

TRANSFORMING

THE FUTURE OF FINANCIAL SERVICES

POWERED BY PEOPLE. DRIVEN BY VALUES



ANNUAL
REPORT

2018-19

DRIVING INNOVATION IN FINANCIAL SERVICES GLOBALLY



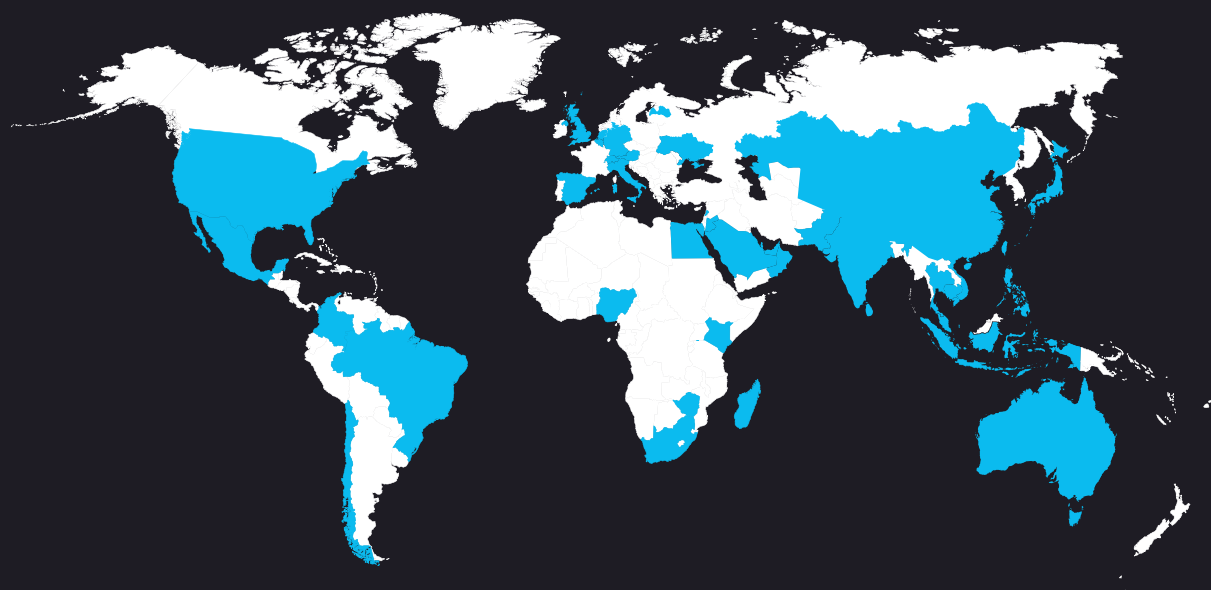
3 DECADES
OF BANKING
DOMAIN
EXPERTISE



150
BANKS & FINANCIAL
INSTITUTION CUSTOMERS
ACROSS 50 COUNTRIES



26 M
TRANSACTIONS
PROCESSED
PER DAY



WORLDWIDE PRESENCE, GLOBAL
KNOWLEDGE, LOCAL FOCUS



\$200 B
VALUE OF
LOANS
MANAGED



1
NEW LOAN
BOOKED
EVERY SECOND



3 OF TOP 20
GLOBAL BANKS
ARE OUR
CUSTOMERS

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS.

Certain statements in this Annual Report are based on assumptions and expectations of future events and may be considered as forward-looking statements. Such statements must be reviewed in conjunction with the risks that the Company faces. Although the Management has considered future risks as part of the discussions, future uncertainties are not limited to the Management perceptions

CHAIRMAN'S MESSAGE



S.M. ACHARYA
CHAIRMAN

DEAR
SHAREHOLDERS,

It is with pride I address you this year. I do so with a tremendous sense of gratitude to our company's employees across the world. I am delighted to be the part of this fantastic and dynamic organization. The hard work and customer trust sustained stand testimony to the team work of our employees.

As I look back on the last decade, we have witnessed a technological boom that has changed all areas of life including professional, personal and social. The banking and financial services industry has not escaped the transforming effects of rapid technological change. What was science fiction 10 years ago has become science fact today and, technology has changed the way we perceive life and interact with each other. Some members of the banking industry were reasonably good at adapting and integrating the technology changes in order to better serve their customers. There is a significant number in the industry who failed to keep up with the pace of change especially after the financial crisis as its attention was focused elsewhere.

On the other side, innovation was becoming a much reduced priority for the banks, technology index started to become a game changer in everyday business. Leveraging the new age technology and exploiting a regulatory regime that was, in many areas, quite permissive, Fintech firms began to offer consumers a totally new way to deal with financial solutions – a way that was far simpler, faster and easier than what traditional banks offered.

By bringing the innovative use of technology into the design and delivery of the financial services, Fintech firms transformed, and are still transforming. Blockchain, Artificial Intelligence and robot advisors are just a few examples of the innovations provided by Fintech firms. However, there is much more than just technology and its integration into the banking system. The Fintech firms introduced exceptional customer experiences, specifically in the most lucrative business areas that were typically offered by traditional banks.

TRANSFORMING CUSTOMER'S JOURNEY

With all the noise in the market about technology – from AI to blockchain – it is easy to get carried away with the hype. While technology is clearly important, we need to remember that customers remain at the core of financial services. Of course, financial services operate in the wider economy and as such, it is intrinsically linked to wider economic cycles. However, focusing on things that banks can exert more influence on; I think the biggest threat and opportunity will come from opening up of the chance to offer better financial services. Fintechs pose a large and growing threat to traditional players. Last year was a record year for Fintech investments – with more than \$112 billion invested worldwide. The challenges posed by new regulations such as Open Banking, are also significant. But where some see challenges, others see opportunities. We are advising our customers on how to

counter the threats while capitalising on these opportunities. The lending and transaction banking landscapes are complex and fast changing. Delivering the products and services that customers expect, demands a breadth and depth of functional coverage: breadth, because customers have wide ranging needs – from simple overdrafts to complex leasing agreements – and depth, because even the simplest overdraft is becoming increasingly complex. In transaction banking, the challenge of gaining the visibility that corporate treasurers need amid rising levels of volatility, is making a difficult problem even more complex. Our solutions address these issues for our customers. This is recognized and Nucleus is sought for its solid experience gained in the realm.

With unpredictable fast evolving customer behaviour and rapid advancements in technology, digital capabilities are now rapidly becoming table stakes. Lending is transforming beyond digital and the lenders of tomorrow must be ready to deliver unique and personalized experiences that customers of tomorrow will demand. With more than three decades of lending business domain expertise, Nucleus Software is contributing significantly to this revolution in the financial services industry. Nucleus FinnOne Neo Cloud combines the advanced capabilities of the 10 time winner of the world's best-selling lending solution with cloud based, model specific benefits. The solution, which provides end-to-end digital lending capability along with mobile apps and readily integrated analytics, has already been adopted by 25 leading financial services companies in India within the last 21 months.

But it is more than that – the pace of change of technology, the rise of an ever changing ecosystems and the regulators are all putting pressure on financial institutions. Old, monolithic, inflexible systems simply can't cope – they are difficult to change, costly to maintain and hard to integrate.

Nucleus solutions eliminate these hi-tech induced problems while also preparing our customers for the future. Whether they are large banks digitising their entire retail lending process end-to-end, or corporate banks providing advanced working capital finance solutions to multinationals or new market entrants disrupting their segment with loans approved in minutes, we serve them all.

Our solutions deliver the business agility today's lenders need to cater to the complex needs of lending to retail customers as well as large corporate and small-to-medium enterprises (SME) customers. We cover the complete loan lifecycle across multiple channels, including web portal and mobile. We are using cutting-edge machine learning and artificial intelligence capabilities in Nucleus Lending Analytics to enable lenders to make faster and more informed loan decisions through data visualisation and business insight generation.

With all the focus on technology, it can be easy to forget that financial services is a 'people business' – where customers rely on lenders to help them achieve their ambitions. And while a lot of attention is being paid to the potential negative implications of automation – for example, the list of professions that might be eliminated by new technology – we need to remember that automation transforms rather than destroys. Take for example, VisiCalc – the first spreadsheet software that was launched in 1979. It has been reported that it made hundreds of thousands of accounting clerks redundant. In the USA alone there are 400,000 fewer accounting clerks than in 1980 but there are also 600,000 more jobs for regular accountants because crunching the numbers became cheaper, more versatile and more powerful and hence the demand went up. Automation reshaped the workplace then and it continues to do so today. People are very adaptable and they are very creative. People are the driving force behind our success and

that of our customers' success. The capability that Nucleus has to work on this adaptability and creativity is what our customers recognize and look for working with Nucleus. I would like to thank our customers for helping us learn with them to build a domain expertise essential for transformation. Their continuous support and the confidence they have demonstrated in us has helped us jointly create value that we are proud of.

OUR PEOPLE, OUR PRIDE

Nucleus Software is a company that truly supports and believes in its people. What makes Nucleus stand out is that Nucleus is convinced that every single employee has a stake in the company's success. We are very team-driven, and operate in a way that puts collective goals ahead of individual achievement. In last 3 decades, we have grown very quickly, and we continue to succeed because we are an agile organization that can rise to any challenge we may face. I am delighted to see that – from leadership to team members – everyone at Nucleus is very enthusiastic and fun to work with. We love what we do, and it shows in the strong relationships we have built with our customers. I am proud to be a part of this leading organization and pleased to witness that we keep on growing and keep on delivering great results all around the world.

AS WE GO ALONG...

Since our foundation in 1986, we have grown steadily, expanding into new markets and new countries, building all the time on our values-based approach. While technology continued to evolve continuously throughout this period, I think we are at an inflection point – where the combination of advanced technology and business expertise can deliver tremendous change. The key factor is in how to put it to use, how to use it to solve business problems for one's customers. I think we have

proven ourselves in this regard over the last three decades and things will only accelerate from here.

We are a global business; with customers in more than 50 countries around the world. In the last year, we have seen significant traction in markets all over the world, including Vietnam, Indonesia, Kenya, the Middle East and India. The level of engagement from our customers continues to increase and we have seen some

great opportunities coming in, building of course on our global footprint. We will continue to focus on our key markets, including India, South East Asia, the Middle East and Africa, as well as our growing markets in Australia and Europe. We are also looking at the Americas as we believe our solutions can help financial institutions in that region capitalise on the opportunities emerging in those regions that are created by digital disruption.

I would like to thank all our stakeholders, including investors, customers and employees. We look forward to the continued support of all stakeholders in this journey.

S. M. ACHARYA
CHAIRMAN

Date: April 23, 2019



VISHNU R DUSAD
MANAGING DIRECTOR

MD'S MESSAGE

DEAR
SHAREHOLDERS,



Technology shifts are forcing business to transform. The intense increase in technological capabilities, fast evolving customer expectations, growing acceptance of disruptors and rising regulatory requirements are creating tremendous challenges and opportunities. Financial services firms are totally dependent on their technology infrastructures and are forecasted to spend nearly \$300 billion per annum by 2021.

However, it might not be enough, or perhaps it is not being spent in the right areas, because Gartner recently reported that by 2030, digitization would make 80% of heritage financial services irrelevant – either going out of business, or becoming commoditized or existing formally but not competing effectively. Customers, based on their experiences with big tech companies are demanding seamless and personalized experiences in financial services.

Bain & Company's survey of consumers across 29 countries revealed that 54% of respondents trust at least one big tech company with their money more than banks in general. New technologies are driving change and a lot of traditional players face a choice of either becoming irrelevant or proactively disrupting their own business

models to thrive in the future. As dramatic as these changes are, the winners will be those companies that leverage the right technology at the right time to deliver what their customers want. Creativity, expertise and experience will be crucial. In short, we must not forget the pivotal role humans play in this technological revolution.

At Nucleus Software, we have a deep understanding of the complex requirements of the banking and financial services industry because we have spent more than three decades helping some of the world's most innovative financial services companies leverage technology for business results. This expertise, combined with the technology edge, enabled us to create FinnOne Neo, the 10-time winner of the world's best-selling lending solution, and our ground-breaking transaction banking solution - FinnAxia. I am delighted to see our performance during the year. Our business has continued to accelerate and witnessed great traction in the international market. During the year, we signed significant deals with leading Banks in Australia, Africa, the Middle East and India for our lending and transaction banking solutions.

As businesses all over the world continue to their digital transformation journeys, our investment in new technologies has positioned us well to deliver more value to our customers. We also saw solid traction for our corporate banking solution – FinnAxia, as there has been a marked increase in engagement with many leading banks and other financial institutions globally. We continue to be delighted by the rapid growth and adoption of FinnOne Neo Cloud in the market. We are proud to report that we won awards for the 'Best Cloud Lending Solution' and also the 'Best Lending Technology Implementation of the Year' at the BFSI Innovative Technology Awards 2018. It demonstrates the tremendous impact that the combination of innovative technology and customer-centric business strategies can have on financial services. Innovation is vital for any technology leader and at Nucleus it is a part of our DNA. It is essential for sustainable growth.

Among the many initiatives designed to foster innovative entrepreneurship, we launched NucTech2018 with the theme of 'Inspiring Tech Innovation'. Our experts shared their views of how innovation can help shape the future of finance. A wide range of topics including Deep Learning, APIs, system architecture and immersive experience were covered during this event. The objective of this event was to share learning and expertise about some of the technologies and trends that are changing our world. As Nucleus sees it, the promise of technology is to empower people so that we can get closure to our vision of 'Making Financial Services Access, Easy and Enriching worldwide'.

FINANCIAL HIGHLIGHTS

In the Financial Year 2018-19 we recorded annual revenues of Rs. 484.03 crore against Rs. 411.81 crore for the previous year. Overall revenue in foreign currency including India Rupee revenue for the year is US\$ 70.02 Million, against US\$ 63.42 Million for the previous year. Product revenue for the year was up and it now represents 79% of total revenue at Rs. 383.27 crore, against 79% of total revenue at Rs 326.09 crore for the previous year. Our planned expenditure on strategic initiatives in product, marketing and sales and people yielded at 16.3% margins against 14.1% previous year. Consolidated net profit after tax (PAT) stood at Rs. 74.54 crore in comparison to Rs. 62.55 core in the previous year. Earnings per share (EPS) for the year at Rs. 25.67 in comparison to Rs. 20.47 in the previous year. Cash and cash equivalents, including investments in various schemes of mutual funds, fixed maturity plans, fixed deposits with banks, tax free bonds and preference shares are at Rs. 498.47 crore as on 31st March, 2019, as against Rs. 455.90 crore on 31st March, 2018.

BOARD CHANGE

Mr. Narayanan Subramaniam joined the Board of Directors of the Company in July 2012 and was appointed as an Independent Director at the Annual General Meeting held on July 8,

2014 for a term of 5 years. Accordingly, the tenure of Mr. Narayanan Subramaniam as an Independent Director of the Company, came to end on 31st March, 2019. Mr. Narayanan Subramaniam, has conveyed his desire not to seek re-appointment as Independent Director of the Company for a second term. The Board thanked him for his immense contribution and guidance in framing a strategic roadmap of the company during his tenure.

DEMONSTRATING EXPERTISE

WORLDWIDE

Nucleus Software is a global business and our teams travelled worldwide to demonstrate our expertise and product offerings during the year. We participated in many leading Industry forums, including Australia, where we sponsored the 10th annual Australian Mortgage Innovation Summit 2019. We presented our views on “Transforming Lending for Tomorrow - Going Beyond Digital”. Throughout the year we also hosted a number of roundtable sessions with industry leaders across a range of business segments. In South East Asia (SEA), we participated in the 8th Innovation and New Technology in Cash Management event hosted by Global Financial Markets Intelligence (GFMI). We conducted an exclusive Masterclass workshop focused on “Chasing Digital – A Digitization Playbook for Wholesale Banking”.

Also in the Middle East, our team showcased its digital lending solutions at the Middle East Banking Innovation Summit 2018, (MEBIS) and addressed the session on “Transforming Financial Services Beyond Digital”. We presented our views on the evolving nature of technology at the GCC Smart Government & Smart Cities conference –a global platform dedicated to shaping the future of government in Dubai. We sponsored the 61st RBAP Charter Anniversary Symposium 2018 in Philippines. Nucleus team shared expertise on how the unique combination of advanced lending technology and cloud can help rural banks in the Philippines in providing end-to-end digitized loan services, making better credit decisions faster, quickly scaling operations and

ensuring faster compliance to regulatory requirements. We demonstrated how banks in Malaysia can leverage technologies such as artificial intelligence and analytics in payments to enable added security, speed and convenience for their corporate customers at the IDC Financial Insights' FinTech Innovation Summit 2018 in Malaysia.

We were invited to present to the board of one of Malaysia's largest banks as part of their board-level initiative to investigate the future of technology in banking. In Indonesia, we presented our views on “Artificial Intelligence for Risk Mitigation in an era of Faster Payments” at the Asian Banker Future of Finance Summit. In Africa, our team participated in The New Age Banking Summit (NABS 2018) in Lagos, Nigeria. We participated in the Seamless East Africa 2018 and showcased expertise on - How our solutions can help become the digital corporate bank of tomorrow – today !

In India, we demonstrated how our market leading solution, FinnOne Neo Cloud, is helping NBFCs and HFCs drive innovation in lending by enabling faster launch of personalized products, customer centric loan services, making better credit decisions faster and on-demand scalability at the 5th NBFC100 Tech Summit in Mumbai. We also attended the 5th Microfinance & NBFCs Exhibition (MiNE 2018) in Kolkata and demonstrated how the use of advanced technology can help reduce time to market, make better credit decisions faster, scale up quickly and incorporate data driven insights easily. We hosted an online, interactive roundtable webinar on ‘Driving Innovation in lending with cloud’ in association with Dun & Bradstreet. We attended the 3rd NBFC100 Tech Summit in Delhi, and organized an industry roundtable, for banks & NBFCs, on ‘Lending with Analytics & AI: Profitable, Smarter & Customer-oriented’ in Mumbai in association with Dun & Bradstreet.

OUR PEOPLE, OUR STRENGTH

We believe that our people are the foundation of our success. We focus on developing an