF 70.9.

The historic dilution as at 31 December based on the closing price of each respective year was:

2013	6%
2014	6%
2015	9%
2016	6%

Up to a limit of 10% is a level of dilution which is considered generally acceptable dilution for fast growing companies. Although not all SARs will be exercised at the same price, it is important to note that in order for the actual dilution to reach 10% at 31 December 2016, all outstanding SARs and options, vested and unvested would have to be exercised at five times the closing share price of 31 December 2016 ie a share price of approximately CHF 350.

THE YEAR AHEAD: COMPENSATION OF THE BOARD OF DIRECTORS AND EXECUTIVE COMMITTEE FOR 2017

At the Annual General Meeting in 2016, the shareholders approved total compensation including social charges for year 2017 for the Board of Directors of USD 7.3 million and for the Executive Committee of USD 18.5 million.

Changes that affect 2017 fixed compensation

The key changes that are being made to compensation in 2017 are summarised below:

- As approved at the 2016 AGM, the Executive Chairman and Executive Committee members will receive a salary increase of 2.3% effective from 1 January 2017.
- The Board fees paid to non-executive Directors increased from USD 100,000 to USD 105,000. The fees for the Chairman of the Audit Committee and for the Chairman of the Compensation Committee increased from USD 35,000 to USD 40,000.

2017 variable short term incentive

For 2017, for the Executive Chairman, CEO, CFO/COO and CTO we shall maintain the Variable Short term incentive plan that will pay out when annual targets are achieved. The targets will be based on the same measures as those in 2016. The targets are considered commercially sensitive and are not disclosed in advance. The cap will revert to 150% as it was in 2015, as disclosed in the 2015 Compensation Report and the 2016 AGM Annex, 2016 was an exceptional year at 100%. The variable short term incentive for the Product Director and associated targets are exceptionally based on strategic product objectives as well as the success of the Nordea project for which he is acting as Program Director in addition to his duties as Product Director for the Temenos Group.

Compensation Report continued

2017 long term incentive plan awards

The LTIP award for 2017 was issued in February 2017. 60% of the award is comprised of non-IFRS EPS targets, 40% of the award is comprised of non-IFRS Product Revenue targets. The targets for non-IFRS EPS are based on a CAGR of 15% for the three year period. The targets for non-IFRS Product Revenues are considered commercially sensitive and it would be detrimental to the interests of the Company to disclose them before the start of the relevant performance period. The performance against those measures will be disclosed after the end of the relevant financial year in that year's remuneration report subject to sensitivity no longer remaining.

2017 compensation plan

For 2017, the split of aggregate compensation for the Executive Committee at the on-target level is shown below. The majority of compensation (89%) is at risk and dependent on achieving the annual total software licensing, operating cash flow and annual non-IFRS EPS and non-IFRS product revenue targets for the 2017 to 2019 financial years. The only fixed compensation which is guaranteed is the fixed salary and benefits which, in aggregate amount to 11% of the on-target total compensation.

At risk
compensation 89%



Executive Chairman and Executive Committee Remuneration Mix for 2017

Fixed salary	9%
Benefits	2%
Annual bonus	13%
LTIP not earned	76%

The LTIP for 2017 is subject to delivery of the non-IFRS EPS and non-IFRS product revenue targets for the financial years 2017, 2018 and 2019 that are still at risk, hence not yet earned.

Report of the statutory auditors on the Compensation Report

Report of the statutory auditor to the General Meeting of Temenos Group AG, Geneva

We have audited pages 109-111 of the accompanying remuneration report of Temenos Group AG for the year ended 31 December 2016.

Board of Directors' responsibility

The Board of Directors is responsible for the preparation and overall fair presentation of the remuneration report in accordance with Swiss law and the Ordinance against Excessive Compensation in Stock Exchange Listed Companies (Ordinance). The Board of Directors is also responsible for designing the remuneration system and defining individual remuneration packages.

Auditor's responsibility

Our responsibility is to express an opinion on the accompanying remuneration report. We conducted our audit in accordance with Swiss Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the remuneration report complies with Swiss law and articles 14–16 of the Ordinance.

An audit involves performing procedures to obtain audit evidence on the disclosures made in the remuneration report with regard to compensation, loans and credits in accordance with articles 14–16 of the Ordinance. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatements in the remuneration report, whether due to fraud or error. This audit also includes evaluating the reasonableness of the methods applied to value components of remuneration, as well as assessing the overall presentation of the remuneration report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion, the remuneration report of Temenos Group AG for the year ended 31 December 2016 complies with Swiss law and articles 14–16 of the Ordinance.

PricewaterhouseCoopers SA



Guillaume Nayet

Audit expert
Auditor in charge



Yazen Jamjum

Geneva, 22 February 2017



FINANCIAL STATEMENTS



Report of the Statutory Auditors to the General Meeting on the consolidated financial statements

Report of the statutory auditor to the General Meeting of Temenos Group AG, Geneva

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Temenos Group AG and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2016 and the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with the International Financial Reporting Standards (IFRS) and comply with Swiss law.

Basis for opinion

We conducted our audit in accordance with Swiss law, International Standards on Auditing (ISAs) and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the consolidated financial statements" section of our report.

We are independent of the Group in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession, as well as the IESBA Code of Ethics for Professional Accountants, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Overview

- Overall Group materiality: USD 6,000,000
- The group audit team performed the audit of the consolidation and directly the audit of consolidated revenue, accounts receivables, accrued and deferred revenue, cash balances, and capitalised development costs. We concluded one full scope audit work over a reporting entity located in Switzerland and audits of selected financial statement line items were performed on a further 17 reporting units in 11 countries.
- Our audit scope addressed all of the Group's revenue, approximately 98% of the Group's total assets and approximately 62% of the Group's total expenses.

As key audit matters the following areas of focus have been identified:

- Software licensing revenue recognition
- Services revenue recognition
- Recoverability of accounts receivables and accrued revenue balances

Audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the consolidated financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates. The group audit team audits directly selected financial statement line items (revenue, accounts receivables, accrued and deferred revenue balances, cash balances and capitalised development costs) in addition to auditing the consolidation which includes, amongst others, taxation, pension and share based compensation. Furthermore, we performed a full scope audit over one entity located in Switzerland and instructed audits of selected financial statement line items to be performed on a further 17 reporting units in 11 countries. We finally validated the compliance of the consolidated financial statements with IFRS and Swiss law.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the consolidated financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Group materiality for the consolidated financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the consolidated financial statements as a whole.

Overall Group materiality	USD 6,000,000
How we determined it	1% of total revenue, rounded
Rationale for the materiality benchmark applied	We chose total revenue as the benchmark because, in our view, it is the benchmark against which the performance of the Group and the industry is most commonly measured, and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above USD 300,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Software licensing revenue recognition

Key Audit matter	How our audit addressed the key audit matter
<p>We focused on this area because of the significance of license revenue and the risks related to the many inherent complexities and critical judgements in the measurement, timing and presentation of revenues from multi-element contracts found in the software industry. In 2016, revenue from software licensing amounting to USD 205 million was reported by the Group.</p> <p>Transactions with customers often have “bundled” components that typically include license, implementation and/or development services and maintenance elements. The separation of these elements requires management to use significant estimates in relation to the determination of the fair value of each component. In addition, there are critical judgements in assessing the probability of collection and determining whether existing uncertainties and contingencies preclude license revenue from being recognised.</p> <p>There is a risk that license revenue is overstated or recognised prematurely due to either the inappropriate assessment of the risks and uncertainties involved and/or inaccurate allocation between the various components.</p> <p>There is also a risk that judgements or estimates in relation to license revenue are not free from bias or that license revenue booked is manipulated to achieve financial targets.</p> <p><i>Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgements) of the consolidated financial statements.</i></p>	<p>First, we reviewed Temenos’s revenue recognition policy and ensured it is in accordance with IFRS.</p> <p>We then tested all license revenue deals in excess of a certain threshold and a random sample of smaller deals. For each of the sample selected, we performed the following:</p> <ul style="list-style-type: none"> · Inspected the existence of a signed version of the customer contract together with evidence of software delivery. · Reviewed the contract and assessed potential impact of any unusual clause on revenue recognition. When deemed necessary, we discussed the details of certain contracts with the commercial team who negotiated the deal to understand both the rationale of certain clauses and also the customer’s perspective. We also engaged in a discussion with the legal department to obtain their interpretation of certain contractual terms to assess their impact on revenue recognition. · Reviewed and challenged the fair value allocations between the various components in accordance with Temenos’s revenue recognition policy. · Challenged management’s assessment of collectability. <p>We performed cut off procedures to ensure that revenue is recognised in the correct reporting period by reference to the contract and evidence of delivery.</p> <p>We also performed journal entry tests targeting license revenue deals with certain characteristics and obtained evidence that substantiates the revenue recognised. In addition, we conducted specific procedures to ensure the authenticity of customer contracts.</p> <p>Finally, we performed a look-back analysis on management’s past judgements and estimates by comparing previous estimates with actuals both quantitatively and qualitatively.</p> <p>We presented the results of our testing to the Audit Committee and highlighted deals involving significant judgements and estimates together with our views on those judgements and estimates made.</p> <p>Based on the work we performed, the critical judgements and estimates made by management were deemed reasonable and justifiable and the accounting for license revenue appropriate.</p>

Report of the Statutory Auditors to the General Meeting on the consolidated financial statements

Services revenue recognition

Key Audit matter	How our audit addressed the key audit matter
<p>In 2016, services revenue is reported for USD 128.5 million. We focused on this area because this is a material balance and because of the significant estimates involved in determining the percentage of completion of fixed price service implementation projects combined with the typical risk involving medium to long term projects.</p> <p>Recognising service revenue over time using the percentage of completion method requires management to estimate the total mandays of effort required at the start of the implementation period and the estimates to complete at every reporting period.</p> <p>There is a risk that total mandays for a given fixed price project are underestimated which leads to recognising service revenue prematurely or the risk that reductions in revenue for the period are unrecognised.</p> <p><i>Refer to note 2.17 (accounting policies) and note 4 (critical accounting estimates and judgements) of the consolidated financial statements.</i></p>	<p>We analysed the quarterly and annual movements in the percentage of completion for a selected sample of significant fixed price projects. For those projects where we identified a significant variance in the percentage of completion or the total mandays estimated, we investigated further to obtain evidence of the status of the project and the reasonableness of the manday estimates. We corroborated the information obtained by reference to milestones achieved, invoices raised and cash received. When needed, we also inquired of the service project managers to understand the progress, difficulties associated with the implementation, if any, and likely future scenarios.</p> <p>In addition, we reviewed and analysed a look-back analysis prepared by management for a sample of projects that compares actual total mandays to the estimates made in prior periods. We challenged management on the analysis performed and explanations provided and ensured that new projections build on these experiences. All significant deviations in relation to manday estimates were explained and supported.</p> <p>We selected a sample of fixed priced projects and tested the accuracy of the calculated percentage of completion and the resulting service revenue recognised.</p> <p>The outcome of our procedures and the look back analysis were presented to, and discussed with, the Audit Committee.</p> <p>Based on the work performed, the manday estimates made by management were deemed reasonable.</p>

Recoverability of accounts receivables and accrued revenue balances

Key Audit matter	How our audit addressed the key audit matter
<p>As at 31 December 2016, accounts receivables and accrued revenue balances amount to USD 222 million.</p> <p>We focused on this risk as the balances are material and there are many significant judgements involved in assessing recoverability of accounts receivables and accrued revenue balances in the software industry. This is especially the case as some of these balances could be significant or overdue.</p> <p>There are many factors that need to be considered when concluding that a balance needs to be impaired including default or delinquency in payments, length of the outstanding balances and implementation difficulties that could result in future concessions. In addition, some of the customers might also be undergoing restructuring, a change in strategy or management or facing liquidity issues that undermine their intent or ability to pay the amounts due.</p> <p>Given the complexity, the size and the length of certain implementation projects, there is risk that an impairment charge is not recognised in a timely or sufficient manner.</p> <p><i>Refer to note 2.5 (accounting policies) and note 13 (trade and other receivables) of the consolidated financial statements.</i></p>	<p>We reviewed management's analysis prepared for all cases with potential exposure. This analysis includes background information of the customer, existing contractual relationships, balance outstanding, delays in collection and operational issues together with a detailed legal analysis.</p> <p>In addition, we challenged the recoverability of accounts receivable and accrued revenue selected balances (significant and randomly selected) with license and service departments, project managers and with senior management when necessary. When deemed necessary, we also discussed certain potential exposures with the internal legal counsel and agreed it to available confirmations from external lawyers.</p> <p>We confirmed selected material customer balances to verify their intention to settle the balance outstanding in the future.</p> <p>We also reviewed the aging of accounts receivables and obtained external market evidence confirming the lack of significant doubt about the financial stability for selected customers.</p> <p>We presented the results of our procedures to the Audit Committee.</p> <p>The level of the provision made against accounts receivables and accrued balances was deemed appropriate and corresponds to the risks identified.</p>

Other information in the annual report

The Board of Directors is responsible for the other information in the annual report. The other information comprises all information included in the annual report, but does not include the consolidated financial statements, the stand-alone financial statements and the remuneration report of Temenos Group AG and our auditor's reports thereon. The annual report is expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information in the annual report and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information in the annual report when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of the Board of Directors for the consolidated financial statements

The Board of Directors is responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRS and the provisions of Swiss law, and for such internal control as the Board of Directors determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the Board of Directors is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the consolidated financial statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law, ISAs and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Swiss law, ISAs and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

Report of the Statutory Auditors to the General Meeting on the consolidated financial statements

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of consolidated financial statements according to the instructions of the Board of Directors.

We recommend that the consolidated financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Guillaume Nayet

Audit expert
Auditor in charge



Yazen Jamjum

Geneva, 22 February 2017

Consolidated statement of profit or loss

For the year ended 31 December

	2016 USD 000	2015 USD 000
REVENUES		
Software licensing	205,081	172,951
SaaS and subscription	50,058	26,452
Total software licensing	255,139	199,403
Maintenance	250,371	233,956
Services	128,526	109,144
Total revenues (note 7)	634,036	542,503
OPERATING EXPENSES		
Cost of sales	191,259	158,467
Sales and marketing	100,374	90,262
General and administrative	74,349	77,168
Other operating expenses	118,831	119,849
Total operating expenses (note 8)	484,813	445,746
OPERATING PROFIT	149,223	96,757
Finance income	7,239	2,823
Finance costs	(24,355)	(21,497)
Finance costs – net (note 10)	(17,116)	(18,674)
PROFIT BEFORE TAXATION	132,107	78,083
Taxation (note 19)	(16,273)	(11,739)
PROFIT FOR THE YEAR	115,834	66,344
ATTRIBUTABLE TO:		
Equity holders of the Company	115,834	66,344
Non-controlling interest	–	–
	115,834	66,344
Earnings per share (in USD) (note 11):		
basic	1.69	1.01
diluted	1.61	0.95

Notes on pages 130 to 174 are an integral part of these consolidated financial statements.

Consolidated statement of other comprehensive income

For the year ended 31 December

	2016 USD 000	2015 USD 000
PROFIT FOR THE YEAR	115,834	66,344
Other comprehensive income:		
Items that will not be reclassified to profit or loss		
Remeasurements of post employment defined benefit obligations (note 21)	(1,925)	(1,379)
	(1,925)	(1,379)
Items that may be subsequently reclassified to profit or loss		
Available-for-sale financial assets (note 24)	(45)	(46)
Cash flow hedges (note 24)	(3,866)	(3,402)
Currency translation differences (note 24)	(17,173)	(25,997)
	(21,084)	(29,445)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	(23,009)	(30,824)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	92,825	35,520
ATTRIBUTABLE TO:		
Equity holders of the Company	92,825	35,520
Non-controlling interest	–	–
	92,825	35,520

Notes on pages 130 to 174 are an integral part of these consolidated financial statements.

Consolidated statement of financial position

As at 31 December

	2016 USD 000	2015 USD 000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents (note 12)	194,340	193,252
Trade and other receivables (note 13)	231,960	245,176
Other financial assets (note 14)	3,866	2,386
Total current assets	430,166	440,814
NON-CURRENT ASSETS		
Property, plant and equipment (note 15)	15,788	15,610
Intangible assets (note 16)	690,097	737,998
Trade and other receivables (note 13)	16,296	17,135
Other financial assets (note 14)	154	110
Deferred tax assets (note 19)	19,001	17,307
Total non-current assets	741,336	788,160
Total assets	1,171,502	1,228,974
LIABILITIES AND EQUITY		
CURRENT LIABILITIES		
Trade and other payables (note 17)	103,329	101,247
Other financial liabilities (note 14)	10,062	2,034
Deferred revenues	216,251	213,197
Income tax liabilities	28,992	24,683
Borrowings (note 18)	102,780	15,011
Provisions for other liabilities and charges (note 20)	936	738
Total current liabilities	462,350	356,910
NON-CURRENT LIABILITIES		
Trade and other payables (note 17)	1,542	3,989
Other financial liabilities (note 14)	11,563	14,030
Income tax liabilities	1,801	1,765
Borrowings (note 18)	269,182	445,441
Provisions for other liabilities and charges (note 20)	132	453
Deferred tax liabilities (note 19)	16,617	23,181
Retirement benefit obligations (note 21)	9,176	7,908
Total non-current liabilities	310,013	496,767
Total liabilities	772,363	853,677
CAPITAL AND RESERVES ATTRIBUTABLE TO THE COMPANY'S EQUITY HOLDERS		
Share capital	226,058	210,774
Treasury shares	(66,487)	(19,686)
Share premium and capital reserves (note 23)	(154,249)	(148,516)
Fair value and other reserves (note 24)	(131,168)	(110,084)
Retained earnings	524,985	442,809
	399,139	375,297
NON-CONTROLLING INTEREST	–	–
Total equity	399,139	375,297
Total liabilities and equity	1,171,502	1,228,974

Notes on pages 130 to 174 are an integral part of these consolidated financial statements.

Consolidated statement of cash flows

For the year ended 31 December

	2016 USD 000	2015 USD 000
CASH FLOWS FROM OPERATING ACTIVITIES		
PROFIT BEFORE TAXATION	132,107	78,083
Adjustments:		
Depreciation, amortisation and impairment of financial assets	85,589	83,232
Impairment loss on property, plant and equipment and intangible assets (notes 15 and 16)	–	144
Loss/(profit) on retirements/disposals of property, plant and equipment and intangible assets (notes 15 and 16)	164	(34)
Cost of share options (note 25)	24,813	26,379
Foreign exchange loss on non-operating activities	3,613	6,193
Interest expenses, net (note 10)	12,845	13,499
Net gain from financial instruments (note 10)	(6,988)	(2,626)
Other finance costs (note 10)	4,016	4,019
Other non-cash items	(738)	(52)
Changes in:		
Trade and other receivables	(7,882)	(21,319)
Trade and other payables, provisions and retirement benefit obligations	2,821	11,909
Deferred revenues	7,267	27,765
Cash generated from operations	257,627	227,192
Income taxes paid	(10,356)	(10,890)
Net cash generated from operating activities	247,271	216,302
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, plant and equipment	(6,142)	(6,187)
Purchase of intangible assets	(4,518)	(3,947)
Capitalised development costs (note 16)	(45,560)	(45,293)
Acquisitions of subsidiary, net of cash acquired (note 6)	(1,581)	(297,726)
Disposal of subsidiary or business, net of cash disposed	489	34
Settlement of financial instruments	5,845	1,841
Interest received	132	68
Net cash used in investing activities	(51,335)	(351,210)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividend paid	(31,733)	(28,605)
Acquisition of treasury shares	(61,821)	–
Proceeds from borrowings	–	138,125
Repayments of borrowings	(79,366)	(149,358)
Proceeds from issuance of bond	–	190,568
Interest payments	(12,600)	(9,850)
Payment of other financing costs	(7,037)	(2,176)
Payment of finance lease liabilities	–	(31)
Net cash (used in)/generating from financing activities	(192,557)	138,673
EFFECT OF EXCHANGE RATE CHANGES	(2,291)	(3,123)
NET INCREASE IN CASH AND CASH EQUIVALENTS IN THE YEAR	1,088	642
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	193,252	192,610
CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR	194,340	193,252

Notes on pages 130 to 174 are an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

For the year ended 31 December

	Share capital USD 000	Treasury shares USD 000	Share premium and capital reserves (note 23) USD 000	Fair value and other reserves (note 24) USD 000	Retained earnings USD 000	Total USD 000
BALANCE AT 1 JANUARY 2015	228,357	(152,942)	(59,187)	(80,639)	406,449	342,038
Profit for the year	–	–	–	–	66,344	66,344
Other comprehensive income for the year, net of tax	–	–	–	(29,445)	(1,379)	(30,824)
Total comprehensive income	–	–	–	(29,445)	64,965	35,520
Dividend paid	–	–	–	–	(28,605)	(28,605)
Share capital reduction	(17,583)	119,948	(102,365)	–	–	–
Cost of share options (note 25)	–	–	26,379	–	–	26,379
Exercise of share-based payment transactions	–	13,308	(13,308)	–	–	–
Costs associated with equity transactions	–	–	(35)	–	–	(35)
	(17,583)	133,256	(89,329)	(29,445)	36,360	33,259
BALANCE AT 31 DECEMBER 2015	210,774	(19,686)	(148,516)	(110,084)	442,809	375,297
Profit for the year	–	–	–	–	115,834	115,834
Other comprehensive income for the year, net of tax	–	–	–	(21,084)	(1,925)	(23,009)
Total comprehensive income	–	–	–	(21,084)	113,909	92,825
Dividend paid	–	–	–	–	(31,733)	(31,733)
Cost of share options (note 25)	–	–	24,813	–	–	24,813
Exercise of share-based payment transactions	15,284	15,020	(30,304)	–	–	–
Acquisition of treasury shares	–	(61,821)	–	–	–	(61,821)
Costs associated with equity transactions	–	–	(242)	–	–	(242)
	15,284	(46,801)	(5,733)	(21,084)	82,176	23,842
BALANCE AT 31 DECEMBER 2016	226,058	(66,487)	(154,249)	(131,168)	524,985	399,139

Notes on pages 130 to 174 are an integral part of these consolidated financial statements.

Notes to the consolidated financial statements

31 December 2016

1. GENERAL INFORMATION

Temenos Group AG ('the Company') was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of Temenos Group AG have been publicly traded on the SIX Swiss Exchange. On incorporation, Temenos Group AG succeeded TEMENOS Holdings NV in the role of the ultimate holding company of the Group. On 23 May 2006 the Company moved its seat of incorporation to Geneva in Switzerland. The registered office is located at 2 Rue de L'Ecole-de-Chimie, 1205 Geneva, Switzerland.

The Company and its subsidiaries (the 'Temenos Group' or 'the Group') are engaged in the development, marketing and sale of integrated banking software systems. The Group is also involved in supporting the implementation of the systems at various client locations around the world as well as in offering help desk support services to existing users of Temenos software systems. The client base consists of mostly banking and other financial services institutions.

These consolidated financial statements have been approved for issue by the Board of Directors on 14 February 2017.

2. ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). The consolidated financial statements have been prepared under the historical cost convention, except for the following:

- Available-for-sale financial assets and derivatives financial instruments – measured at fair value;
- Contingent consideration assumed in a business combination – measured at fair value; and
- Net defined benefit asset/liability – plan assets are measured at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 4.

Standards, amendments and interpretations relevant to the Group's operation and adopted by the Group as at 1 January 2016

- IAS 1 (amendment) 'Presentation of Financial Statements';
- IAS 16 (amendment) 'Property, Plant and Equipment'; and
- IAS 38 (amendment) 'Intangible Assets'.

The adoption of these amendments did not have a material impact on the Group's consolidated financial statements.

Standards, amendments and interpretations relevant to the Group's operation that are not yet effective and have not been early adopted by the Group

The following standards and amendments have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2017 or later periods, but the Group has not early adopted them. Unless otherwise indicated, these publications are not expected to have any significant impact on the Group's financial statements:

- IFRS 2 (standard) 'Share-based Payment', effective for annual periods beginning on or after 1 January 2018. This amendment provides additional guidance on the accounting for cash-settled share-based payments and add an exception that provides equity-settled accounting where the settlement of share-based payment awards is split between equity instruments issued to the employee and a cash payment to the tax authorities. This amendment is not expected to have an impact on the Group's financial statements since the Group's share-based payment transactions are all qualified as equity settled share-based payments. The Group will apply this amendment for the financial reporting period commencing on 1 January 2018.
- IFRS 9 (standard) 'Financial Instruments', effective for annual periods beginning on or after 1 January 2018. This new standard replaces the existing guidance in IAS 39 'Financial Instruments: Recognition and Measurement' and introduces revised guidance on the classification, recognition, derecognition and measurement of financial assets and financial liabilities as well as a new expected credit losses model for calculating impairment on financial assets. It also introduces new rules for hedge accounting. The Group does not expect this standard to have a significant effect on the classification and measurement of its financial assets and financial liabilities. The new rules for hedge accounting will not affect the Group's current hedging relationships and the Group will choose to apply the policy of the new standard on the application date. The new credit loss model will primarily relate to the 'Trade Receivables' and the Group will apply the simplified approach. Although the Group has not yet fully finalised its impairment model, it is not expected to have a significant impact. The Group will apply this new standard for the financial reporting period commencing on 1 January 2018.
- IFRS 15 (standard) 'Revenue from Contracts with Customers', effective for annual periods beginning on or after 1 January 2018. This new standard replaces the current IAS 18 'Revenue', IAS 11 'Construction Contracts' and IFRIC 13 'Customer Loyalty Programmes'. It establishes principles for recognising, measuring and reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. Under IFRS 15, revenue from contracts with customers is recognised based on a five-steps model and the transaction price is allocated to each distinct performance obligation on the basis of the relative stand-alone selling prices. Revenue is no longer recognised upon the transfer of risks and rewards but when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. The standard also provides guidance on costs to obtain and fulfil a contract that may be recognised as assets. The Group is currently in the process of assessing the impact of the standard. Although its current revenue policy already applies the multiple element arrangement and fair value allocation guidance, additional work and analysis are needed to align the revenue recognition policy fully to IFRS 15. However, the Group's management do not expect a significant impact on its revenue recognition patterns as a result of adopting this new standard. The Group will apply this new standard for the financial reporting period commencing on 1 January 2018 but has not yet concluded on the transition method.

Standards, amendments and interpretations relevant to the Group's operation that are not yet effective and have not been early adopted by the Group continued

- IFRS 16 (standard) 'Leases', effective for annual periods beginning on or after 1 January 2019 with early adoption permitted. This new standard supersedes IAS 17 'Leases', IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC-15 'Operating Leases-Incentives' and SIC-27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'. Although the Group has not evaluated the full impact of this new standard, it is reasonable to expect that, had the standard been adopted on 1 January 2017, the non-current assets and borrowings would have increased by an amount that approximates the net present value of the lease commitment numbers (note 27), subject to the provision of the standard. The Group has also not fully evaluated the effect on the statement of profit or loss but it does not expect a significant impact other than the geographical reallocation of its current operating lease expenses between the operating profit and the financing expenses. The Group plans to early adopt this standard for the financial reporting period commencing on 1 January 2018.
- IAS 7 (amendment) 'Statement of Cash flows', effective for annual periods beginning on or after 1 January 2017. This amendment requires disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flow and non-cash changes. The Group will apply this amendment for the financial reporting period commencing on 1 January 2017.
- IAS 12 (amendment) 'Income Taxes', effective for annual periods beginning on or after 1 January 2017. This amendment clarifies how to account for deferred tax assets related to debt instruments measured at fair value. This amendment is not expected to have an impact on the Group's financial statements since the Group does not hold any debt instruments measured at fair value. The Group will apply this amendment for the financial reporting period commencing on 1 January 2017.
- IFRIC 22 'Foreign Currency Transactions and Advance Consideration' (new interpretation), effective for annual periods beginning on or after 1 January 2018. This interpretation clarifies how to determine the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration in a foreign currency. This amendment is not expected to have an impact on the Group's financial statements since the Group already measures the derecognition of its related non-monetary asset or non-monetary liability in accordance with rules of this new interpretation. The Group will apply this amendment for the financial reporting period commencing on 1 January 2018.

2.2 Basis of consolidation

The consolidated financial statements include the financial statements of Temenos Group AG ('the Company') as well as its subsidiaries.

Subsidiaries

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date when control ceases.

The acquisition method of accounting is used to account for the acquisition of subsidiaries by the Group. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interest issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Goodwill is measured as the excess of the aggregate of the consideration transferred and the fair value of non-controlling interest over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. If the consideration is lower than the fair value of the net assets acquired, the difference is recognised in profit or loss.

Any contingent consideration is recognised at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration is recognised in profit or loss in accordance with IAS 39 'Financial Instruments: Recognition and Measurement'. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Changes in ownership interests in subsidiaries without loss of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions. The difference between fair value of any consideration paid and the relevant share acquired of the carrying value of net assets is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income are reclassified to profit or loss.

Notes to the consolidated financial statements

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2. ACCOUNTING POLICIES CONTINUED

2.3 Foreign currency

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The consolidated financial statements are presented in US dollars, which is the Group's presentation currency and the currency in which the majority of the Group's transactions are denominated. The Company's functional currency is Swiss francs.

Transactions in foreign currencies are translated into the respective functional currencies using the exchange rates prevailing at the dates of the transactions. Foreign exchange differences arising from the settlement of such transactions and from the translation at the reporting date of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges.

The financial statements of the Group's subsidiaries (none of which has the currency of a hyperinflationary economy) with a different functional currency than the presentation currency are translated as follows:

- Assets and liabilities are translated at the closing rate at the date of the reporting period;
- Income and expenses for each statement presenting profit or loss and other comprehensive income are translated on a monthly basis at the average exchange rates of the month (unless the average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions);
- Equity items are translated at the historical rates; and
- All resulting exchange differences are recognised in other comprehensive income.

When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Gains or losses resulting from long term intragroup balances for which settlement is neither planned nor likely to occur in the foreseeable future are treated as a net investment in foreign operations (i.e. quasi-equity loans). The gains or losses recognised in the separate financial statements of the subsidiary are reclassified as cumulative translation adjustment to other comprehensive income in the Group's consolidated financial statements.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the acquired entity. They are recognised in the functional currency of the acquired entity and translated to the presentation currency using the closing rate.

2.4 Cash and cash equivalents

Cash and cash equivalents include cash on hand, bank balances, short term bank deposits and short term highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to negligible risks of change in value.

For the purpose of the consolidated statement of cash flows, the Group reports repayments and proceeds from borrowings on a net basis when it relates to short term roll-forward of the revolving credit facility with the same banks (note 18).

2.5 Trade receivables

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. An impairment loss is recognised when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, change of strategy and default or delinquency in payments are considered indicators that the trade receivable could be impaired. Given the complexity, the size and the length of certain implementation of service-related projects, a delay in the settlement of an open trade receivable does not constitute an objective evidence that the trade receivable is impaired. The amount of the impairment charge is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is either reduced through the use of an allowance account or directly written off when there is no expectation of future recovery. The impairment loss is recognised in profit or loss within 'Sales and marketing'. Subsequent recoveries are credited in the same account previously used to recognise the impairment charge.

Accrued income represents fees earned but not yet invoiced at the reporting date.

Non-current trade and other receivables represent balances expected to be recovered after 12 months.

2.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the item. Depreciation on assets is calculated using the straight-line method to allocate their cost over their estimated useful lives, as follows (in years):

Buildings	50
Furniture and fixtures	10
Office equipment	5
IT equipment*	4
Vehicles	4

* Computer software separately acquired is depreciated over the shorter of the licence term and four years.

Leasehold improvements are depreciated over the shorter of the remaining lease term and useful life (ten years).

The assets' residual values and useful lives are reviewed and adjusted if necessary at each reporting date. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

Repairs and maintenance are charged to profit or loss as incurred.

Gains or losses on disposals are determined by comparing the consideration received or receivable with the carrying amount and are recognised within 'General and administrative' in profit or loss unless otherwise specified.

2.7 Intangible assets

Goodwill

Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed. Goodwill on acquisitions of subsidiaries is included in intangible assets.

Goodwill is tested annually for impairment. The carrying amount is allocated to the cash-generating unit (CGU) that is expected to benefit from the synergies of the business combination. CGU to which the goodwill is allocated represents the lowest level at which the goodwill is monitored for internal management purposes. The carrying value of the CGU is then compared to the higher of its fair value less costs of disposal and its value in use. Any impairment attributed to the goodwill is recognised immediately as an expense and is not subsequently reversed.

Computer software

Software licences separately acquired are capitalised when the Group can demonstrate that:

- It controls the asset;
- It is probable that the expected future economic benefits that are attributable to the asset will flow to the Group; and
- The cost of the asset can be reliably measured.

The cost of the asset comprises its purchase price (including non-refundable purchase taxes) and any directly attributable cost of preparing the asset for its intended use. The cost of the asset is amortised using the straight-line method over its estimated useful life.

Software technologies acquired through business combinations are initially measured at fair value and then amortised using the straight line method over their estimated useful lives.

Customer related intangible asset

Customer-related intangible assets are assets acquired through business combinations. They are initially measured at fair value and then amortised using the straight line method over their estimated useful lives.

Internally generated software development

The Group follows a strategy of investing a substantial part of its revenues in research and development work which is directed towards the enhancement of its product platforms.

The costs associated with the development of new or substantially improved products or modules are capitalised when the following criteria are met:

- Technical feasibility to complete the development;
- Management intent and ability to complete the product and use or sell it;
- The likelihood of success is probable;
- Availability of technical and financial resources to complete the development phase;
- Costs can be reliably measured; and
- Probable future economic benefits can be demonstrated.

Directly attributable development costs that are capitalised include the employee costs and an appropriate portion of relevant overheads. Directly attributable development costs previously recognised as an expense are not recognised as an asset in a subsequent period.

Development expenditures that are not directly attributable are recognised as an expense when incurred.

Internally generated software development costs are amortised using the straight-line method after the product is available for distribution. Development costs related to architecture developments are amortised over a five year period and development costs related to functional developments are amortised over a three year period.

Notes to the consolidated financial statements

31 December 2016

2. ACCOUNTING POLICIES CONTINUED

2.8 Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount, which is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.9 Taxation

The tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the reporting date in the countries where the Group's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the Group's financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

The Group incurs withholding tax in various jurisdictions. An assessment is made to assess the ability to recover these withholding taxes against the normal tax liabilities occurring within the Group, and a provision is made to the extent that withholding tax is not recoverable.

2.10 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is more likely than not that an outflow of resources will be required to settle the obligation and a reliable estimate of the amount can be made. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

When the effect of the time value is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as an interest expense within 'Finance costs'.

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced to those affected by it.

A provision for onerous lease is recognised when the expected benefits to be derived from a lease are lower than the unavoidable costs of meeting the obligations under the contract.

2.11 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Effective interest costs are recognised within 'Finance costs' in profit or loss.

Fees directly attributable to the conclusion of 'bank facilities' are recognised as a prepayment for liquidity services that is subsequently amortised within 'Finance costs' over the life of the facilities.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

2.12 Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's commencement at the lower of the fair value of the leased equipment or the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included as liabilities in the statement of financial position. The interest elements of the lease obligations are charged to profit or loss over the period of the lease so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset (note 2.6) and the remaining lease term.

All other leases are classified as operating leases. Payments made under operating leases are charged to profit or loss on a straight line basis over the lease term.

2.13 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or other instruments are reported within share premium (note 23), net of tax, from the proceeds.

Where any subsidiary of the Group purchases the Company's shares (treasury shares), the consideration paid (including any directly attributable incremental costs) is presented as a deduction from equity. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is recognised as an increase in equity and the resulting gains or losses are presented within share premium (note 23).

2.14 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest method. The related interest expense is recognised in profit or loss within 'Finance costs'.

2.15 Employee share-based payments

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments of the Group. The fair value of the employee services received in exchange for the grant of the instruments is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the instrument granted:

- Including any market performance conditions;
- Excluding the impact of any service and non-market performance vesting conditions (for example, profitability, sales growth targets and remaining an employee of the entity over a specified time period); and
- Excluding the impact of any non-vesting conditions (for example, the requirement for employees to save).

Non-market vesting conditions are included in assumptions about the number of instruments that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At the end of each reporting period, the Group revises its estimates of the number of instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

When the instruments are exercised, the Group issues new shares or re-issues treasury shares. The consideration received net of any directly attributable transaction costs are credited to share capital (nominal value) and share premium and capital reserves.

2.16 Employee benefits

Pension obligations

The Group operates various pension schemes including both defined benefit and defined contribution plans. A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to the employee's service in the current and prior periods. A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognised in the statement of financial position in respect of defined benefit pension plans is the present value of the defined benefit obligations at the end of the reporting period less the fair value of plan assets. The defined benefit obligations are calculated annually by actuaries using the projected unit credit method. The present value of the defined benefit obligations is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related pension liability. For currencies where there is no deep market in such high quality corporate bonds, the market yields on government bonds that are consistent with the currency and the estimated terms of the post-employment benefit obligations shall be used.

When a surplus in a plan exists, the Group measures the net benefit asset at the lower of the surplus and the present value of the future economic benefits available to the Group in the form of a reduction in future contributions or a cash refund.

Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise. Past-service costs are recognised immediately in profit or loss.

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2. ACCOUNTING POLICIES CONTINUED

2.16 Employee benefits continued

For defined contribution plans, the relevant contributions are recognised as personnel costs when they are due. Once the contributions have been paid, the Group has no further payment obligations. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

Other post-employment obligations

Some subsidiaries provide other post-retirement benefits to their retirees (e.g. gratuities). The entitlement of those benefits is usually conditional on the employee completing a specific length of service. The expected costs of these benefits are accrued over the period of employment using actuarial assumptions. Actuarial gains or losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to equity in other comprehensive income in the period in which they arise.

Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within IAS 37 'Provisions, Contingent Liabilities and Contingent Assets', and involves the payment of termination benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

2.17 Revenue recognition

The Group derives revenues from the following sources: (1) software licences, software development services and hosting arrangements; (2) software maintenance (help desk services and rights to future product enhancements); and (3) software implementation and support services.

The Group recognises revenues in accordance with IAS 18: 'Revenue'. This requires the exercise of judgment and the use of estimates in connection with the determination of the amount of revenue to be recognised in each accounting period. In exercising such judgment, the Group draws upon guidance from specific software industry revenue recognition practices which comply with IAS 18: 'Revenue'.

Revenues are recognised net of any tax collected on behalf of local tax authorities.

Software licence

Software licence revenues represent all fees earned from granting customers licences to use the Group's softwares, either through an initial licence or through the purchase of additional modules or user rights, but excludes any amounts that are related to maintenance. For software licence arrangements that do not require significant modification or customisation of the underlying software, revenue is recognised when the following criteria are met:

- Evidence of an arrangement exists;
- Delivery has occurred;
- The risks and rewards of ownership have been transferred to the customer;
- The amount of revenue can be reliably measured and is not subject to future adjustments (i.e. fixed and determinable);
- The associated costs can be reliably measured; and
- Collection is probable.

Unless collection is deemed virtually certain, licence revenue due after 12 months is deferred until 1) the collection becomes due within 12 months, 2) there were no delinquency in prior payments, and 3) the remaining balance is free from any uncertainties and future adjustments.

Sale of software licenses to a customer which is not the end-user (i.e. reseller arrangement) is recognised when evidence of sell-through exists or when the Group has received non-refundable consideration.

Sale of software licenses that are on a subscription basis combined with the maintenance services, so that effectively a service over time is provided, are accounted for under 'Software-as-a-Service'. This is regardless of whether the software is taken on premise or hosted in the cloud.

Software development services revenue represents fees charged to clients for developing requested additional functionality. Generic developments relating to country-specific requirements or functionalities that are re-usable in future sales but not yet readily available at the time of the sale are deferred and recognised upon delivery. Non-generic development fees are recognised on a percentage-of-completion basis over the period when the service is performed.

SaaS and subscription

Revenue from 'Software-as-a Service' relates to hosting arrangements that provide the customer with the right to use Temenos' products over a certain period time. Fees for the ongoing hosting service are recognised either on a usage basis (if this can be reliably measured) or over the contractual term of the arrangement. Non-refundable one-time upfront fees consisting of standardisation set-up, initiation or activation services are recognised over the term of the arrangement unless related costs can be reliably measured and revenue can be separately determined based on market pricing for the same obligation. Other professional services such as consulting or training constitute separate obligation and are recognised when revenue recognition criteria for services, as described below, are met.

The revenue from subscription arrangements where a client will pay periodic fees to keep the licence active is recorded under 'SaaS and subscription'.

Hosting arrangements and subscription arrangements entitles the client to corrective maintenance and product updates without additional charge. The updates include improvements to the existing software product that is licenced but does not include new products.

Maintenance

Software maintenance is included in most software licence arrangements and is generally priced as a percentage of the initial software licence fees. Maintenance provides customers with rights to unspecified software product upgrades, maintenance enhancements and access to the help desk during the term of the support period and is recognised rateably on a straight-line basis over the term of the arrangement.

Services

Software implementation and support services represents income from consulting, training and implementation services sold separately under services contracts. Fixed-price arrangements are accounted for on a percentage-of-completion basis in accordance with the rules applicable to long term contract revenue recognition as defined in IAS 11 'Construction Contracts', whereby revenue recognised during the period represents the man days effort incurred up to the end of the reporting period as a percentage of the total estimated man days to complete. These estimates are continually re-evaluated and revised, when necessary, throughout the life of the contract. Any adjustments to revenue due to changes in estimates are accounted for in the period in which the change in estimates occurs. Fees relating to time and material contracts are recognised when man days efforts are provided and collection is deemed probable.

Multiple element arrangements

In many cases, the Group enters into transactions with customers that include multiple elements such as software licence, maintenance, development services and services revenues. The revenues from these arrangements are generally accounted for separately. The factors considered in determining whether the revenue should be accounted for separately include the nature of the services (i.e. whether they are essential to the functionality of the software licence), the existence of the fair value for the separable elements (i.e. availability of services from other vendors), the timing of payments and the acceptance criteria on the realisability of the software licence fee.

Revenue from multiple-element arrangements is allocated to the different elements based on their fair value. Fair value for professional service and software development service is determined by market pricing for equivalent performance obligation sold separately or the 'cost-approach plus reasonable margin' methodology when market data does not exist. When revenue is objectively determined for all undelivered elements with the exception of one delivered element, the residual method is used to allocate revenue to the delivered element. Revenue for delivered elements is recognised when the revenue recognition criteria described above are met and revenue is free from any future uncertainties or adjustments attributable to the undelivered elements from which a portion of the fees have been allocated. Revenue for any undelivered elements is deferred and recognised when the product is delivered or over the period in which the service is performed.

When the hosting arrangement is combined with a licence sale of the software, the licence revenue is recognised according to the revenue criteria above when, and only when, the customer can take possession of the product without significant penalties. Otherwise, licence revenue is recognised on the same terms of the related hosting arrangement.

Fees collected in advance are reported within 'deferred revenues' and then subsequently recognised as revenue when the performance obligation starts. Fees that have been earned but not yet invoiced are reported under 'trade and other receivables'.

2.18 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share are determined by dividing the profit or loss attributable to equity holders of the Company, adjusted for the effect that would result from the conversion of dilutive ordinary shares, by the weighted average number of ordinary shares plus the weighted average of number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares.

2.19 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Chief Operating Decision Maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Group's Chief Executive Officer (CEO).

2.20 Non-current assets (or disposal groups) held for sale

Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must commit to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (or disposal groups) classified as assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell.

Notes to the consolidated financial statements

31 December 2016

2. ACCOUNTING POLICIES CONTINUED

2.21 Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss, loans and receivables or as available-for-sale financial assets. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification at initial recognition.

Regular purchases and sales of financial assets are recognised on the trade-date, being the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

All financial assets are initially recognised at fair value plus, in the case of financial assets not subsequently reported at fair value through profit or loss, transactions costs that are attributable to the acquisition of the financial asset.

Subsequent measurement

Financial assets at fair value through profit or loss (FVTPL)

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Finance costs-net'.

FVTPL financial assets are classified as current assets.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the reporting date. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents (notes 2.4 and 2.5).

Loans and receivables are initially recognised at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, except for the current portion where the recognition of interest would be immaterial.

The effective interest income is recognised in profit or loss within 'Finance costs – net'.

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and allocating the interest income or expense over the relevant periods. The effective interest rate is the rate that exactly discounts estimated future cash flows (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset or financial liability, or, where appropriate, a shorter period.

Available-for-sale financial assets (AFS)

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months after the reporting date.

Available-for-sale financial assets are initially recognised at fair value and transaction costs are expensed in profit or loss. They are subsequently measured at fair value and the resulting gains or losses are recognised in other comprehensive income.

Impairment of financial assets

Financial assets, other than those measured at fair value through profit or loss, are assessed for indicators of impairment at each reporting date. Financial assets are impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial asset has been impacted.

Objective evidence could include, amongst others:

- Significant financial difficulty of the counterparty;
- Financial reorganisation or change in strategy;
- Default or delinquency in payments; or
- It becomes probable that the counterparty will enter bankruptcy.

For financial assets carried at amortised cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is directly reduced by the impairment loss for all financial assets carried at amortised costs with the exception of trade receivables, where the carrying amount may be reduced through the use of an allowance account (note 2.5).

2.22 Financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or financial liabilities measured at amortised cost.

All financial liabilities are recognised initially at fair value and, in the case of financial liabilities measured at amortised costs, net of directly attributable costs.

Subsequent measurement

Financial liabilities at fair value through profit or loss (FVTPL)

Financial liabilities at fair value through profit or loss are financial liabilities held for trading and contingent consideration incurred in a business combination. A financial liability is classified as held for trading if it is:

- Acquired or incurred principally for the purpose of selling or repurchasing it in the near term; or
- A derivative not designated and effective as a hedging instrument.

They are subsequently measured at fair value and the resulting gains or losses are presented in profit or loss within 'Finance costs-net'.

FVTPL financial liabilities are classified as current liabilities.

Financial liabilities measured at amortised costs

Financial liabilities measured at amortised costs are initially recognised at fair value, net of transaction costs and subsequently measured at amortised cost using the effective interest method. The resulting discounted interest charge is recognised in profit or loss within 'Finance costs'.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

2.23 Accounting for derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date the contract is entered into and are subsequently remeasured at fair value at each reporting date. The method of recognising the gains and losses depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the hedged item.

The Group designates derivatives as either:

- (a) Held for trading, or
- (b) Used for hedging.

Derivatives held for trading

While providing effective economic hedges under the Group's risk management policies, these derivatives are not designated as hedging instruments according to IAS 39 'Financial Instruments: Recognition and Measurement'. They are classified as held for trading and the changes in the fair value are immediately recognised within 'Finance costs – net'. Related cash-flows are reported as cash flows from investing activities.

Derivatives held for trading are classified as a current asset or liability.

Cash flow hedge

When hedge accounting is designated, the Group documents at the inception of the hedge the relationship between the hedging instruments and the hedged items, as well as its risk management objective and strategy. This process includes linking all derivatives designated as hedges to specific assets or liabilities or to specific forecast transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of the hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is deferred in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss.

Amounts deferred in other comprehensive income are reclassified to profit or loss in the period when the hedged item affects profit or loss. However, when the hedged transaction results in the recognition of a non-financial asset or a non-financial liability (e.g. fixed assets, deferred revenue), the gains and losses previously deferred in other comprehensive income are included in the initial cost of the asset or the carry amount of the liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or no longer qualifies for hedge accounting. At that time, any cumulative gain or loss deferred in other comprehensive income remains in equity and is recycled to profit or loss when the hedge item is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in other comprehensive income is recognised immediately in profit or loss.

The fair values of derivative instruments used for hedging purposes are disclosed in note 14. Movements on the hedging reserve in shareholders' equity are shown in note 24.

Derivatives used for cash-flow hedge are classified as non-current assets or liabilities when they are expected to be settled more than twelve months after the reporting period.

The Group does not currently hold derivatives used for fair value hedge.

Notes to the consolidated financial statements

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2. ACCOUNTING POLICIES CONTINUED

2.24 Fair value measurement

The Group measures certain financial instruments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal market or the most advantageous market must be accessible to or by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the Group's consolidated financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 inputs: Quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 inputs: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 inputs: Inputs for the asset or liability that are not based on observable market data.

The Group's policy is to recognise transfers into and out of fair value hierarchy levels at the end of the reporting period when the event or change in circumstances occurred.

For items categorised within level 3, the Group's finance team reviews and assesses on a regular basis but, in all cases, at each interim period the inputs and reports to the Chief Financial Officer (CFO) any changes that may have a significant effect on the reported fair value.

The Group has elected to use the exception provided by paragraph 48 of IFRS 13 'Fair Value Measurement', to measure the credit risk element attributable to the Group's own credit risk (net short position) or the counterparty's credit risk (net long position) on a net basis for the financial assets and financial liabilities governed by a master netting agreement.

2.25 Offsetting financial instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position when, and only when, the Group:

- Currently has a legally enforceable right to set-off the financial assets and financial liabilities; and
- Intends either to settle on a net basis, or to realise the financial assets and settle the financial liabilities simultaneously.

A enforceable right to offset financial assets and financial liabilities must not be contingent on future events and must be currently legally enforceable in the normal course of business, in the event of default and in the event of insolvency or bankruptcy.

2.26 Dividend distribution

Dividend distribution to the Group's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.27 Comparative information

The Group may re-present certain comparative information to reflect changes in new presentation or classification.

3. FINANCIAL INSTRUMENTS

3.1 Accounting classifications

The Group holds the following financial instruments to which the accounting policies according to IFRS7 'Financial Instruments: Disclosures', applies:

	2016 USD 000	2015 USD 000
FINANCIAL ASSETS		
Fair value through profit or loss (FVTPL)		
Held for trading	1,859	1,266
Derivatives instruments used for hedging	2,097	1,120
Available-for-sale financial assets	64	110
Loans and receivables (including cash and cash equivalents)	426,484	439,004
Total	430,504	441,500

FINANCIAL LIABILITIES

Fair value through profit or loss (FVTPL)		
Held for trading	943	1,332
Contingent consideration	1,542	4,640
Derivatives instruments used for hedging	20,682	14,732
Financial liabilities measured at amortised cost	469,670	557,411
Total	492,837	578,115

3.2 Financial risk factors

The Group is exposed to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management policy focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses financial instruments to hedge certain risk exposures.

Risk management is carried out by a central treasury department under policies approved by the Chief Financial Officer (CFO). The CFO and his team identify, evaluate and mitigate financial risks when deemed necessary.

Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currencies, primarily with respect to those described below. Foreign exchange risk arises from:

- Forecasted revenues and costs denominated in a currency other than the entity's functional currency;
- Monetary assets and liabilities denominated in a currency other than the entity's functional currency; and
- Net investments in foreign operations.

The Group makes efforts to mitigate its foreign exchange risk by aligning the revenue streams to currencies that match the cost base. The Group's policy is to protect its profit or loss from the variability in cash flows from its future transactions that will occur within the next 18 months as well as from its monetary assets and liabilities. The Group uses forward contracts and cross currency swaps as hedging instruments.

Forecasted transactions, which are designated in a cash flow hedge relationship, comprises of future revenue streams as well as future recurring operating costs such as personnel costs and office related costs. They are expected to occur each month during the hedging period. With the exception of future maintenance streams for which gains or losses affect profit or loss over the subsequent periods after the cash flows occur (straight line basis over the maintenance period), gains or losses are recognised during the same period when the related cash flows occur.

The Group applies the cash flow hedge relationship for its future forecasted transactions and for certain borrowings. There was no ineffectiveness recognised during the period (2015: USD nil).

Unless already designated in a cash flow hedge relationship, the Group does not apply the hedge accounting for the exposure arising from its monetary assets and liabilities since gains or losses arising from both the position being hedged and the related forward contracts are recognised within the same period and within the same line in profit or loss.

The Group does not follow a defined strategy to hedge the risk from the net investments in foreign operations.

Notes to the consolidated financial statements

31 December 2016

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

The table below illustrates the Group's principal foreign currency exposures:

	Net exposure	
	2016 FCY* 000	2015 FCY* 000
Euro	(427)	2,676
UK pounds	2,023	(580)
Swiss francs	1,361	(3,985)
India rupee	1,976	(35,386)

* Foreign currency.

A negative value represents a liability exposure.

These exposures represent monetary assets and liabilities that are either:

- Denominated in one of the currencies above and measured in an entity with a different functional currency; or
- Denominated in another currency but measured in an entity whose functional currency is one of the above.

These amounts also include the derivatives classified as held for trading but exclude the derivatives and the underlined liabilities that are qualified for cash-flow hedge accounting.

Sensitivity analysis

The following table represents the effect of a reasonable shift in the currencies above against the US dollars.

	2016			
	Euro USD 000	UK pounds USD 000	Swiss francs USD 000	India rupee USD 000
Sensitivity assumption	+10%	+10%	+10%	+10%
Profit or (loss)	(43)	250	133	3
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	(2,223)	1,365	1,116	1,987
Cash flow hedging related to recognised liabilities	(1,017)	–	2,289	–
	(3,240)	1,365	3,405	1,987
Equity	(3,283)	1,615	3,538	1,990
Sensitivity assumption	–10%	–10%	–10%	–10%
Profit or (loss)	43	(250)	(133)	(3)
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	2,223	(1,365)	(1,116)	(1,987)
Cash flow hedging related to recognised liabilities	1,017	–	(2,289)	–
	3,240	(1,365)	(3,405)	(1,987)
Equity	3,283	(1,615)	(3,538)	(1,990)

	2015			
	Euro USD 000	UK pounds USD 000	Swiss francs USD 000	India rupee USD 000
Sensitivity assumption	+ 10%	+ 10%	+ 10%	+ 10%
Profit or (loss)	282	(87)	(409)	(56)
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	(1,690)	740	514	2,264
Cash flow hedging related to recognised liabilities	(3,793)	–	3,369	–
	(5,483)	740	3,883	2,264
Equity	(5,201)	653	3,474	2,208
Sensitivity assumption	– 10%	– 10%	– 10%	– 10%
Profit or (loss)	(282)	87	409	56
Other comprehensive income:				
Cash flow hedging related to future forecasted revenues or costs	1,690	(740)	(514)	(2,264)
Cash flow hedging related to recognised liabilities	3,793	–	(3,369)	–
	5,483	(740)	(3,883)	(2,264)
Equity	5,201	(653)	(3,474)	(2,208)

Sensitivity assumption represents management's assessment of reasonably possible changes in spot rates.

(ii) Price risk

The Group is exposed to price risk arising from equity securities classified as available-for-sale (note 14).

An increase of 10% in the quoted price would increase the equity by USD 7 thousand (2015: USD 11 thousand). An equal opposite change would decrease the equity by USD 7 thousand (2015: USD 11 thousand).

(iii) Cash flow and fair value interest risk

The Group is exposed to cash flow interest rate risks arising from cash and cash equivalents and borrowings at variable rates.

The Group is not exposed to any profit or loss impact from its fixed rate borrowings since they are measured at amortised cost.

The primary objective of the Group's policy is to effectively predict its interest expenses for the current and future periods by minimising the effect due to interest change. When the risk is deemed to be substantial, the Group may enter into derivatives to hedge it. The Group analyses its exposure on a dynamic basis taking into consideration all the current terms of the financial assets or liabilities at variable rates, the current market forecasts and management's assessment of reasonable possible change in the interest rates. Given that the reported borrowings are all at fixed rates, the risk was not considered significant for the period ended 31 December 2016.

Notes to the consolidated financial statements

31 December 2016

3. FINANCIAL INSTRUMENTS CONTINUED

3.2 Financial risk factors continued

Credit risk

Credit risk is the risk of financial loss to the Group if a customer to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's trade receivables.

The carrying amount of the financial assets, as reported in the section 3.1 above, represents the maximum credit exposure.

The Group's policy is to determine the creditworthiness of any new prospective or existing customer at the initial phase of the negotiation. Payment terms and requirement of financial security are adapted according to the degree of the credit quality and the past experience.

The Group's policy also requires to continuously assess the credit risk for customers with significant balances. At present, the Group does not hold any collateral security.

In cases when delinquency in payments occurs, the Group may withhold services delivery under current implementation or limit the right to use its software.

The Group mitigates the credit risk related to cash and cash equivalents and derivative financial instruments by conducting all the substantial transactions and by holding balances with major reputable financial institutions.

Credit risk related to derivative financial instruments is minimised through legally enforceable master netting agreements such as ISDAs or equivalent.

As at 31 December 2016 and 2015, there is no geographical concentration of credit risk as the Group's customer base is internationally dispersed and no individual customer represents more than 10% of the Group's outstanding 'trade and other receivables' balances.

The Group's management believes that no impairment allowance is necessary in respect of trade and other receivables not past due other than those already provided for.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

The Group manages its exposure to liquidity risk through short and long term forecasts and by seeking to align the maturity profiles of its financial assets with its financial liabilities. The Group's policy is to maintain adequate level of liquidity to meet its liabilities expected to be settled in the short or near term, under both normal and stressed conditions. Excess of liquidity are primarily used to repay any drawn borrowing facilities (note 18) and then invested in short term deposits with maturities of three months or less.

The following table details the remaining contractual maturity of the Groups' non-derivative financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

	Less than 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2016					
Trade and other payables	88,125	9,341	1,667	–	–
Property provision	111	–	132	–	–
Borrowings	5,443	100,823	5,451	285,589	–
Total non-derivatives financial liabilities	93,679	110,164	7,250	285,589	–
	Less than 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2015					
Trade and other payables	87,657	9,629	2,683	1,667	–
Property provision	249	249	115	338	–
Borrowings	16,638	3,773	178,582	115,422	183,376
Total non-derivatives financial liabilities	104,544	13,651	181,380	117,427	183,376

The following table details the Groups' liquidity analysis for its derivative financial liabilities. These amounts represent the contractual undiscounted net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement. When the amount payable or receivable is not fixed, the amount disclosed has been determined by reference to quoted prices in active markets for identical instruments.

	Less than 3 months USD 000	Between 3 and 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2016						
Cross currency swaps	–	1,894	8,936	1,894	13,210	–
Outflow foreign exchange derivatives	63,535	7,355	10,935	2,167	–	–
Inflow foreign exchange derivatives	(62,148)	(6,775)	(9,945)	(2,108)	–	–
Net settled foreign exchange derivatives	317	–	–	–	–	–
Total derivatives	1,704	2,474	9,926	1,953	13,210	–
	Less than 3 months USD 000	Between 3 and 6 months USD 000	Between 6 and 12 months USD 000	Between 1 and 2 years USD 000	Between 2 and 5 years USD 000	More than 5 years USD 000
At 31 December 2015						
Cross currency swap	–	1,994	1,632	8,218	5,982	11,339
Outflow foreign exchange derivatives	153,162	3,568	4,789	–	–	–
Inflow foreign exchange derivatives	(151,649)	(3,479)	(4,677)	–	–	–
Net settled foreign exchange derivatives	229	83	12	–	–	–
Total derivatives	1,742	2,166	1,756	8,218	5,982	11,339

3.3 Capital risk management

The Group's principal objective when managing capital is to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Group is also subject to financial covenants under its facility agreement. These covenants require the Group to remain within certain thresholds used for calculating financial ratios that are primarily based on financial indebtedness, EBITDA and interest expenses.

The capital structure of the Group consists of borrowings (note 18), cash and cash equivalents (note 12) and equity attributable to equity holders of the parent.

The capital risk management policy remains unchanged from the previous period.

Notes to the consolidated financial statements

31 December 2016

3. FINANCIAL INSTRUMENTS CONTINUED

3.4 Fair value measurement

The following table provides the level of the fair value hierarchy within which the carrying amounts of the financial assets and liabilities measured at fair value are categorised.

Year ended 31 December 2016

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts (note 14)	–	1,859	–	1,859
Equity securities (note 14)	64	–	–	64
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	2,097	–	2,097
Total	64	3,956	–	4,020

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL				
Forward foreign exchange contracts (note 14)	–	943	–	943
Contingent consideration (note 17)	–	–	1,542	1,542
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	2,363	–	2,363
Cross currency swaps (note 14)	–	18,319	–	18,319
Total	–	21,625	1,542	23,167

Year ended 31 December 2015

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial assets at FVTPL				
Forward foreign exchange contracts (note 14)	–	1,266	–	1,266
Equity securities (note 14)	110	–	–	110
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	1,120	–	1,120
Total	110	2,386	–	2,496

	Level 1 USD 000	Level 2 USD 000	Level 3 USD 000	Total USD 000
Financial liabilities at FVTPL (re-presented)				
Forward foreign exchange contracts (note 14)	–	1,332	–	1,332
Contingent consideration (note 17)	–	–	4,640	4,640
Derivatives used for hedging				
Forward foreign exchange contracts (note 14)	–	702	–	702
Cross currency swap (note 14)	–	14,030	–	14,030
Total	–	16,064	4,640	20,704

There were no transfers between Level 1 and 2 in the current and prior periods.

Assets and liabilities in level 2**Forward foreign exchange contracts:**

Discounting cash flow method. The fair value represents the future cash flows that are discounted using a free-risk yield curve adjusted for credit risk. The future cash flows is determined using forward exchange rates at the balance sheet date.

Cross currency swaps:

Discounting cash flow method. The future cash flows are discounted using the interest yield curve attributable to each currency (including the currency basis spreads). The resulting fair value of the leg measured in foreign currency is translated using the spot exchange rate.

There were no changes in valuation techniques during the period.

Assets and liabilities in level 3**Contingent consideration:**

The fair value considers the present value of the expected payments discounted at a risk-adjusted rate of 7.4%. The expected payments are determined by considering the underlined target revenue from the most recent financial budget approved by the management. A risk premium attributable to likelihood of the realisation of the financial target is embedded into the discount rate.

Reconciliation from the opening balances to the closing balances:

	2016 USD 000	2015 USD 000
At 1 January	4,640	–
Acquisition of business	–	4,502
Settlement	(1,667)	–
Amount reversed within 'Cost of sales'	(1,667)	–
Earn out true-up to 'Cost of sales'	145	90
Unwinding of discount to 'Finance costs' (note 10)	91	48
AT 31 DECEMBER	1,542	4,640

Loss attributable to the liability held at the end of the period

Loss included in 'Cost of sales'	7
Loss included in 'Finance costs'	2
	9

The Group reversed the part of the contingent consideration payable for the financial year ending 31 December 2016 as the annual target under the terms of the Sale and Purchase Agreement were not met. The Group still believes that the portion for the financial year ending 31 December 2017 is still achievable based on the most recent financial budget.

Reasonably possible changes to one of the significant unobservable inputs, holding the other inputs constant, would not materially affect the fair value at the reporting date.

Notes to the consolidated financial statements

31 December 2016

3. FINANCIAL INSTRUMENTS CONTINUED

3.5 Offsetting financial assets and financial liabilities

Derivatives transactions entered into by the Group are governed by ISDAs or equivalent. Such agreements permit the Group for net settlement with the same counterparty in the normal course of business and, also, give the right to set-off exposure with the same counterparty in the event of default, insolvency or bankruptcy of either the entity or the counterparty.

Temenos concluded a set-off agreement with one of its Partner in the current year. Under the terms of the agreement, the amounts payable are offset against receivable and the net amounts are settled between the parties.

Year ended 31 December 2016

	Gross amount USD 000	Amount set-off USD 000	Amount reported USD 000	Amount not set-off USD 000	Net amount USD 000
Financial assets					
Trade receivables (note 13)	78,397	(2,202)	76,195	–	76,195
Derivatives financial assets	3,956	–	3,956	2,102	1,854
Total	82,353	(2,202)	80,151	2,102	78,049

Financial liabilities

Trade payables (note 17)	28,914	(2,202)	26,712	–	26,712
Derivatives financial liabilities	21,625	–	21,625	2,102	19,523
Total	50,539	(2,202)	48,337	2,102	46,235

Year ended 31 December 2015

	Gross amount USD 000	Amount set-off USD 000	Amount reported USD 000	Amount not set-off USD 000	Net amount USD 000
Financial assets					
Derivatives financial assets	2,386	–	2,386	1,089	1,297
Total	2,386	–	2,386	1,089	1,297

Financial liabilities

Derivatives financial liabilities	16,064	–	16,064	1,089	14,975
Total	16,064	–	16,064	1,089	14,975

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The resulting accounting estimates may differ from the actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical accounting estimates and assumptions

Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with the accounting policy stated in note 2.8. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates (note 16).

If the future sales and the size of the market opportunities are significantly lower than management's estimates the carrying value of goodwill may need to be reduced accordingly. However, unless any downturn is particularly severe and pervasive, it is unlikely to have a material impact on the carrying value of goodwill.

At 31 December 2016 the carrying amount of the goodwill amounts to USD 440.1 million (2015: USD 462.5 million).

Deferred income taxes

The Group recognises deferred tax asset on carried forward losses and other temporary differences. The amount recognised is based on management's estimates and assumptions with regards to the availability of future taxable profits at the subsidiaries where the carried forward losses or temporary differences exist.

At 31 December 2016 the carrying amount of the deferred tax asset amounts to USD 19.0 million (2015: USD 17.3 million).

Critical judgements in applying the Group's accounting policies

Revenue recognition

As detailed in note 2.17, the Group is required to make an assessment for each new software licence contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements. If significant modification or customisation is required, then the licence fee is recognised based on percentage-of-completion. However, the majority of such modifications or customisations have not been deemed significant in current or prior periods.

The Group also exercises judgement in assessing uncertainties surrounding the probability of collection when payment terms are linked to service implementation milestones or other various contingencies exist. These assessments are made at the outset of the contract.

In respect of service revenue, the management exercises judgement in determining the percentage of completion, specifically with regards to the total mandays remaining to complete the implementation.

Internally generated software development

As detailed in note 2.7, the Group is required to make an assessment for each ongoing project in order to determine at what stage a project meets the criteria outlined in the Group's accounting policies. Such assessment may, in certain circumstances, require significant judgement. In making this judgement, the Group evaluates, amongst other factors, the stage at which technical feasibility has been achieved, management's intention to complete and use or sell the product, likelihood of success, availability of technical and financial resources to complete the development phase and management's ability to reliably measure the expenditure attributable to the project. The total development expenses for the period was USD 178.7 million (2015: USD 161.2 million) and the total capitalised development costs was USD 45.6 million (2015: USD 45.3 million).

Notes to the consolidated financial statements

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5. GROUP COMPANIES

The consolidated financial statements include the accounts of Temenos Group AG and the following entities as of 31 December 2016:

Company name	Country of incorporation	Ownership interest
TEMENOS Australia Pty Limited	Australia	100%
TEMENOS Österreich GmbH	Austria	100%
TEMENOS Belgium S.A.	Belgium	100%
Odyssey Financial Technologies S.A.	Belgium	100%
TEMENOS Software Brasil LTDA	Brazil	100%
TEMENOS Holdings Limited	British Virgin Islands	100%
TEMENOS Bulgaria EOOD	Bulgaria	100%
TEMENOS Canada Inc.	Canada	100%
TEMENOS Software Canada Limited	Canada	100%
Igefi Canada Inc	Canada	100%
TEMENOS Software Shangai Co. Limited	China	100%
TEMENOS Colombia SAS	Colombia	100%
TEMENOS Costa Rica S.A.	Costa Rica	100%
TEMENOS (Russia) Limited	Cyprus	100%
TEMENOS Middle East Limited	Cyprus	100%
TEMENOS Denmark Aps	Denmark	100%
TEMENOS Ecuador S.A.	Ecuador	100%
TEMENOS Egypt LLC	Egypt	100%
TEMENOS France SAS	France	100%
TEMENOS Holdings France SAS	France	100%
Viveo Group SAS	France	100%
Viveo France SAS	France	100%
Igefi France Sàrl	France	100%
Odyssey Financial Technologies GmbH	Germany	100%
TEMENOS Deutschland GmbH	Germany	100%
Igefi Deutschland GmbH	Germany	100%
TEMENOS Hellas S.A.	Greece	100%
TEMENOS Hong Kong Limited	Hong Kong	100%
Igefi Hong Kong	Hong Kong	100%
TEMENOS India Private Limited	India	100%
Financial Objects Software (India) Private Limited	India	100%
Igefi Software India Private Limited	India	100%
TEMENOS Systems Ireland Limited	Ireland	100%
Igefi Ireland Limited	Ireland	100%
TEMENOS Israel Limited	Israel	100%
TEMENOS Japan KK	Japan	100%
TEMENOS Kazakhstan LLP	Kazakhstan	100%
TEMENOS East Africa Limited	Kenya	100%
TEMENOS Korea Limited	Korea	100%
TEMENOS Finance Luxembourg Sàrl	Luxembourg	100%
TEMENOS Luxembourg S.A.	Luxembourg	100%
TEMENOS Software Luxembourg S.A.	Luxembourg	100%
Odyssey Group S.A.	Luxembourg	100%
Igefi Group Sàrl	Luxembourg	100%
TEMENOS (Malaysia) Sdn Bhd	Malaysia	100%
TEMENOS Mexico SA DE CV	Mexico	100%
TEMENOS North Africa LLC	Morocco	100%
TEMENOS (NL) BV	Netherlands	100%
TEMENOS Holland BV	Netherlands	100%
TEMENOS Investments BV	Netherlands	100%
TEMENOS Panama S.A.	Panama	100%

Company Name	Country Of Incorporation	Ownership Interest
TEMENOS Philippines, Inc.	Philippines	100%
TEMENOS Polska Sp.zoo	Poland	100%
Finch Software Limited	Republic Of Mauritius	100%
TEMENOS Romania SRL	Romania	100%
TEMENOS Singapore Pte Limited	Singapore	100%
Igefi Singapore Pte Limited	Singapore	100%
TEMENOS Africa Pty Limited	South Africa	100%
DbS Global Solutions (Pty) Limited	South Africa	100%
TEMENOS Hispania SL	Spain	100%
TEMENOS Headquarters S.A.	Switzerland	100%
Igefi S.A.	Switzerland	100%
Igefi Licensing Sàrl	Switzerland	100%
TEMENOS (Thailand) Co. Limited	Thailand	100%
TEMENOS Eurasia Banka Yazilimlari Ltd Sirketi	Turkey	100%
TEMENOS USA, Inc.	Usa	100%
Trinovus Systems LLC	Usa	100%
Igefi US LLC	Usa	100%
TEMENOS Ukraine Llc	Ukraine	100%
TEMENOS UK Limited	United Kingdom	100%
Fe Mobile Limited	United Kingdom	100%
Financial Objects Limited	United Kingdom	100%
Financial Objects (UK) Limited	United Kingdom	100%
Financial Objects International Limited	United Kingdom	100%
Wealth Management Systems Limited	United Kingdom	100%
Fairs Limited	United Kingdom	100%
Genisys Technology Limited	United Kingdom	100%
Igefi UK Limited	United Kingdom	100%
Lydian Associates Limited	United Kingdom	100%
Fino Software Services Limited	United Kingdom	100%
Wealth Management Software Limited	United Kingdom	100%
Odyssey Financial Technologies Plc	United Kingdom	100%
Edge IPK Ltd	United Kingdom	100%
TEMENOS Vietnam Company Limited	Vietnam	100%

In addition to the Group companies listed above, some Group subsidiaries maintain branches or representative offices at the following locations: Beirut (Lebanon); Dubai (United Arab Emirates); Riyadh (Saudi Arabia); Moscow (Russia); Prague (Czech Republic); Kiev (Ukraine); Taipei (Taiwan); Islamabad (Pakistan); Jakarta (Indonesia); New-York (USA); Stockholm (Sweden), Santo Domingo (Dominican Republic), Tunis (Tunisia), Nantes (France), Hong Kong (Hong Kong), Helsinki (Finland) and Renens (Switzerland).

Significant restrictions

Other than those described in note 12, there is no significant restriction on the Group's ability to access or use assets, and settle liabilities, of the above entities.

6. BUSINESS COMBINATIONS

There were no acquisitions in the year ended 31 December 2016 and there were no adjustment relating to the finalisation of the initial accounting for prior year acquisitions.

Movement in the statement of cash flows represents the settlement of part of the contingent consideration relating to the acquisition of Akcelerator Software LLC.

Notes to the consolidated financial statements

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7. SEGMENT INFORMATION

The Chief Operating Decision Maker (CODM) has been identified as the Group's Chief Executive Officer (CEO). He regularly reviews the Group's operating segments in order to assess performance and to allocate resources.

The CODM considers the business from a product perspective and, therefore, recognises the reporting segments as: 'Product' and 'Services'. Other representation of the Group's activity such as regional information is also presented to the CODM but it is not primarily used to review the Group's performance and to make decisions as to how to allocate resources. These two reporting segments are the Group's only operating segments, hence there is no segmental aggregation.

The 'Product' segment is primarily engaged in marketing, licensing and maintaining the Group's software solutions, including software development fees for requested functionality, as well as providing hosting and subscription arrangements. The 'Services' segment represents various implementation tasks such as consulting and training.

The CODM assesses the performance of the operating segments based on the operating contribution. This measure includes the operating expenses that are directly or reasonably attributable to the reporting segments. Unallocated expenses mainly comprise of restructuring costs, termination benefits, acquisition-related costs, share-based payment expenses, offices-related expenses and any other administrative or corporate overheads that cannot be directly attributable to the operating segments. Segment revenues provided to the CODM exclude the fair value adjustment recognised on deferred income liability acquired in business combination and hence total revenues allocated to the two segments exceed the IFRS reported figures.

Assets attributed to the reporting segments represent the net trade receivables and the accrued income (note 13).

The table below summarises the primary information provided to the CODM:

	Product		Services		Total	
	2016 USD 000	2015 USD 000	2016 USD 000	2015 USD 000	2016 USD 000	2015 USD 000
Revenues	506,569	449,445	128,526	109,557	635,095	559,002
Operating contribution	245,308	204,479	23,576	20,141	268,884	224,620
Total assets	137,394	147,049	84,210	88,642	221,604	235,691

All revenues are derived from external customers. The Group has a large number of customers and no individual customer contributed more than 10% of the total Group's revenue in the current and prior year.

The accounting policies applied to the reportable segments are the same as the Group's accounting policies described in note 2 with the exception of the fair value adjustment on deferred income liability acquired in business combination.

Intersegment transactions are recognised as part of the allocated expenses. They are based on internal cost rates that excludes any profit margin.

	2016 USD 000	2015 USD 000
Reconciliation to Group's consolidated financial statements		
Total operating contribution from the reportable segments	268,884	224,620
Fair value adjustment on acquired deferred income liability	(1,059)	(16,499)
Depreciation and amortisation (note 8)	(76,074)	(74,460)
Unallocated expenses	(42,528)	(36,904)
Finance costs – net (note 10)	(17,116)	(18,674)
Profit before taxation	132,107	78,083

	2016 USD 000	2015 USD 000
Total assets		
Total assets allocated to the reportable segments	221,604	235,691

UNALLOCATED ITEMS:

	2016 USD 000	2015 USD 000
Other receivables	26,652	26,620
Cash and cash equivalents	194,340	193,252
Other financial assets	4,020	2,496
Property, plant and equipment	15,788	15,610
Intangible assets	690,097	737,998
Deferred tax assets	19,001	17,307
Total assets per the statement of financial position	1,171,502	1,228,974

Geographical information

	2016 USD 000
Revenues from external customers	
Switzerland (country of the Group's domiciliation)	36,924
United Kingdom	40,319
Luxembourg	54,644
United States of America	37,549
Singapore*	41,482
Ireland*	33,658
Canada*	33,504
TOTAL – MATERIAL COUNTRIES	278,080

Rest of Europe	163,574
Middle-East and Africa	97,288
Rest of Asia	68,665
Rest of America	26,429
TOTAL REVENUES	634,036

* Singapore/Ireland/Canada were not separately reported in 2015 geographical information as the revenues from external customers attributed to them was not material.

	2015 USD 000
Switzerland (country of the Group's domiciliation)	28,856
United Kingdom	39,415
Luxembourg	48,058
United States of America	42,217
TOTAL – MATERIAL COUNTRIES	158,546

Rest of Europe	141,504
Middle-East and Africa	95,713
Asia	91,576
Rest of America	55,164
TOTAL REVENUES	542,503

Revenues are based on the location where the licence and maintenance is sold or the service is provided.

Notes to the consolidated financial statements

31 December 2016

7. SEGMENT INFORMATION CONTINUED

	2016 USD 000
Non-current assets other than financial instruments and deferred tax assets	
Switzerland (country of the Group's domiciliation)	110,644
Luxembourg	343,711
United Kingdom	52,227
France	56,533
United States of America	75,032
Other countries	67,738
Total	705,885
	2015 USD 000
Switzerland (country of the Group's domiciliation)	93,850
Luxembourg	388,373
United Kingdom	60,370
France	57,970
United States of America	77,541
Other countries	75,504
Total	753,608

8. EXPENSES BY NATURE

	2016 USD 000	2015 USD 000
Third party licences and commissions	14,227	15,618
Personnel costs and external consultants	356,002	312,964
Depreciation and amortisation (notes 15 and 16)	76,074	74,460
Travel expenses	25,113	25,528
Rent and other occupancy costs	18,186	18,458
Marketing and other professional costs	14,958	18,615
Other costs	25,813	25,396
Capitalised development costs (note 16)	(45,560)	(45,293)
	484,813	445,746

9. EMPLOYEE BENEFIT EXPENSES

	2016 USD 000	2015 USD 000
Wages and salaries	214,775	200,026
Termination benefits	2,479	4,501
Social charges	44,266	29,156
Defined contribution pension costs	5,701	5,617
Defined benefit pension costs (note 21)	2,478	2,455
Cost of employee share option scheme (note 25)	24,813	26,379
	294,512	268,134

Included in the employee benefit expenses, is the remuneration of the key management personnel as illustrated below:

	2016 USD 000	2015 USD 000
Key management personnel of Temenos Group AG		
– short term cash compensation and benefits	5,655	5,324
– post-employment benefits	142	190
– share-based payment	14,400	17,013
	20,197	22,527

Non-Executive Directors

– short term benefits	662	655
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Remuneration of the Board of Directors and the Executive Committee in accordance with the Swiss Code of Obligations and the Swiss Ordinance against Excessive Compensation in Stock Exchange Listed Companies can be found in the Compensation Report of the annual report.

10. FINANCE COSTS – NET

	2016 USD 000	2015 USD 000
Finance income:		
– Interest income on short term bank deposits and investments	132	65
– Interest income on non-current trade and other receivables	119	132
– Net gain on derivatives not designated as hedging instruments	6,988	2,626
Total finance income	7,239	2,823
Finance costs:		
– Interest expense on financial instruments measured at amortised costs	(13,005)	(13,648)
– Change in fair value of contingent consideration	(91)	(48)
– Other financing costs*	(4,016)	(4,019)
– Foreign exchange loss, net	(7,243)	(3,782)
Total finance costs	(24,355)	(21,497)
Finance costs – net	(17,116)	(18,674)

* Other financing costs mainly comprise of transaction fees relating to the issuance of financing facilities, commitment fees attributable to the undrawn portion of banking facilities and fees related to guarantees in issue.

Notes to the consolidated financial statements

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11. EARNINGS PER SHARE

Basic

Basic earnings per share is calculated by dividing the profit or loss attributable to equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

	2016	2015
Profit attributable to equity holders of the Company (USD 000)	115,834	66,344
Weighted average of ordinary shares outstanding during the year (in thousands)	68,718	65,795
Basic earnings per share (USD per share)	1.69	1.01

Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For the periods presented in these consolidated financial statements, the Group has only one category with a potential dilutive effect: 'Share options and restricted shares'.

For the period ended 31 December 2015 and 31 December 2016, this category was fully dilutive.

	2016	2015
Profit used to determine diluted earnings per share (USD 000)	115,834	66,344
Weighted average of ordinary shares outstanding during the year (in thousands)	68,718	65,795
Adjustments for:		
– Share options and restricted shares (in thousands)	3,309	4,286
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	72,027	70,081
Diluted earnings per share (USD per share)	1.61	0.95

12. CASH AND CASH EQUIVALENTS

The balance in respect of cash and cash equivalents consists of:

	2016 USD 000	2015 USD 000
Cash at bank and in hand	140,265	173,054
Short term deposits with banks	49,068	20,198
Other short term investments	5,007	–
	194,340	193,252

Included in the above amount, is USD 10 million (2015: USD 10.5 million) of cash and cash equivalents that are held in jurisdictions where regulatory exchange controls exist and, therefore, are not available for general use by the Group outside of such jurisdictions at the reporting date.

13. TRADE AND OTHER RECEIVABLES

	2016 USD 000	2015 USD 000
Trade receivables	86,425	88,626
Provision for impairment	(10,230)	(23,552)
Trade receivables – net	76,195	65,074
Accrued income	145,409	170,617
VAT and other taxation recoverable	7,490	8,795
Other receivables	4,510	5,519
Prepayments	14,652	12,306
Total trade and other receivables	248,256	262,311
Less non-current portion	(16,296)	(17,135)
Total current trade and other receivables	231,960	245,176

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. As the total carrying amount of the current portion of the trade and other receivables is due within the next 12 months after the reporting date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals to the contractual amount or the fair value initially recognised.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The credit quality of these receivables are periodically assessed by reference to external credit ratings (if available) or to historical information about their default rates. The Group does not hold any collateral as security.

Fair values of the trade and other receivables qualified as financial assets and measured at amortised cost

	Carrying amount		Fair value	
	2016 USD 000	2015 USD 000	2016 USD 000	2015 USD 000
Current trade and other receivables	215,848	228,617	215,848	228,617
Non-current trade and other receivables.	16,296	17,135	15,864	16,853
	232,144	245,752	231,712	245,470

The carrying amounts of the current trade and other receivables approximate their fair value. The fair value measurement of the non-current trade and other receivables is based on a discounted cash flow approach using a free-risk yield curve adjusted for credit risk and is within level 2 of the fair value hierarchy. There is no carry amount of trade and other receivables measured at fair value.

Ageing of the net trade receivables past due but not impaired:

	2016 USD 000	2015 USD 000
Past due less than 30 days	23,083	19,340
Past due 31-90 days	8,761	6,830
Past due 91-180 days	8,184	6,255
Past due 181-360 days	7,315	9,449
More than 360 days	10,804	12,334
	58,147	54,208

The Group believes that the unimpaired amounts that are past due are fully recoverable as there are no indicators of future delinquency or potential litigation.

Notes to the consolidated financial statements

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Movements in the provision for impairment

The allowance account is used for impairment of trade receivables. The other classes do not contain any impaired assets.

	2016 USD 000	2015 USD 000
At 1 January	23,552	22,942
Provision for impairment	2,803	4,912
Used amounts	(16,033)	(3,774)
Recoveries	(8)	(241)
Unused amounts	(119)	(23)
Exchange loss or (gain)	35	(264)
At 31 December	10,230	23,552

Management acknowledges that there is an inherent risk linked to the Group's trade receivables in respect of the complexity of the Group's business and the existence of mid to long projects.

Included in 'Sales and marketing', is USD 9.5 million (2015: USD 8.8 million) of impairment loss related to trade receivables. The Group has provided for the adverse probable outcome on a limited number of projects that are facing some implementation difficulties or funding issues.

14. OTHER FINANCIAL ASSETS AND LIABILITIES

	2016		2015	
	Assets USD 000	Liabilities USD 000	Assets USD 000	Liabilities USD 000
Forward foreign exchange contracts – cash flow hedges	2,097	2,363	1,120	702
Forward foreign exchange contracts – held for trading	1,859	943	1,266	1,332
Cross currency swaps – cash flow hedges	–	18,319	–	14,030
Available-for-sale investment	64	–	110	–
At 31 December	4,020	21,625	2,496	16,064
Reported as follows:				
Current	3,866	10,062	2,386	2,034
Non-current	154	11,563	110	14,030
At 31 December	4,020	21,625	2,496	16,064

The maximum exposure to credit risk at the reporting date is the fair value of the derivative assets as reported in the statement of financial position.

Available-for-sale investment financial assets includes equity securities of a publicly listed company in Australia.

15. PROPERTY, PLANT AND EQUIPMENT

	Leasehold improvements USD 000	Vehicles USD 000	Fixtures fittings and equipment USD 000	Land and buildings USD 000	Total USD 000
Year ended 31 December 2016					
COST					
At 1 January 2016	13,553	473	43,172	2,578	59,776
Foreign currency exchange differences	(572)	(6)	(1,697)	(54)	(2,329)
Additions	1,491	140	4,733	–	6,364
Retirements/Disposals	(206)	(136)	(871)	–	(1,213)
31 December 2016	14,266	471	45,337	2,524	62,598
DEPRECIATION AND IMPAIRMENT					
At 1 January 2016	11,671	384	31,777	334	44,166
Foreign currency exchange differences	(490)	(4)	(1,333)	(7)	(1,834)
Charge for the year	857	56	4,568	46	5,527
Retirements/Disposals	(181)	(116)	(752)	–	(1,049)
31 December 2016	11,857	320	34,260	373	46,810
NET BOOK VALUE					
31 December 2016	2,409	151	11,077	2,151	15,788
Year ended 31 December 2015					
COST					
At 1 January 2015	13,310	438	37,729	2,671	54,148
Foreign currency exchange differences	(458)	(9)	(1,625)	(93)	(2,185)
Acquisition of business	15	–	2,063	–	2,078
Additions	686	44	5,005	–	5,735
31 December 2015	13,553	473	43,172	2,578	59,776
DEPRECIATION AND IMPAIRMENT					
At 1 January 2015	10,998	316	28,446	299	40,059
Foreign currency exchange differences	(285)	(5)	(1,139)	(13)	(1,442)
Charge for the year	943	65	4,374	48	5,430
Impairment loss	15	8	96	–	119
31 December 2015	11,671	384	31,777	334	44,166
NET BOOK VALUE					
31 December 2015	1,882	89	11,395	2,244	15,610

Leased assets, where the Group is a lessee, mainly comprise of Information Technology (IT) hardware and some office equipment.

	Fixtures fittings and equipment USD 000
Net book value at 31 December 2016	3
Net book value at 31 December 2015	12

In all cases the assets leased are pledged as collateral against the finance lease liability.

Notes to the consolidated financial statements

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16. INTANGIBLE ASSETS

	Internally generated software development costs USD 000	Goodwill USD 000	Computer software USD 000	Customer related USD 000	Total USD 000
Year ended 31 December 2016					
COST					
At 1 January 2016	332,202	462,541	152,410	133,038	1,080,191
Foreign currency exchange differences	(2,703)	(22,475)	(4,865)	(5,138)	(35,181)
Acquisition of business	–	–	–	–	–
Additions	45,560	–	3,492	–	49,052
Retirements/Disposals	–	–	(131)	–	(131)
31 December 2016	375,059	440,066	150,906	127,900	1,093,931

AMORTISATION

At 1 January 2016	211,532	–	75,894	54,767	342,193
Foreign currency exchange differences	(1,691)	–	(3,418)	(3,666)	(8,775)
Charge for the year	35,093	–	21,324	14,130	70,547
Retirements/Disposals	–	–	(131)	–	(131)
31 December 2016	244,934	–	93,669	65,231	403,834

NET BOOK VALUE

31 December 2016	130,125	440,066	57,237	62,669	690,097
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Year ended 31 December 2015

COST					
At 1 January 2015	292,531	308,973	71,135	46,043	718,682
Foreign currency exchange differences	(5,622)	(26,712)	(3,392)	(3,441)	(39,167)
Acquisition of business	–	180,280	78,562	90,436	349,278
Additions	45,293	–	6,105	–	51,398
31 December 2015	332,202	462,541	152,410	133,038	1,080,191

AMORTISATION

At 1 January 2015	178,839	–	56,678	45,357	280,874
Foreign currency exchange differences	(2,274)	–	(2,405)	(3,057)	(7,736)
Charge for the year	34,967	–	21,596	12,467	69,030
Impairment loss	–	–	25	–	25
31 December 2015	211,532	–	75,894	54,767	342,193

NET BOOK VALUE

31 December 2015	120,670	462,541	76,516	78,271	737,998
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Amortisation charge of USD 66.8 million (2015: USD 64.2 million) is included in the 'Cost of sales' line; USD 0.4 million (2015: USD 0.5 million) in 'Sales and marketing' line; USD 1.5 million (2015: USD 1.3 million) in 'Other operating expenses' line and USD 1.8 million (2015: USD 3.0 million) in 'General and administrative' line.

Impairment tests for goodwill

Goodwill is allocated to the 'Product' reportable segment.

	2016			2015		
	Carrying amount USD 000	Growth rate %	Discount rate %	Carrying amount USD 000	Growth rate %	Discount rate %
'Product' segment	440,066	1	10.75	462,541	1	10.59
	440,066			462,541		

The recoverable amount of the cash-generating unit (CGU) is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on the most recent financial budget approved by the management covering a four year period (2015: a four year period) and then inflated over a perpetual period using the estimated growth rate assigned to the countries where the cash-generating unit operates. The growth rate does not exceed the long term average growth rate for the software industry in which the CGU performs its operations. The growth rate and the pre-tax discount rate used in the calculation are presented above.

Budgeted cash flow projections are determined based on the expectation of the future client signings of the Group's current pipeline. Budgeted gross margin is based on expectations of market development and efficiency leverage. Management believes that any reasonable change in any of the key assumptions on which the recoverable amount is based would not cause the reported carrying amount to exceed the recoverable amount of the cash-generating unit.

The discount rate represents the Group's Weighted Average Cost of Capital adjusted for tax effect to determinate the pre-tax rate as required by IFRS.

17. TRADE AND OTHER PAYABLES

	2016 USD 000	2015 USD 000
Trade payables	26,712	27,935
Accrued expenses	61,423	56,397
Contingent consideration (note 3.4)	1,542	4,640
Other payables	15,194	16,264
Total trade and other payables	104,871	105,236
Less non-current portion	(1,542)	(3,989)
Total current trade and other payables	103,329	101,247

Except for contingent consideration, trade and other payables are initially recorded at fair value and subsequently measured at amortised cost. As the total carrying amount is due within the next 12 months from the balance sheet date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals to the contractual amount or the fair value initially recognised.

Contingent consideration is initially and subsequently measured at fair value.

Fair values of the trade and other payables qualified as financial liabilities and measured at amortised cost.

	Carrying amount		Fair value	
	2016 USD 000	2015 USD 000	2016 USD 000	2015 USD 000
Current trade and other payables	97,466	99,633	97,466	99,633
Non-current trade and other payables	–	1,016	–	991
	97,466	100,649	97,466	100,624

The carrying amounts of the current trade and other payables approximate their fair value. The fair value measurement of the non-current trade and other payables is based on a discounted cash flow approach using a free-risk yield curve adjusted for credit risk and is within level 2 of the fair value hierarchy.

The carrying amounts of the current trade and other payables measured at fair value as well as their level in the fair value hierarchy are disclosed in note 3.4.

Notes to the consolidated financial statements

31 December 2016

18. BORROWINGS

	2016 USD 000	2015 USD 000
CURRENT		
Other loans	33	42
Unsecured bonds	102,747	4,969
Bank borrowings	–	10,000
	102,780	15,011
NON-CURRENT		
Other loans	68	13
Unsecured bonds	269,114	376,423
Bank borrowings	–	69,005
	269,182	445,441
Total borrowings	371,962	460,452

Fair values of the borrowings

	Carrying amount		Fair value	
	2016 USD 000	2015 USD 000	2016 USD 000	2015 USD 000
Other loans	101	55	101	55
Unsecured bonds	371,861	381,392	373,320	388,035
Bank borrowings	–	79,005	–	79,045
	371,962	460,452	373,421	467,135

The fair value measurement of the non-current other loans is based on a discounted cash flow method using the LIBOR or Swaps curve adjusted for credit risk and is within level 2 of the fair value hierarchy. The fair value measurement of the bonds is derived from their quotation on the SIX Swiss Exchange and is within level 1 of the fair value hierarchy.

The carrying amounts of the borrowings are denominated in the following currencies:

	2016 USD 000	2015 USD 000
Swiss francs	371,861	381,392
Euro	–	26,807
US dollars	–	52,198
Other currencies	101	55
	371,962	460,452

Unsecured bonds

The Group holds the following unsecured bonds:

- CHF 100 million with a coupon of 2.75% paid annually on 25 July. The bond will mature on 25 July 2017 at par and was issued in 2013;
- CHF 100 million with a coupon of 2% paid annually on 31 January. The bond will mature on 31 January 2019 at par and was issued in 2014; and
- CHF 175 million with a coupon of 2% paid annually on 17 June. The bond will mature on 17 June 2022 at par and was issued in 2015.

Bank facilities

In February 2016, the Group replaced its term loan and revolving facility with a new multicurrency revolving facility of USD 500 million. Any drawn amount of the previous agreement was repaid on termination date. The pertinent details of this new facility are as follows:

- Interest at LIBOR plus variable margin, which is calculated by reference to certain financial covenants;
- The facility is repayable on 19 February 2021; and
- Commitment fees are due on the undrawn portion.

As at 31 December 2016, a total of nil was drawn under this new agreement.

The facilities granted are subject to various financial covenants which have been adhered to during the reported periods.

19. TAXATION

Tax expense

	2016 USD 000	2015 USD 000
Current tax on profits for the year	22,800	16,264
Adjustments in respect of prior years	1,599	(2,431)
Total current tax	24,399	13,833
Deferred tax – origination and reversal of temporary differences	(8,126)	(2,094)
Total tax expense	16,273	11,739

Temenos Group AG is incorporated in Switzerland but the Group operates in various countries with various tax laws and rates. Consequently, the effective tax rate may vary from period to period to reflect the generation of taxable income in tax jurisdictions. A reconciliation between the reported income tax expense and the amount computed using a basic Swiss statutory corporate tax rate of 24.1% (2015 :25%), is as follows:

	2016 USD 000	2015 USD 000
Profit before tax	132,107	78,083
Tax at the domestic rate of 24.1% (2015: 25%)	31,839	19,521
Non-taxable income and expenses	(2,891)	1,901
Utilisation of previously unrecognised losses – net	(3,665)	(6,103)
Tax adjustments related to prior periods	1,599	(2,431)
Reversal of deferred tax assets on intellectual property	739	5,526
Non-taxable consolidation adjustment on intellectual property amortisation	(6,369)	(12,763)
Other movement on deferred tax assets and liabilities, including rate changes	1,168	628
Effects of different tax rates	(18,368)	(982)
Overseas withholding tax	7,497	4,860
Other tax and credits	4,724	1,582
Total tax expense	16,273	11,739

There is no income tax expense or tax credit arising relating to components of other comprehensive income (2015: USD nil) and no income tax charged or credited directly to equity (2015: USD nil).

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19. TAXATION CONTINUED

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same fiscal authority. Deferred tax assets and liabilities shown in the consolidated balance sheet are as follows:

	2016 USD 000	2015 USD 000
Deferred tax assets – to be recovered after more than 12 months	6,898	11,342
Deferred tax assets – to be recovered within 12 months	12,103	5,965
Deferred tax assets	19,001	17,307
Deferred tax liabilities – to be recovered after more than 12 months	(16,240)	(18,346)
Deferred tax liabilities – to be recovered within 12 months	(377)	(4,835)
Deferred tax liabilities	(16,617)	(23,181)
Net deferred tax assets/(liabilities)	2,384	(5,874)

An assessment of the realisability of deferred tax assets is made on a country by country basis, based on the weight of available evidence including factors such as recent earnings history and expected future taxable income. Deferred tax assets are recognised to the extent that realisation of the related tax benefit through the future taxable profits is probable. The majority of the deferred tax assets recognised are expected to be utilised after more than twelve months.

The Group has not recognised deferred tax assets of USD 53,612 thousand (2015: USD 55,202 thousand) in respect of losses amounting to USD 246,060 thousand (2015: USD 223,551 thousand) that can be carried forward against future taxable income. Losses amounting to USD 118,851 thousand (2015: USD 42,098 thousand) will expire within the next five years, USD 22,425 thousand (2015: USD 8,321 thousand) will expire within five to ten years and USD 28,558 thousand (2015: USD 9,305 thousand) will expire within ten to 20 years. There are no unrecognised deferred tax liabilities.

The Group has recognised deferred tax assets of USD 260 thousand (2015: USD 998 thousand) in respect of temporary differences arising on an intra-group transfer of intellectual property. There are no unrecognised deferred tax assets in respect of these temporary differences (2015: nil).

The gross movement on the deferred income tax account is as follows:

	2016 USD 000	2015 USD 000
At 1 January	(5,874)	22,778
Income statement credit	8,126	2,094
Foreign currency exchange differences	132	108
Acquisition of business	–	(30,854)
At 31 December	2,384	(5,874)

The movement in deferred tax assets is as follows:

	Tax losses USD 000	Taxable intellectual property USD 000	Taxable goodwill USD 000	Other USD 000	Total USD 000
At 1 January 2015	16,099	6,558	110	1,098	23,865
Credited (charged) to the income statement	(85)	(5,526)	408	(1,067)	(6,270)
Foreign currency exchange differences	(257)	–	–	(31)	(288)
At 31 December 2015	15,757	1,032	518	–	17,307
Credited (charged) to the income statement	2,502	(739)	(109)	–	1,654
Foreign currency exchange differences	73	(33)	–	–	40
At 31 December 2016	18,332	260	409	–	19,001

The movement in deferred tax liabilities is as follows:

	Acquisition fair value adjustment USD 000	Other USD 000	Total USD 000
At 1 January 2015	(1,087)	–	(1,087)
Credited to the income statement	8,364	–	8,364
Acquisition of subsidiaries	(30,854)	–	(30,854)
Foreign currency exchange differences	396	–	396
At 31 December 2015	(23,181)	–	(23,181)
Credited to the income statement	6,826	(355)	6,471
Acquisition of subsidiaries	–	–	–
Foreign currency exchange differences	93	–	93
At 31 December 2016	(16,262)	(355)	(16,617)

20. PROVISIONS FOR OTHER LIABILITIES AND CHARGES

	Legal provision USD 000	Property provision USD 000	Termination benefits USD 000	Total USD 000
At 1 January 2016	138	950	103	1,191
Foreign currency exchange differences	(27)	(53)	(23)	(103)
Increase in provisions recognised in profit or loss	494	100	604	1,198
Used during the year	(115)	(589)	(287)	(991)
Unused during the year	(29)	(165)	(33)	(227)
31 December 2016	461	243	364	1,068

Reported as follows:

2016				
Current	461	111	364	936
Non-current	–	132	–	132
31 December 2016	461	243	364	1,068
2015				
Current	138	497	103	738
Non-current	–	453	–	453
31 December 2015	138	950	103	1,191

Legal provision

The amounts represent provisions for certain legal claims brought against the Group. The balance at 31 December 2016 is expected to be utilised in 2017. Management believes that the outcome of these legal claims will not give rise to any significant loss beyond the amounts provided at 31 December 2016.

Property provision

The amounts represent the net present value of the estimated future costs associated with onerous leases and dilapidations. Provision for onerous lease represents the lowest cost to exit the lease contract. Provision for dilapidations represents the estimated costs to be incurred at the date of exit.

The non-current portion has not been discounted as the effect of the time value was not material.

The non-current portion of USD 132 thousand relates to dilapidation costs that will be settled when the related leases are terminated which is not expected to occur within the next twelve months.

Termination benefits

The amounts represent the benefits payable for the period with no future economic benefits to the Group. The carrying amount is expected to be fully utilised in 2017.

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21. RETIREMENT BENEFIT OBLIGATIONS

The Group maintains defined contribution plans for its employees of which many are state-sponsored. The relevant contributions are charged to the statement of profit or loss when incurred. No assets or liabilities are recognised in the Group's statement of financial position in respect of such plans, apart from prepayments and accruals not settled at the reporting date.

In certain countries, the Group has a legal obligation to make one-time payments to employees reaching retirement age or departing. Such gratuities are based on the amount of the employees' final salary and their length of service. With the exception of India, these plans are unfunded. These plans are categorised as defined benefit plans.

The Group also operates funded defined benefit pension plans in Switzerland that represent the principal portion of the Group's defined benefit obligation at 31 December 2016.

Pension plans in Switzerland

Swiss based plans entitle retired employees to receive either a capital or an annual pension payment. Final benefit is based on retirement savings accumulated over the working life period of the employees. The plans are administrated by separate funds that are legally separated from the entity. One plan is funded through institutional investments and one plan is funded by the conclusion of an insurance contract.

During the financial year ending 31 December 2016, two Swiss plans merged.

Swiss based pension plans are governed by the Swiss Federal Law on Occupational Retirement, Survivors' and Disability Pension Plans (LPP), which stipulates that pension plans are to be managed by independent and legally autonomous units. Plan participants are insured against the financial consequences of old age, disability and death. The various insurance benefits are governed in regulations, with the LPP specifying the minimum benefits that are to be provided. The employer and employees pay contributions to the pension plan. In case the plan's statutory funding falls below a certain level, various measures can be taken such as the increase of the current contribution, lowering the interest rate on the retirement account balances or a reduction of the additional prospective benefits. The employer can also make additional restructuring contributions.

The Swiss based pension plans are administrated by a legal foundation under the supervision and management of one of the largest insurance company for pension plans based in Switzerland. The Board of Trustee is composed of equal numbers of employee and employer representatives. Its responsibilities are to set-out the strategy of the plans, approve the budget for the administrative expenses etc. Each individual plan is then governed by a sub-committee that is equally composed of representatives of employer and plan participant. The primary objective of this committee is to implement the investment strategy set out by the Board of Trustee. It mainly consists of determining the asset allocation, the investment structure and approving the delegation to an asset manager. The committee is also responsible for the appropriation of the prospective result within the framework set out by the LPP.

As all the plans within the Group are not exposed to materially different risks and as a significant portion of the Group's obligation is contributed by the Swiss plans, the management has decided not to present additional disaggregation of the disclosures presented below unless explicitly required by IAS 19 'Employee Benefits'.

The amounts recognised in the statement of financial position at 31 December are as follows:

	2016 USD 000	2015 USD 000
Present value of funded obligations	36,360	31,586
Fair value of plan assets	(29,965)	(25,711)
	6,395	5,875
Present value of unfunded obligations	2,781	2,014
Impact of asset ceiling	–	19
Net liability in the statement of financial position	9,176	7,908

The movement in the net defined benefit liability (asset) over the year is as follows:

	Present value of obligation USD 000	Fair value of plan assets USD 000	Total USD 000	Effect of asset ceiling USD 000	Total USD 000
BALANCE AT 1 JANUARY 2016	33,600	(25,711)	7,889	19	7,908
Current service cost	2,076	–	2,076	–	2,076
Settlements	117	–	117	–	117
Other cost	–	116	116	–	116
Interest expense/(income)	449	(280)	169	–	169
	2,642	(164)	2,478	–	2,478
Remeasurements (included in OCI):					
– Return on plan assets, excluding interest income	–	(522)	(522)	–	(522)
– Actuarial loss (gain) from:					
– Demographic assumptions	311	–	311	–	311
– Financial assumptions	157	–	157	–	157
– Experience adjustment	1,998	–	1,998	–	1,998
– Change in asset ceiling	–	–	–	(19)	(19)
	2,466	(522)	1,944	(19)	1,925
– Exchange differences	(1,012)	803	(209)	–	(209)
Contributions:					
– Employers	–	(2,926)	(2,926)	–	(2,926)
– Plan participants	1,037	(1,037)	–	–	–
Payment (from)/to plans:					
– Benefit received	531	(531)	–	–	–
– Settlements	(123)	123	–	–	–
	433	(3,568)	(3,135)	–	(3,135)
BALANCE AT 31 DECEMBER 2016	39,141	(29,965)	9,176	–	9,176
Balance at 1 January 2015	27,498	(21,418)	6,080	276	6,356
Current service cost	2,202	–	2,202	–	2,202
Other cost	–	91	91	–	91
Interest expense/(income)	488	(328)	160	2	162
	2,690	(237)	2,453	2	2,455
Remeasurements (included in OCI):					
– Return on plan assets, excluding interest income	–	177	177	–	177
– Actuarial loss (gain) from:					
– Demographic assumptions	836	–	836	–	836
– Financial assumptions	345	–	345	–	345
– Experience adjustment	279	–	279	–	279
– Change in asset ceiling	–	–	–	(258)	(258)
	1,460	177	1,637	(258)	1,379
– Exchange differences	(587)	288	(299)	(1)	(300)
– Acquisition of business	1,018	(479)	539	–	539
Contributions:					
– Employers	–	(2,521)	(2,521)	–	(2,521)
– Plan participants	1,007	(1,007)	–	–	–
Payment to plans:					
– Benefit received	514	(514)	–	–	–
– Settlements	–	–	–	–	–
	1,952	(4,233)	(2,281)	(1)	(2,282)
BALANCE AT 31 DECEMBER 2015	33,600	(25,711)	7,889	19	7,908

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21. RETIREMENT BENEFIT OBLIGATIONS CONTINUED

Pension plans in Switzerland continued

One Swiss plan has a surplus that is not recognised on the basis that future economic benefits are not available to the entity in the form of a reduction in future contributions or a cash refund.

The defined benefit obligation is calculated using the projected unit credit method. This reflects service rendered by employees to the date of valuation and incorporates actuarial assumptions primarily regarding discount rates used and projected rates of remuneration growth. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of high quality corporate bonds or government bonds in countries where there is not a deep market in corporate bonds.

Plan assets comprise

	2016	2015
Equity securities:		
– Quoted	19%	19%
– Unquoted	0%	0%
Fixed income securities:		
– Quoted	13%	15%
– Unquoted	0%	0%
Real estate	12%	12%
Insurance contracts	53%	50%
Other	3%	4%
	100%	100%

The committee of each plan annually performs an asset-liability assessment. The objective of such assessment is to select an appropriate asset allocation to match cash flows of the assets with the plan obligations while maximising the return and minimising the risk.

Actuarial assumptions

These defined benefit plans expose the Group to actuarial risks, such as currency risk, interest rate risk and market risk (investment risk).

Actuarial assumptions are based on the requirement set out by IAS 19 'Employee Benefits'. They are unbiased and mutually compatible estimates of variables that determine the ultimate cost of providing post-employment benefits. They are based on market expectations at the reporting date for the period over which the obligations are to be settled. They are set on an annual basis by independent actuaries.

Actuarial assumptions consist of demographic assumptions such as employee turnover, disability, mortality and financial assumptions such as interest rates, salary growth and consumer price inflation. The actuarial assumptions vary based upon local economic and social conditions.

The following are the principal actuarial assumptions at the reporting date (expressed as weighted averages):

	2016	2015
Discount rate	1.39%	1.43%
Inflation	0.67%	0.93%
Future salary growth	1.79%	1.88%

Sensitivity analysis

The sensitivity of the defined benefit obligation to changes in the principal assumption is:

	2016		
	Change in assumption	Increase USD 000	Decrease USD 000
Discount rate	50bps	(1,796)	1,964
Future salary growth	0.50%	575	(553)
	2015		
	Change in assumption	Increase USD 000	Decrease USD 000
Discount rate	50bps	(1,379)	1,492
Future salary growth	0.50%	435	(417)

The sensitivity analyses are based on a change in an assumption while holding all other assumptions constant. In practice, this is unlikely to occur since some of the assumptions are correlated. The sensitivity analyses have been calculated using the same methodology as applied when determining the pension liability in the statement of financial position.

Expected contributions to post-employment defined benefit plans for the year ending 31 December 2017 are USD 2,143 thousand.

At 31 December 2016, the weighted-average duration of the defined benefit obligation was ten years (2015: nine years).

22. SHARE CAPITAL

As at 31 December 2016, the issued shares of Temenos Group AG comprised 69,621,124 ordinary shares of a nominal value of CHF 5 each. All issued shares are fully paid.

The changes in the number of issued and outstanding shares in the year ended 31 December 2016 are summarised below:

	Number
Total number of shares issued, as at 31 December 2015	66,617,568
Treasury shares	(638,157)
Total number of shares outstanding, as at 31 December 2015	65,979,411
Creation of new ordinary shares out of conditional capital for share-based payment transactions	3,003,556
Issuance of treasury shares for share-based payment transactions	443,250
Acquisition of treasury shares (share buy-back)	(938,946)
Total number of shares outstanding, as at 31 December 2016	68,487,271

As at 31 December 2016, the number of treasury shares held by the Group amounted to 1,133,853 (2015: 638,157).

Temenos Group AG also has conditional and authorised capital, comprising:

Authorised shares available until 6 May 2017	13,900,000
Conditional shares that may be issued on the exercise of share-based payment transactions	4,174,226
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

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23. SHARE PREMIUM AND CAPITAL RESERVES

	Share premium USD 000	Employee share options reserve USD 000	Discount on shares issued to employees USD 000	Negative premium arising on creation of Temenos Group AG USD 000	Total USD 000
Balance at 1 January 2015	77,961	122,903	(191,595)	(68,456)	(59,187)
Cost of share options (note 25)	–	26,379	–	–	26,379
Exercise of share-based payment schemes	656	–	(13,964)	–	(13,308)
Loss on issuance of treasury shares related to the share capital reduction	(102,365)	–	–	–	(102,365)
Costs associated with equity transactions	(35)	–	–	–	(35)
Balance at 31 December 2015	(23,783)	149,282	(205,559)	(68,456)	(148,516)
Cost of share options (note 25)	–	24,813	–	–	24,813
Exercise of share-based payment transactions	139,949	–	(170,253)	–	(30,304)
Costs associated with equity transactions	(242)	–	–	–	(242)
Balance at 31 December 2016	115,924	174,095	(375,812)	(68,456)	(154,249)

Share premium

The share premium primarily includes the following transactions:

- Premium on issuance of new shares at a price above the par value;
- The equity component determined at the issuance of the convertible bond in 2006 and the premium resulting from the early redemption occurred in 2010;
- Expenses associated with equity transactions; and
- Gains or losses on the sale, issuance or cancellation of treasury shares.

Share options reserve

As detailed in note 25, the Group has issued instruments to employees. The fair value of these instruments is charged to the statement of profit or loss over the period that the related service is received, with a corresponding credit made to the share options reserve.

Discount on shares issued to employees

As detailed in note 25, the Group has issued instruments to employees. When the instruments are exercised, the Group fulfils its obligations by issuing newly created shares out of conditional capital or by reissuing treasury shares purchased by the Group. To the extent that the consideration received by the Group in respect of these shares issued or reissued are less than their fair value at the time of exercise, this amount is allocated to discount on shares issued to employees.

Negative premium arising on creation of Temenos Group AG

Temenos Group AG was incorporated on 7 June 2001. The issued and outstanding shares of TEMENOS Holdings Limited (previously known as TEMENOS Holdings NV) were exchanged shortly before the initial public offering for Temenos Group AG shares, thus rendering TEMENOS Holdings Limited a wholly owned subsidiary of Temenos Group AG. The number of shares acquired was 40,104,336 which prior to the exchange had a nominal value of USD 0.001 per share, totalling USD 39 thousand. The new shares in Temenos Group AG were issued at nominal value of CHF 5 which resulted in a negative premium of USD 113,538 thousand. Expenses related to the initial public offering of Temenos Group AG, and share premium items arising prior to the creation of Temenos Group AG, were recorded against this account.

A deficit of USD 62,277 thousand was recorded to share premium on the cancellation of shares repurchased in 2000. This was transferred into 'negative premium arising on creation of Temenos Group AG' during the period ended 31 December 2001.

24. FAIR VALUE AND OTHER RESERVES

	Cumulative translation adjustment USD 000	Available- for-sale investment USD 000	Fair value gains (losses) on qualifying cash flow hedges USD 000	Total USD 000
Balance at 1 January 2015	(82,633)	109	1,885	(80,639)
Currency translation differences	(26,287)	–	–	(26,287)
Transfer to profit or loss within 'Personnel costs'	–	–	(582)	(582)
Transfer to profit or loss within 'Software licensing revenue'	–	–	(2,061)	(2,061)
Transfer to deferred revenues	–	–	(650)	(650)
Transfer to finance costs	290	–	(7,442)	(7,152)
Net fair value gain	–	(46)	7,333	7,287
Balance at 31 December 2015	(108,630)	63	(1,517)	(110,084)
Currency translation differences	(17,173)	–	–	(17,173)
Transfer to profit or loss within 'Personnel costs'	–	–	1,521	1,521
Transfer to profit or loss within 'Software licensing revenue'	–	–	(1,089)	(1,089)
Transfer to deferred revenues	–	–	(1,020)	(1,020)
Transfer to finance costs	–	–	1,106	1,106
Net fair value loss	–	(45)	(4,384)	(4,429)
Balance at 31 December 2016	(125,803)	18	(5,383)	(131,168)

25. SHARE BASED PAYMENTS

Share options

Share options are granted to executive board members and selected employees. Share options are conditional on the employee completing a specified period of service (the vesting period). The vesting period for the unvested options is a minimum of three years and the options have a contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the options in cash.

A summary of the movements in the number of share options outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Outstanding at the beginning of the year	30,215	\$25.08	156,183	\$14.24
Forfeited during the year	–	\$n/a	–	\$n/a
Exercised during the year	(27,215)	\$23.83	(125,968)	\$11.11
Outstanding at the end of the year	3,000	\$31.94	30,215	\$25.08

All of the outstanding options (2015: 30,215) were exercisable at the balance sheet date with a weighted average exercise price of USD 31.94 (2015: USD 25.08). The options exercised during the year had a weighted average share price at the time of exercise of USD 54.57 (2015: USD 37.68).

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25. SHARE BASED PAYMENTS CONTINUED

Share appreciation rights

Share appreciation rights are granted to executive board members and selected employees. Share appreciation rights are conditional on the employee completing a specified period of service and are only exercisable if the Group achieves specified cumulative earnings per share targets. In case of over achievement of earnings per share targets, certain share appreciation right grants may be increased by a maximum of 40% of the original grant. The vesting period for the unvested share appreciation rights is a minimum of three years and the share appreciation rights have a maximum contractual term of ten years. The Group has no legal or constructive obligation to repurchase or settle the share appreciation rights in cash.

A summary of the movements in the number of share appreciation rights outstanding and their related weighted average exercise prices are as follows:

	2016		2015	
	Number of rights	Weighted average exercise price	Number of rights	Weighted average exercise price
Outstanding at the beginning of the year	11,248,918	\$23.20	11,100,412	\$22.51
Granted during the year	2,217,660	\$45.56	838,672	\$33.22
Forfeited during the year	(125,332)	\$31.59	(394,530)	\$21.51
Exercised during the year	(4,860,395)	\$16.15	(295,636)	\$16.37
Outstanding at the end of the year	8,480,851	\$32.84	11,248,918	\$23.20

2,224,091 of the outstanding share appreciation rights (2015: 446,525) were exercisable at the balance sheet date with a weighted average exercise price of USD 16.19 (2015: USD 16.20). Of this, 1,801,203 are restricted for sale until 15 February 2017. The share appreciation rights exercised during the year had a weighted average share price at the time of exercise of USD 48.78 (2015: USD 41.60).

As described above, in case of over achievement of earnings per share targets, certain share appreciation right grants may be increased by a maximum of 40% of the original grant. There are no further share appreciation rights to be issued as a result of the application of the over achievement provisions from the 2014 grant (2015: 95,672). As at 31 December 2016 there are 4,579,260 remaining share appreciation rights (2015: 3,903,100) that may be subject to the over achievement provisions with a weighted average exercise price of USD 40.38. (2015: USD 35.12)

Share options and share appreciation rights outstanding at the end of the year have exercise prices and weighted average remaining contractual lives as follows:

2016		Remaining contractual life (years)
Exercise price (USD)	Number	
7.30-10.91	54,430	2.11
13.70-14.75	1,480,795	5.80
15.21-18.65	190,434	3.09
20.83-26.26	498,432	5.57
31.94-36.85	4,021,100	7.69
43.69-49.12	2,013,000	9.13
53.38-57.07	201,660	9.63
63.10-68.74	24,000	9.89
	8,483,851	

2015		Remaining contractual life (years)
Exercise price (USD)	Number	
7.76-9.78	38,318	2.70
11.37	78,060	3.17
14.11-15.64	5,518,832	6.76
16.21-19.11	183,956	6.41
21.29-23.44	1,271,630	6.92
24.18-26.26	57,523	4.80
32.40-33.71	140,214	8.98
34.04-36.85	3,962,600	8.69
46.79-47.19	28,000	9.90
	11,279,133	

Fair value of stock options and share appreciation rights

The fair value of options and share appreciation rights granted during the period is determined using an 'Enhanced American Pricing Model'.

The weighted average fair value of options and share appreciation rights granted during the period was USD 10.28 (2015: USD 9.53). The significant inputs into the model were: weighted average share price at grant date of USD 46.72 (2015: USD 34.10), weighted average exercise price of USD 45.56 (2015: USD 34.80), standard deviation of expected share price returns of 30.82% (2015: 37.9%), weighted average option lives of 3.49 years (2015: 4.55 years), weighted average annual risk-free interest rate of 0.98% (2015: 1.76%) and weighted average expected dividend yield of 1.17% (2015: 1.47%). The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the relevant historical period.

Performance, Loyalty and Profit share plan shares

	2016 Number of shares	2015 Number of shares
Outstanding at the beginning of the year	168,798	247,202
Granted during the year	–	24,092
Forfeited during the year	(1,178)	(11,474)
Exercised during the year	(167,620)	(91,022)
Outstanding at the end of the year	–	168,798

Loyalty shares

Loyalty shares are conditional on the employee completing a specified period of service. The vesting period is three years and there is no maximum contractual term. The Group has no legal or constructive obligation to repurchase or settle the Loyalty shares in cash. No Loyalty shares were granted in 2016, the weighted average fair value of Loyalty shares granted in 2015 determined by the share price on the date of grant was USD 37.45. None of the Loyalty shares were exercisable at 31 December 2015. There are no outstanding Loyalty shares as at 31 December 2016.

Performance shares

A grant of 117 Performance shares was made to certain employees in 2015. Performance shares are conditional on the employee completing a specified period of service and are only exercisable if the Group achieves specified cumulative earnings per share targets. In case of over achievement of earnings per share targets, certain Performance share grants may be increased by a maximum of 40% of the original grant. The vesting period is a minimum of three years and there is no maximum contractual term. The Group has no legal or constructive obligation to repurchase or settle the Performance shares in cash. The weighted average fair value of Performance shares granted during 2015 determined by the share price on the date of grant was USD 37.45. None of the Performance shares were exercisable at 31 December 2015. There are no outstanding Performance shares as at 31 December 2016.

Profit share plan

For the years ended 31 December 2013 and 31 December 2014 a Profit share plan was in place for the Group's employees. Under the terms of the plan, part of the amount due to certain employees is not paid in cash but will instead be satisfied by the award of restricted shares. These restricted shares vest unconditionally after a further one or two years period of service. The Group has no legal or constructive obligation to repurchase or settle the shares in cash. In 2015, 22,747 share awards were granted in respect of the 2014 Profit share plan. The weighted average fair value of Profit share plan shares granted during the period determined by the share price on the date of grant was USD 37.45. None of the Profit share plan shares were exercisable at 31 December 2015. There are no outstanding profit shares as at 31 December 2016.

The total expense recorded in the income statement in respect of employee share options, share appreciation rights, performance and Loyalty shares and the Profit share plan is USD 24,813 thousand (2015: USD 26,379 thousand).

26. DIVIDEND PER SHARE

Dividend is proposed by the Board of Directors and must be approved by the Annual General Meeting of the Shareholders. The dividend proposed for the 2016 financial year is amounting to CHF 37.7 million (CHF 0.55 per share) and it is not yet recorded as a liability. This amount may vary depending on the number of shares outstanding as of the ex-dividend date.

The dividend paid in 2016 related to 2015 financial year amounted to CHF 31.2 million (CHF 0.45 per share).

Notes to the consolidated financial statements

31 December 2016

27. COMMITMENTS AND CONTINGENCIES

The Group has obligations under operating leases relating to office premises and leased equipment. The leases have varying terms, escalation clauses and renewal rights.

Payments recognised as an expense are as follows:

	2016 USD 000	2015 USD 000
Lease expense	16,292	15,822
Sub-lease income	(1,753)	(1,790)
	14,539	14,032

The future aggregate minimum lease and sub-lease payments under non-cancellable operating leases are as follows:

	2016 USD 000	2015 USD 000
No later than 1 year	13,574	13,080
Later than 1 year and no later than 5 years	28,759	37,360
Later than 5 years	6,196	3,230
Total	48,529	53,670

The Group's principal contingent liabilities arise from property rental guarantees, performance guarantees and bid bonds issued in the normal course of business. The Group is also involved in various lawsuits, claims, investigations and proceedings incidental to the normal conduct of its operations. These matters mainly include the risks associated with personnel litigation, tax claims and contractual disputes.

As at 31 December 2016, the guarantees in issue were USD 9.8 million (2015: USD 13.2 million).

Although an estimate of the future financial effects cannot be reliably and precisely estimated at the reporting date, it is not anticipated that any material liabilities will arise from these contingent liabilities other than those provided for in note 21.

28. RELATED PARTY TRANSACTIONS AND BALANCES

Remuneration of Executive and Non-Executive Directors is described in note 9. Equity compensation for Executive and Non-Executive Directors granted in the form of options, SARs and shares is described in note 25.

There were no other significant transactions with related parties during the year ended 31 December 2016.

29. EVENTS AFTER THE REPORTING PERIOD

There are no reportable events that occurred after the reporting period.

Report of the statutory auditors on the unconsolidated financial statements

Report of the statutory auditor to the General Meeting of Temenos Group AG, Geneva

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Temenos Group AG, which comprise the balance sheet as at 31 December 2016, income statement and notes for the year then ended, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements as at 31 December 2016 comply with Swiss law and the company's articles of incorporation.

Basis for opinion

We conducted our audit in accordance with Swiss law and Swiss Auditing Standards. Our responsibilities under those provisions and standards are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report.

We are independent of the entity in accordance with the provisions of Swiss law and the requirements of the Swiss audit profession and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach

Audit scope

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we considered where subjective judgements were made; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. Our audit opinion aims to provide reasonable assurance that the financial statements are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Overall materiality	CHF 6,500,000
How we determined it	0.5% of total assets, rounded
Rationale for the materiality benchmark applied	We chose total asset as a benchmark to determine the overall materiality as we consider total assets to be the most appropriate measure for a holding company and is a generally accepted benchmark.

We agreed with the Audit Committee that we would report to them misstatements above CHF 325,000 identified during our audit as well as any misstatements below that amount which, in our view, warranted reporting for qualitative reasons.

Report on key audit matters based on the circular 1/2015 of the Federal Audit Oversight Authority

We have determined that there are no key audit matters to communicate in our report.

Responsibilities of the Board of Directors for the financial statements

The Board of Directors is responsible for the preparation of the financial statements in accordance with the provisions of Swiss law and the company's articles of incorporation, and for such internal control as the Board of Directors determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Board of Directors is responsible for assessing the entity's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Board of Directors either intends to liquidate the entity or to cease operations, or has no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Swiss law and Swiss Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Report of the statutory auditors on the unconsolidated financial statements

As part of an audit in accordance with Swiss law and Swiss Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made.
- Conclude on the appropriateness of the Board of Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the entity to cease to continue as a going concern.

We communicate with the Board of Directors or its relevant committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Board of Directors or its relevant committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Board of Directors or its relevant committee, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with article 728a paragraph 1 item 3 CO and Swiss Auditing Standard 890, we confirm that an internal control system exists which has been designed for the preparation of financial statements according to the instructions of the Board of Directors.

We further confirm that the proposed appropriation of available earnings complies with Swiss law and the company's articles of incorporation. We recommend that the financial statements submitted to you be approved.

PricewaterhouseCoopers SA



Guillaume Nayet
Audit expert
Auditor in charge



Yazan Jamjum

Geneva, 22 February 2017

Unconsolidated balance sheet

As at 31 December

	2016 CHF 000	2015 CHF 000
ASSETS		
CURRENT ASSETS		
Liquid funds	6,893	1,783
Receivables from other group entities	172,844	47,427
Prepayments	406	223
Total current assets	180,143	49,433
NON-CURRENT ASSETS		
Long term receivables from other group entities	270,676	270,676
Investments in subsidiaries (note 2)	858,304	858,304
Total non-current assets	1,128,980	1,128,980
Total assets	1,309,123	1,178,413
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES		
Trade payables	432	742
Payables to other group entities	4,229	303
Short term interest-bearing liabilities (note 7)	104,750	4,934
Other liabilities	738	369
Tax payable	3,191	1,629
Deferred unrealised exchange gain	1,579	1,008
Total current liabilities	114,919	8,985
NON-CURRENT LIABILITIES		
Long term interest-bearing liabilities (note 7)	274,362	373,705
Long term interest-bearing payables to other group entities	154,100	154,100
Total non-current liabilities	428,462	527,805
SHAREHOLDERS' EQUITY		
Share capital (note 3)	348,106	333,088
Ordinary legal reserve (note 4)	11,353	11,249
Share premium (note 4)	132,349	–
General reserve from capital contributions (note 4)	189,622	220,795
Reserve for treasury shares (note 4)	65,330	16,864
Retained earnings (note 4)	18,982	59,627
Treasury shares (note 5)	–	–
Total shareholders' equity	765,742	641,623
Total shareholders' equity and liabilities	1,309,123	1,178,413

Unconsolidated income statement

For the year ended 31 December

	2016 CHF 000	2015 CHF 000
Income from investments in subsidiaries (note 8)	15,000	10,000
Financial (expense)/income	(3,397)	(3,380)
Expenses associated with the maintenance of the Register of Shareholders and other expenses	(3,017)	(3,853)
PROFIT BEFORE TAXATION	8,586	2,767
Taxation	(660)	(705)
PROFIT FOR THE YEAR	7,926	2,062

Notes to the unconsolidated financial statements

31 December 2016

1. LEGAL STATUS AND PRINCIPAL ACTIVITIES

Temenos Group AG ('the Company') was incorporated in Glarus, Switzerland on 7 June 2001 as a stock corporation (Aktiengesellschaft). Since 26 June 2001 the shares of Temenos Group AG have been publicly traded on the SIX Swiss Exchange.

Temenos Group AG is the ultimate holding company of the Group and is not otherwise engaged in trading, financing or investing activities, except as the holder of all the issued and outstanding shares of the subsidiaries described in note 2.

The financial statements of Temenos Group AG comply with the requirements of the Swiss Accounting Legislation (Title 32 of the Swiss Code of Obligations (SCO)).

Valuation principles

Assets are valued at no more than their acquisition cost.

Investments in subsidiaries are valued individually except when they are combined due to their similarity in terms of activities and geographical location.

Treasury shares are valued at historical acquisition value without subsequent valuation adjustment. Gains and losses from disposals of treasury shares are recorded directly in capital reserves.

Liabilities are valued at nominal value.

All assets and liabilities denominated in foreign currencies are translated according to the exchange rates applicable on the balance sheet date. Income and expenses denominated in foreign currencies and all foreign exchange transactions are translated at the exchange rates prevailing on their respective transaction dates. Resulting foreign exchange differences are recognised in the income statement, except unrealised gains that are deferred on balance sheet as per the Swiss Code of Obligations.

2. LIST OF DIRECT SUBSIDIARIES

The following are the direct subsidiaries of the Company, which are wholly-owned unless otherwise indicated (percentage of voting rights).

	Voting rights
Temenos Holdings Limited, British Virgin Islands (holding company) 40,105 shares of a nominal value of USD 1 each.	100%
Temenos Headquarters SA, Switzerland (holding and licensing company) 1,000 shares of a nominal value of CHF 100 each.	100%
Temenos Investments BV, Netherlands (holding company) 180 shares of a nominal value of EUR 100 each.	100%
Temenos Egypt LLC, Egypt (operating company) 2 shares of a nominal value of EGP 100 each.	50%
Temenos Luxembourg SA, Luxembourg (operating company) 47,250 shares of a nominal value of EUR 25 each.	100%
Temenos Finance Luxembourg SÀRL, Luxembourg (financing company) 37,500 shares of a nominal value of EUR 1 each.	100%
Temenos UK Limited, United Kingdom (holding and operating company) 10,994,218 shares of a nominal value of GBP 20 each.	100%
Temenos Holdings France SAS, France (holding company) 28,010,000 shares of a nominal value of EUR 10 each.	100%
Temenos USA Inc., USA (operating company) 100 shares of a nominal value of USD 0.01 each.	100%
Temenos Panama SA, Panama (dormant company) 100 shares of a nominal value of USD 100 each.	100%

Notes to the unconsolidated financial statements

31 December 2016

3. SHARE CAPITAL

As at 31 December 2016, the share capital amounts to CHF 348,105,620 and is composed of 69,621,124 shares with a nominal value of CHF 5.

The shares issued by the Company during the year are set out below:

	2016		2015	
	Quantity	Value CHF	Quantity	Value CHF
Total number of Temenos Group AG shares issued, as at 1 January	66,617,568	333,087,840	69,888,362	349,441,810
Shares issued and allotted under Employee Share Option Schemes	3,003,556	15,017,780	–	–
Share capital reduction approved at the 2015 Annual General Meeting	–	–	(3,270,794)	(16,353,970)
Total number of Temenos Group AG shares issued, as at 31 December	69,621,124	348,105,620	66,617,568	333,087,840

Temenos Group AG also has conditional and authorised capital, comprising:

	2016
Authorised shares that may be issued in the context of acquisition or for the purpose of expanding the scope of shareholders in connection with the quotation of shares on national and foreign stock exchange (available to the Board until 6 May 2017)	13,900,000
Conditional shares that may be issued on the exercise of employee share options	4,174,226
Conditional shares that may be issued in conjunction with financial instruments	6,607,904

The holdings of more than 3% of the voting rights of all registered shares, as at December 31, 2016 are as follows:

Martin and Rosemarie Ebner	15.77%
Massachusetts Mutual Life Insurance Company	8.99%
George Loening	5.44%
Aviva plc	4.46%

4. SHARE PREMIUM AND CAPITAL RESERVES

	Share capital CHF 000	Ordinary legal reserve CHF 000	Share premium CHF 000	General reserve from capital contributions CHF 000	Reserve for treasury shares from capital contributions CHF 000	Reserve for treasury shares CHF 000	Retained earnings CHF 000	Treasury shares CHF 000	Total CHF 000
Balance at 1 January 2015	349,442	11,207	–	242,786	4,326	24,468	145,120	(112,270)	665,079
Appropriation of available earnings:									
– to General legal reserve	–	42	–	–	–	–	(42)	–	–
Repayment of 'General Reserve from Capital Contributions' as per 2015 Annual General Meeting (AGM) resolution	–	–	–	(26,317)	–	–	–	–	(26,317)
Share capital reduction as per 2015 Annual General Meeting (AGM) resolution:									
– dissolution of treasury shares	(16,354)	–	–	–	–	–	(95,117)	111,471	–
Treasury shares used for Temenos Employee Share Option Schemes	–	–	–	–	–	–	–	285	285
Transaction costs on treasury shares	–	–	–	–	–	–	–	514	514
Reserve for treasury shares movement of the year	–	–	–	4,326	(4,326)	(7,604)	7,604	–	–
Profit of the year	–	–	–	–	–	–	2,062	–	2,062
Balance at 31 December 2015	333,088	11,249	–	220,795	–	16,864	59,627	–	641,623
Appropriation of available earnings:									
– to General legal reserve	–	103	–	–	–	–	(103)	–	–
Repayment of 'General Reserve from Capital Contributions' as per 2016 Annual General Meeting (AGM) resolution	–	–	–	(31,173)	–	–	–	–	(31,173)
Share capital and share premium on creation of conditional capital	15,018	–	132,349	–	–	–	–	–	147,367
Reserve for treasury shares movement of the year	–	–	–	–	–	48,466	(48,466)	–	–
Profit of the year	–	–	–	–	–	–	7,926	–	7,926
Balance at 31 December 2016	348,106	11,353	132,349	189,622	–	65,330	18,982	–	765,742

The reserve for treasury shares increased to CHF 65,330,129 in line with the value of treasury shares held by Temenos Group AG through a subsidiary as at 31 December 2016 (2015: CHF 16,864,071).

Notes to the consolidated financial statements

31 December 2016

5. TREASURY SHARES, INCLUDING SHARES HELD BY SUBSIDIARIES (CARRYING VALUE)

Temenos Group AG holds directly or through a subsidiary a total of 1,133,853 shares at 31 December 2016 (2015: 638,157) that entirely may be used in conjunction with M&A, for resale or for allotting to members of the Temenos Employee Share Option Schemes.

	2016		2015	
	Quantity	Value CHF 000	Quantity	Value CHF 000
TEMENOS GROUP AG				
1 January	–	–	3,278,809	112,270
Acquisitions	–	–	–	–
Disposals	–	–	(3,278,809)	(112,270)
31 December	–	–	–	–
OTHER CONSOLIDATED COMPANIES				
1 January	638,157	16,864	991,550	28,794
Acquisitions	938,946	61,756	–	–
Disposals	(443,250)	(13,290)	(353,393)	(11,930)
31 December	1,133,853	65,330	638,157	16,864
Total balance as of 31 December	1,133,853	65,330	638,157	16,864

6. CONTINGENT LIABILITIES

Together with several of its subsidiaries, Temenos Group AG is a guarantor under the Group facility agreement concluded by Temenos Finance Luxembourg Sàrl as borrower, in February 2016 for a maximum total amount up to USD 500 million.

7. BONDS ISSUED BY TEMENOS GROUP AG

In April 2013, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.75% paid annually on 25 July. The bond will mature on 25 July 2017 at a redemption price of 100% of the principal amount.

In March 2014, the Group issued a senior unsecured bond with a nominal value of CHF 100 million and a coupon rate of 2.00% paid annually on 31 January. The bond will mature on 31 January 2019 at a redemption price of 100% of the principal amount.

In June 2015, the Group issued a senior unsecured bond with a nominal value of CHF 175 million and a coupon rate of 2.00% paid annually on 17 June. The bond will mature on 17 June 2022 at a redemption price of 100% of the principal amount.

	2016 CHF 000	2015 CHF 000
Bond CHF 100,000,000 – 2.75% – 25 April 2013 – 25 July 2017	–	99,342
Bond CHF 100,000,000 – 2.00% – 31 March 2014 – 31 January 2019	99,500	99,500
Bond CHF 175,000,000 – 2.00% – 17 June 2015 – 17 June 2022	174,862	174,862
Long term interest-bearing liabilities	274,362	373,705
Bond CHF 100,000,000 – 2.75% – 25 April 2013 – 25 July 2017	101,012	–
Accrued bond interests at year-end	3,738	4,934
Short term interest-bearing liabilities	104,750	4,934
Total bonds issued by Temenos Group AG	379,112	378,639

8. INCOME FROM INVESTMENTS IN SUBSIDIARIES

Temenos Group AG recognised an income from investments in subsidiaries of CHF 15 million following the decision of one of its direct subsidiaries made in December 2016 to distribute a dividend in relation to the 2016 fiscal year.

9. PROPOSAL FOR THE APPROPRIATION OF AVAILABLE EARNINGS

Based on the approved and audited financial statements for the financial year 2016, the Board of Directors proposes to the General Meeting to distribute an ordinary dividend in cash amounting to CHF 0.55 per share, for a total amount of CHF 37,668,000 (this amount may vary depending on the number of treasury shares and of shares created out of the conditional capital as of the ex-dividend date).

This distribution shall be declared out of the disposable amount of the general reserve from capital contributions as at 31 December 2016 taking the legal form of an ordinary dividend in cash. From a tax standpoint, this ordinary dividend constitutes a repayment of part of the general reserve from capital contributions.

As a result, the general reserve from capital contributions at 31 December 2016, amounting to CHF 189,622,073, will be reduced as follows:

	2016 CHF 000	2015 CHF 000
RESERVES FROM CAPITAL CONTRIBUTIONS		
Balance before distribution	189,622	220,795
Repayment of General reserve from capital contributions*	(37,668)	(31,173)
Balance after distribution	151,954	189,622
RETAINED EARNINGS		
Retained earnings brought forward	59,523	145,077
Transfer to Reserve for Treasury shares	(48,466)	7,604
Share capital reduction – dissolution of treasury shares	–	(95,117)
Net income	7,926	2,062
Retained earnings available for appropriation	18,982	59,626
Appropriation to legal reserves	(396)	(103)
Retained earnings to be carried forward	18,586	59,523

* 2015 comparative has been corrected from CHF 31,500,000 to CHF 31,172,786 to reflect the actual payment made in 2016. The dividend paid was CHF 0.45 per share as approved by the General Meeting. The difference is explained by the amount of treasury shares as of the ex-dividend date.

Provided that the proposal of the Board of Directors is approved, the shares will be traded ex-dividend as of 15 May 2017 (Ex date). The dividend record date will be set on 16 May 2017 (Record date). The dividend will be payable as of 17 May 2017 (Payment date).

Temenos treasury shares are not entitled to dividends.

10. NUMBER OF FULL-TIME EQUIVALENT

Temenos Group AG does not have any employees as of 31 December 2016 and 2015 and consequently no pension liabilities.

11. ADDITIONAL INFORMATION, CASH-FLOW STATEMENT AND MANAGEMENT REPORT

According to article 961d paragraph 1 of the Swiss Code of Obligations, additional information, the cash-flow statement and the management report are not presented, as Temenos Group AG prepares the consolidated financial statements in accordance with a recognised financial reporting standard.

12. SIGNIFICANT EVENTS AFTER THE BALANCE SHEET DATE

These financial statements were approved for issue by the Board of Directors on 14 February 2017 and will be submitted to the Annual General Meeting of shareholders for approval on 10 May 2017.

There were no other significant events after the balance sheet date.

Notes to the unconsolidated financial statements

31 December 2016

13. DISCLOSURE OF COMPENSATION AND PARTICIPATIONS AS PER ARTICLE 663C OF THE SWISS CODE OF OBLIGATIONS (SCO)

Shareholdings and equity incentives

Non-Executive Directors

Name	Position	31 December 2016 Shares	31 December 2015 Shares
S. Giacoletto-Roggio	Vice-Chairman	11,000	15,000
I. Cookson	Member	18,250	18,250
T. de Tersant	Member	3,000	3,000
E. Hansen	Member	11,000	11,000
G. Koukis	Member	–	–
A. Yip	Member	–	–

Executive Chairman and Executive Committee members

As of 31 December 2016

Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	Number of vested SARs	SARs Number of unvested SARs
A. Andreades	Executive Chairman	1,057,134	2014	2014 scheme	34.38		360,000
				2015 scheme	35.45		345,000
			2016	2016 scheme	43.69		325,000
					49.12		46,000
D. Arnott	CEO	409,933	2014	2014 scheme	34.38		480,000
				2015 scheme	35.45		460,000
			2016	2016 scheme	43.69		432,000
					49.12		66,000
M. Chuard	CFO/COO	284,140	2014	2014 scheme	34.38		240,000
				2015 scheme	35.45		230,000
			2016	2016 scheme	43.69		258,000
					49.12		35,000
A. Loustau	CTO	500	2012	2013 scheme	14.75	227,504	
			2014	2015 scheme	35.45		45,000
			2016	2016 scheme	43.69		45,000
M. Winterburn	Group Product Director	500	2012	2013 scheme	14.75	227,508	
			2014	2015 scheme	35.45		75,000
			2016	2016 scheme	43.69		65,000

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2014 scheme vested on 14 February 2017.

No options and/or shares were held on 31 December 2016 and 2015 by persons related to the members of the Board of Directors and of the Executive Committee.

As of 31 December 2015

					SARs, Options and Performance Shares			
Name	Position	Shares	Grant year ¹	Plan	Exercise price USD	Number of vested Options/SARs	Number of unvested SARs	Number of unvested Profit Shares
A. Andreades	Executive Chairman	438,725	2012	2013-15 scheme ²	15.21	–	750,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	360,000	–
				2015 scheme	35.45	–	345,000	–
D. Arnott	CEO	4,000	2008	2009 scheme	11.37	6,915	–	–
			2011	2012 scheme ³	16.34	3,384	–	–
			2012	2013-15 scheme ²	15.21	–	1,050,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	480,000	–
M. Chuard	CFO/COO	11,322		2015 scheme	35.45	–	460,000	–
			2012	2013-15 scheme ²	15.21	–	680,000	–
			2013	2013-15 scheme ²	21.29	–	150,000	–
			2014	2014 scheme	34.38	–	240,000	–
A. Loustau	CTO	–		2015 scheme	35.45	–	230,000	–
			2012	2013-15 scheme	15.21	–	450,000	–
			2014	2013 Profit share ²		–	–	441
			2014	2015 scheme	35.45	–	45,000	–
M. Winterburn	Group Product Director	–	2015	2014 Profit share		–	–	1,434
			2012	2013-15 scheme ²	15.21	–	450,000	–
			2014	2013 Profit share ²		–	–	1,705
			2014	2015 scheme	35.45	–	75,000	–
M. Davis	Client Director	1,513	2015	2014 Profit share ²		–	–	1,552
			2009	2010 scheme	23.44	1,214	–	–
			2011	2012 scheme ³	16.34	1,471	–	–
			2012	2013-15 scheme ²	15.21	–	174,999	–
			2013	2013-15 scheme ²	21.29	–	100,000	–
			2014	2013 Profit share ²		–	–	2,046
			2014	2014 scheme	34.38	–	100,000	–
				2015 scheme	35.45	–	75,000	–
			2015	2014 Profit share ²		–	–	1,522

⁽¹⁾ Two grants were issued in 2014: the 2014 grant in February 2014 and the 2015 grant in November 2014.

⁽²⁾ The SARs granted under the 2013-15 scheme vested on 10 February 2016. The 2013 and 2014 Profit shares vested on 1 January 2016.

Financial highlights

(in millions of US dollars except earnings per share)

	2016	2015	2014	2013	2012
Revenues	634.0	542.5	468.7	467.8	450.2
Operating expenses	484.8	445.7	350.5	374.3	401.1
OPERATING PROFIT	149.2	96.8	118.2	93.5	49.1
PROFIT BEFORE TAXATION	132.1	78.1	106.3	82.4	37.7
NET PROFIT AFTER TAX	115.8	66.3	91.6	68.2	25.1
EBITDA	225.3	171.2	167.8	142.5	96.6
DILUTED EARNINGS PER SHARE (IN USD)	1.61	0.95	1.32	0.98	0.36
CASH GENERATED FROM OPERATIONS	257.6	227.2	190.3	169.3	97.7
Current assets	430.2	440.8	427.4	372.4	380.8
Non-current assets	741.3	788.2	498.5	545.9	521.9
TOTAL ASSETS	1,171.5	1,229.0	925.9	918.3	902.7
Current liabilities (excluding deferred revenues)	246.0	143.7	110.4	125.5	142.0
Deferred revenues	216.3	213.2	179.9	171.8	156.7
Total current liabilities	462.4	356.9	290.3	297.3	298.7
Non-current liabilities	310.0	496.8	293.6	212.8	216.2
Total liabilities	772.4	853.7	583.9	510.1	514.9
Total equity	399.1	375.3	342.0	408.2	387.8
TOTAL EQUITY AND LIABILITIES	1,171.5	1,229.0	925.9	918.3	902.7

Information for investors

CAPITAL STRUCTURE

The registered share capital is divided into 69,621,124 shares with a par value of CHF 5.

APPROPRIATION OF PROFITS

Temenos expects to pay a dividend of CHF 0.55 in 2017.

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ANNUAL GENERAL MEETING

10 May 2017

STATISTICS ON TEMENOS SHARES

Registered shares of CHF 5 nominal	2016
Sector	Technology/Software
Market Segment	SIX Main Market
Index Member	SMIM/SPI
Swiss Security No	124 5391
ISIN No	CH0012453913
Symbol	TEMN
Number of issued shares at 31.12.2016	69,621,124
Number of registered shares at 31.12.2016	66,617,568
Market price high/low (CHF)	72.60/40.65
Market Price 31.12.2015 (CHF)	51.95
Market Price 31.12.2016 (CHF)	70.90
Market Capitalisation high/low (CHF m)*	4,836/2,708
Share capital nominal value at 31.12.2016 (CHFm)*	333

* Based on the number of registered shares at the time.

Key figures per share	2016
Basic earnings per share (USD)	1.69
Diluted earnings per share (USD)	1.61
Non-IFRS earnings per share (USD)	2.07
Consolidated shareholders' equity (USDm)	399.1
Consolidated shareholders' equity per share (USD)	5.99

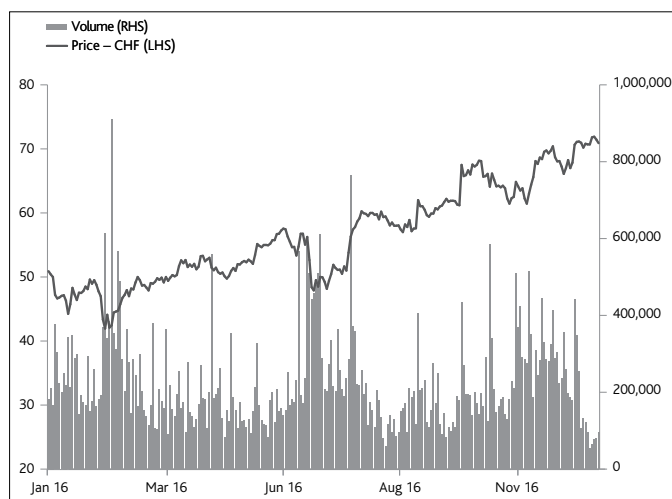
Major shareholders of Temenos Group AG* (16.03.2017)

Name	Number of voting rights	Percentage of the share capital
Martin and Rosemarie Ebner	9,983,971	14.34%
Massachusetts Mutual Life Insurance Company	6,009,687	8.63%
George Loening	3,369,264	4.84%
Aviva plc	2,585,498	3.71%

* On the basis of Temenos Group AG registered capital of 69,621,124 shares and based on the disclosure notifications received.

Please refer to page 94 for the status as of 31.12.2016

DEVELOPMENT OF THE TEMENOS SHARE PRICE



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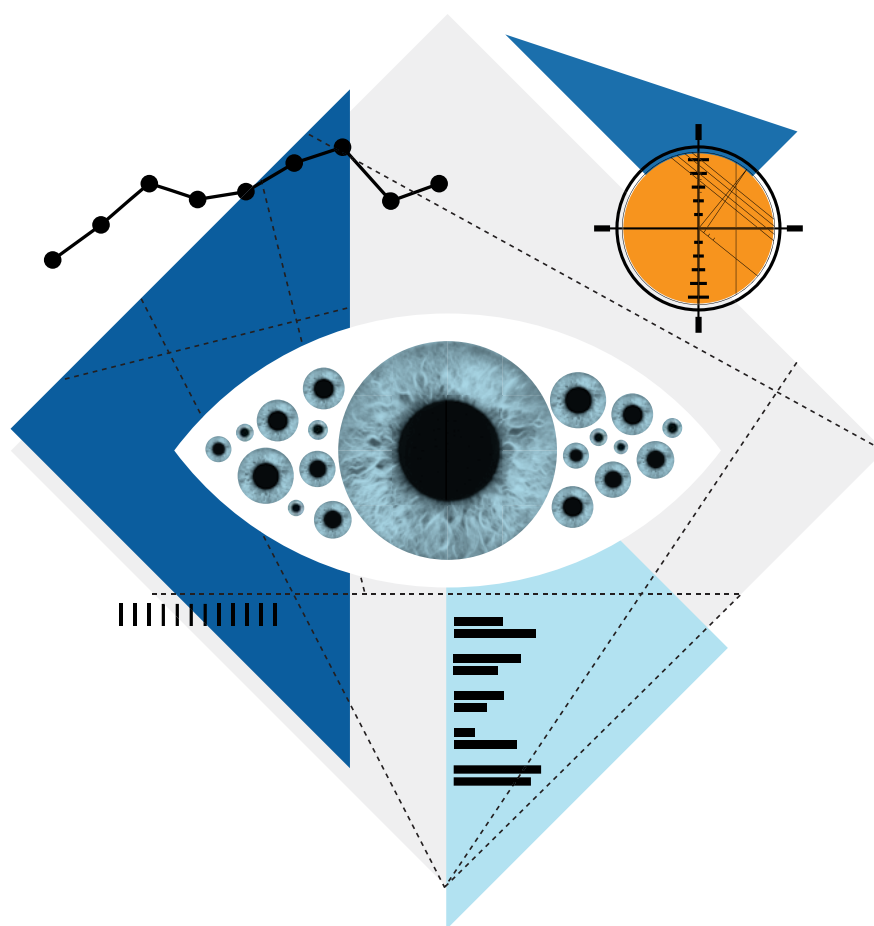
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