
MICROGEN BANKING SYSTEMS LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

MONDAY



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MICROGEN BANKING SYSTEMS LIMITED

COMPANY INFORMATION

Directors	P B Wood S Baines
Company secretary	M Heather
Registered number	03089430
Registered office	Old Change House 128 Queen Victoria Street London EC4V 4BJ
Independent auditors	PricewaterhouseCoopers LLP Chartered Accountants and Statutory Auditors 1 Embankment Place London WC2N 6RH

MICROGEN BANKING SYSTEMS LIMITED

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MICROGEN BANKING SYSTEMS LIMITED

STRATEGIC REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their Strategic report and the audited financial statements of the Company for the year ended 31 December 2017.

Principal activities

The principal activity of the Company continued to be the sale, installation, support and development of applications software for the financial services sector. Additionally, the Company develops software products and services to enable companies to make and collect payments electronically using the facilities provided by the UK banking industry.

Business review

Turnover for 2017 increased marginally against the prior year to £3,385,000 (2016: £3,313,000) benefitting from some growth within its application management offerings with operating profit improving to £1,714,000 (2016: £1,603,000) as a result. Net assets at 31 December 2017 totalled £3,146,000 (2016: £1,718,000).

The Company continues to offer a range of Bacs software products which enable organisations to make automated payments in the United Kingdom using Bacs payment services over the internet (Bacstel-IP). As expected revenue from the Payments business has marginally reduced in 2017 with the prior year benefitting from a number of one-off implementations to the latest version of the software. The Payments business benefits from contracts with over 500 well-diversified clients and high levels of recurring revenue (2017: 90% (2016: 85%)). The Application Management supported software solutions are expected to continue in the medium to long term with revenues expected to decline in the coming year slightly ahead of the rate experienced in 2017.

Strategy

Microgen Banking Systems Limited's main objective is to continue to support the existing customer base.

Future outlook

The Company aims to continue to support customers who are using a range of software products across a number of sectors.

Principal risks, financial risks and uncertainties

The key business risks affecting the Company are as set out below:

Business environment

The existing business is spread across a number of sectors and then across the UK. The environment is monitored but the business is performing in line with expectations.

Credit risk

The principal credit risk to the Company is the amount due from group undertakings. The Company manages this risk by agreeing suitable repayment plans with fellow group companies. The Company has no other significant concentrations of exposure to credit risk. Policies are in place that require appropriate checks on potential new customers before sales commence and the amount of any individual counterparty is subject to a limit which is reassessed regularly by the Company's management.

Liquidity risk

The Company manages a liquidity position with the objective of maintaining the ability to fund commitments and repay liabilities in accordance with their required terms. The financing of operations is managed at a group level by the Company's ultimate parent undertaking.

MICROGEN BANKING SYSTEMS LIMITED

**STRATEGIC REPORT (CONTINUED)
FOR THE YEAR ENDED 31 DECEMBER 2017**

Financial key performance indicators

The KPIs necessary for the understanding of the Company's business include:

- previous experience and relationships;
- retaining key staff;
- the ability to meet the support requirements of existing customers;
- the ability to provide consulting services;
- financial strength and stability; and
- profit

Detailed discussion on the KPIs affecting the Group as a whole is provided in the Microgen plc 2017 Annual Report and Financial Statements.

This report was approved by the board and signed on its behalf.



P B Wood
Director

Date: 28 June 2018

MICROGEN BANKING SYSTEMS LIMITED

DIRECTORS' REPORT FOR THE YEAR ENDED 31 DECEMBER 2017

The directors present their report and the audited financial statements for the year ended 31 December 2017.

Results and dividends

The profit for the financial year amounted to £1,428,000 (2016 - £1,401,000).

The directors do not recommend the payment of a dividend for the year (2016: £nil).

Financial risk management policy

The principal risks and uncertainties of the Company are given in the strategic report.

Directors

The directors of the company who served during the year and up to the date of signing the financial statements were:

P B Wood
S Baines

Future developments

The future outlook is given in the strategic report.

Qualifying third party indemnity provisions

The Company has purchased and maintained throughout the year directors' and officers' liability insurance in respect of itself and its directors. The directors who are also on the Board of Microgen Financial Systems Limited are entitled to the benefit of an indemnity under article 18 of the Microgen Financial Systems Limited's articles of association. Pursuant to this article 18, Microgen Financial Systems Limited has granted indemnities for the benefit of current and future directors of, and the Company Secretary of the Company in respect of liabilities which may attach to them in their capacity as directors of, or Company Secretary of, the Company to the extent permitted by law and also committing to maintain directors' and officers' insurance cover. Qualifying third party indemnity provisions (as defined by section 234 of the Companies Act 2006) were in force during the year ended 31 December 2017 and continue in force, in relation to certain losses and liabilities which the directors (or Company Secretary) may incur to third parties in the course of acting as directors (or Company Secretary).

MICROGEN BANKING SYSTEMS LIMITED

DIRECTORS' REPORT (CONTINUED) FOR THE YEAR ENDED 31 DECEMBER 2017

Directors' responsibilities statement

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law). Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable United Kingdom Accounting Standards, comprising FRS 101, have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Disclosure of information to auditors

In the case of each director in office at the date the Directors' Report is approved:

- so far as they are aware, there is no relevant audit information of which the Company's auditors are unaware, and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Independent auditors

The auditors, PricewaterhouseCoopers LLP, will be proposed for reappointment in accordance with section 485 of the Companies Act 2006.

This report was approved by the board and signed on its behalf.



P B Wood
Director

Date: 28 June 2018

MICROGEN BANKING SYSTEMS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROGEN BANKING SYSTEMS LIMITED

Report on the audit of the financial statements

Opinion

In our opinion, Microgen Banking Systems Limited's financial statements:

- give a true and fair view of the state of the company's affairs as at 31 December 2017 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual Report and Financial Statements (the "Annual Report"), which comprise: the statement of financial position as at 31 December 2017; the statement of comprehensive income, the statement of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the company's ability to continue as a going concern.

MICROGEN BANKING SYSTEMS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROGEN BANKING SYSTEMS LIMITED (CONTINUED)

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 31 December 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the company and its environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

MICROGEN BANKING SYSTEMS LIMITED

INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROGEN BANKING SYSTEMS LIMITED (CONTINUED)

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Directors' Responsibilities Statement set out on page 4, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they determine 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 directors are responsible for assessing the company'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 directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 ISAs (UK) 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.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

MICROGEN BANKING SYSTEMS LIMITED

**INDEPENDENT AUDITORS' REPORT TO THE MEMBERS OF MICROGEN BANKING SYSTEMS LIMITED
(CONTINUED)**

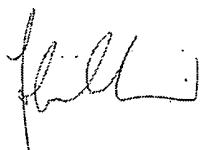
Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.



John Maitland (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Reading
28 June 2018

MICROGEN BANKING SYSTEMS LIMITED

**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Note	2017 £000	2016 £000
Turnover	4	3,385	3,313
Gross profit		3,385	3,313
Administrative expenses		(1,671)	(1,710)
Operating profit	5	1,714	1,603
Tax on profit	9	(286)	(202)
Profit for the financial year		1,428	1,401

All amounts relate to continuing operations

There were no recognised gains or losses in the current or previous year other than those disclosed in the income statement. Accordingly, no separate statement of other comprehensive income has been presented.

The notes on pages 12 to 24 form part of these financial statements.

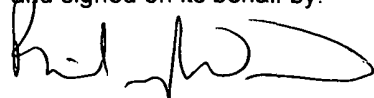
MICROGEN BANKING SYSTEMS LIMITED
REGISTERED NUMBER: 03089430

STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017

	Note	2017 £000	2016 £000
Fixed assets			
Goodwill	10	1,658	1,658
Tangible assets	11	92	189
		<u>1,750</u>	<u>1,847</u>
Current assets			
Trade and other receivables	12	8,098	3,291
		<u>8,098</u>	<u>3,291</u>
Trade and other payables	13	(6,702)	(3,420)
Net current assets/(liabilities)		<u>1,396</u>	<u>(129)</u>
Total assets less current liabilities		<u>3,146</u>	<u>1,718</u>
Net assets		<u>3,146</u>	<u>1,718</u>
Capital and reserves			
Called up share capital	15	433	433
Share premium account		1,587	1,587
Profit and loss account		1,126	(302)
Total equity		<u>3,146</u>	<u>1,718</u>

The accounting policies and notes on pages 12 to 24 are an integral part of these financial statements

The financial statements on pages 9 to 24 were authorised for issue by the Board of Directors on 28 June 2018 and signed on its behalf by:



P B Wood
Director

MICROGEN BANKING SYSTEMS LIMITED

**STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

	Called up share capital £000	Share premium account £000	Profit and loss account £000	Total equity £000
At 1 January 2016	433	1,587	(1,703)	317
Comprehensive income for the year				
Profit for the financial year	-	-	1,401	1,401
Total comprehensive income for the year	-	-	1,401	1,401
At 1 January 2017	433	1,587	(302)	1,718
Comprehensive income for the year				
Profit for the financial year	-	-	1,428	1,428
Total comprehensive income for the year	-	-	1,428	1,428
At 31 December 2017	433	1,587	1,126	3,146

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

1. General information

Microgen Banking Systems Limited is a private company limited by shares incorporated and domiciled in the United Kingdom.

2. Accounting policies

2.1 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.2 Basis of preparation of financial statements

The financial statements have been prepared under the historical cost convention and in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' and the Companies Act 2006.

The preparation of financial statements in compliance with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies (see note 3).

2.3 Financial reporting standard 101 - reduced disclosure exemptions

The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirements of IFRS 7 Financial Instruments: Disclosures
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement
- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of:
 - paragraph 79(a)(iv) of IAS 1;
 - paragraph 73(e) of IAS 16 Property, Plant and Equipment;
 - paragraph 118(e) of IAS 38 Intangible Assets;
- the requirements of paragraphs 10(d), 10(f), 16, 38A, 38B, 38C, 38D, 40A, 40B, 40C, 40D, 111 and 134-136 of IAS 1 Presentation of Financial Statements
- the requirements of IAS 7 Statement of Cash Flows
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors
- the requirements of paragraph 17 and 18A of IAS 24 Related Party Disclosures
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.4 Going concern

At the date of approval of the financial statements the directors have a reasonable expectation that the company has adequate resources to continue in operational existence for the foreseeable future.

2.5 Turnover recognition

Turnover comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Company's activities. Turnover is shown net of sales tax, returns, rebates and discounts and after eliminating sales within the Company.

The Company recognises turnover from each of these categories as follows:

Software based activity

Software licences

The Company licences its software on an Initial Licence Fee, Perpetual Licence Fee or Annual Licence Fee basis.

Licence Fees are first recognised when all of the following criteria are met:

- a signed contract or customer purchase order is in place;
- licence fee is fixed and determinable;
- evidence of software delivery has been received;
- collection of the debt is likely; and,
- no vendor specific obligations relating to the delivered software are outstanding.

Once all of these criteria have been met, all of the Initial or Perpetual Licence Fee is recognised and recognition of the Annual Licence Fee commences. Annual Licence Fees are recognised in the period the services are provided, using a straight-line basis over the term of the licence.

Initial or Perpetual Licence Fees are recognised once all of the above criteria have been met subject to the deferral of revenue in respect of any unfunded obligations.

In assessing whether the collection of the debt is likely, any deferred payments for Licence Fees are recognised only if they are to be invoiced within 90 days of the period end and such invoice is payable within 30 days of the invoice date.

Software Maintenance

Fees relating to the maintenance of the Company's software are recognised in the period the services are provided, using a straight-line basis over the term of the maintenance agreement.

Support fees

Support fees are billed to customers where the Company's software is used by a customer as part of an IT solution and that customer contracts with the Company for support relating to that IT solution. The customer will commit to a minimum monthly, quarterly or annual fee that covers an agreed level of support and then agrees additional fees for support used over and above the minimum commitment. Turnover from support contracts are recognised as the fees are earned.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

Funded development

Where a customer seeks enhancement to the core functionality of a Company product such enhancements will be considered for inclusion in the product road map. Where customers wish to accelerate the product development the Company may undertake funded development work. Turnover for funded development work is recognised on a percentage completed basis after deferring a proportion of the turnover to cover the resolution of any issues arising after the enhancement has been delivered to the customer. Once the enhancement has been accepted by the customer the deferred portion of the turnover is recognised.

Product specific consultancy

Consultancy services which relate to a project which includes the Company's software is contracted for on either a time and materials basis or fixed priced basis. Time and materials consultancy is recognised in the period it is performed in. Fixed price or shared risk work is recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project. The percentage completed is determined with reference to effort incurred to date and effort required to complete the development or consultancy.

Managed Services

Where the Company provides application management services to a customer for a third party software product or solution revenue from these services are recognised as the services are performed.

General Consultancy

The majority of general consultancy services are contracted for on a time and materials basis, with revenue and costs recognised as incurred. Revenue and costs on fixed price and shared risk contracts are recognised on a percentage completion basis after deferring a proportion of the overall revenue until the end of the relevant stage of the project.

2.6 Goodwill

Goodwill is capitalised on the balance sheet and subject to an annual impairment test. The carrying value of goodwill is cost less accumulated impairment. Impairment reviews are carried out by the Board at least annually. Impairments to goodwill are charged to the income statement in the period in which they arise.

Goodwill is regarded as having an indefinite useful economic life and in accordance with FRS101, is not amortised but is subject to annual tests for impairment. This represents a departure, for the purpose of giving a true and fair view, from the requirements of schedule 4:21 of the Companies Act 2006, which requires goodwill to be amortised.

In the opinion of the directors, it is not possible to determine the finite useful economic life for goodwill due to the long-term nature of the business and continued growth. As it is not possible to identify a finite useful economic life, it is not possible to quantify any amortisation to be charged.

2.7 Tangible assets

Tangible assets under the cost model are stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.7 Tangible assets (continued)

Depreciation is charged so as to allocate the cost of assets less their residual value over their estimated useful lives, using the straight-line method.

Depreciation is provided on the following basis:

Computer equipment	- 33.33%
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The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted prospectively if appropriate, or if there is an indication of a significant change since the last reporting date.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the Statement of Comprehensive Income.

2.8 Foreign currency translation

Functional and presentation currency

The Company's functional and presentational currency is GBP.

Transactions and balances

Foreign transactions are translated into the functional currency at the exchange rate ruling when the transaction is entered into. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

2.9 Cash and cash equivalents

Cash is defined as cash in hand and on demand deposits. Cash equivalents are defined as short term, highly liquid investments with original maturities of three months or less.

2.10 Trade receivables

Trade receivables are recognised initially at fair value and to the extent that it is deemed necessary are subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of the receivables.

The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement within other operating costs.

2.11 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

2. Accounting policies (continued)

2.12 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new ordinary shares are shown in equity as a deduction, net of tax, from the proceeds.

2.13 Pensions

The Company operates a defined contribution retirement benefit plan in respect of its employees. Employee and employer contributions are based on basic earnings for the current year. The schemes are funded by payments to trustee-administered funds completely independent of the Company's finances. The expense is recognised on a monthly basis as accrued. The Company has no further payment obligations once the contributions have been paid.

2.14 Current and deferred income tax

The charge for current tax is based on the results for the year as adjusted for items which are non-assessable or disallowed. It is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the 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 and loss.

Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred 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 Company and it is probable that the temporary difference will not reverse in the foreseeable future.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

3. Judgments in applying accounting policies and key sources of estimation uncertainty

In preparing these financial statements, the directors have had to make the following judgment:

(a) Impairment of Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the Company to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate present value. The discount rate applied in the value in use calculation approximates to the Company's Weighted Average Cost of Capital.

The Company annually reviews the goodwill valuation based on various scenarios and each of these scenarios have different growth rate assumptions. The growth rate assumptions are in relation to periods covered by Board approved plans.

Impairments recognised during the year are performed against the carrying value of goodwill. The impairment is recognised in the income statements in the period which it is deemed to arise.

(b) Taxation

The actual tax the Company pays on its profits is determined according to complex tax laws and regulations. Where the effect of these laws and regulations is unclear, estimates are used in determining the liability for the tax to be paid on past profits which are then recognised in financial statements. The Company believes the estimates, assumptions and judgements are reasonable but this can involve complex issues which may take a number of years to resolve. The final determination of prior year tax liabilities could be different from the estimates reflected in the financial statements and may result in the recognition of an additional tax expense or tax credit in the income statement. Deferred tax assets and liabilities require management judgement in determining the amount to be recognised. In particular, judgement is used when assessing the extent to which deferred tax assets should be recognised with consideration given to the timing and level of future taxable income.

4. Turnover

The whole of the turnover is attributable to the principal activity.

Analysis of turnover by country of destination:

	2017 £000	2016 £000
United Kingdom	3,293	3,098
Rest of World	92	215
	<u>3,385</u>	<u>3,313</u>

MICROGEN BANKING SYSTEMS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

5. Operating profit

The operating profit is stated after charging:

	2017	2016
	£000	£000
Depreciation of tangible assets	95	91
Exchange differences	1	3
Defined contribution pension cost	42	40
	<u>138</u>	<u>134</u>

6. Auditors' remuneration

For 2017 and 2016, the audit fee for the Company was borne by fellow Microgen Group subsidiaries. A full breakdown of audit fees is disclosed in the consolidated financial statements of the Groups ultimate parent, Microgen plc, which are publicly available. The amounts paid for the audit of the Company financial statements was £7,500 (2016: £7,000).

7. Employees

Staff costs were as follows:

	2017	2016
	£000	£000
Wages and salaries	808	780
Social security costs	92	87
Other pension costs (note 16)	42	40
	<u>942</u>	<u>907</u>

The average monthly number of employees, excluding the directors, during the year was as follows:

	2017	2016
	No.	No.
Management, finance and administration	1	1
Consultancy	4	4
Development & support	8	8
	<u>13</u>	<u>13</u>

Headcount at 31 December excluding the directors was 13 (2016: 13).

MICROGEN BANKING SYSTEMS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

8. Directors' remuneration

The emoluments for the Directors are borne by fellow subsidiary undertakings, of whom the Directors are employees. The Directors are remunerated for their services to the Microgen plc Group as a whole and receive no separable remuneration for their services as Directors to Microgen Banking Systems Limited, and no costs are recharged to the Company in respect of their services.

A full breakdown of the emoluments received by the Directors in the year in respect of their services to the Group is provided in the Microgen plc 2017 Annual Report and financial statements.

9. Tax on profit

	2017 £000	2016 £000
Corporation tax		
Current tax on profits for the year	246	209
Adjustments in respect of previous periods	67	(5)
Total current tax	313	204
Deferred tax		
Origination and reversal of timing differences	(10)	(3)
Adjustments in respect of previous periods	(17)	1
Total deferred tax	(27)	(2)
Tax on profit	286	202

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

9. Tax on profit (continued)

Factors affecting tax charge for the year

The tax assessed for the year is lower than (2016 - *lower than*) the standard rate of corporation tax in the UK of 19.25% (2016 - 20%). The differences are explained below:

	2017 £000	2016 £000
Profit before taxation	1,714	1,603
Profit before taxation multiplied by standard rate of corporation tax in the UK of 19.25% (2016 - 20%)	330	320
Effects of:		
Expenses not deductible for tax purposes	-	2
Utilisation of tax losses	(94)	(91)
Adjustments in respect of previous periods	50	(4)
Utilisation of tax losses not previously recognised	-	(25)
Total tax charge for the year	286	202

Factors that may affect future tax charges

UK corporation tax rates substantively enacted as part of the Finance Bill 2016 include reductions to the main rate to 19% from 1 April 2017 and further reduction to 17% from 1 April 2020. Deferred taxes at the balance sheets date have been measured using these enacted rates and reflected in the financial statements

10. Goodwill

	£000
Cost	
At 1 January and 31 December 2016	1,658
At 31 December 2017	1,658
Net book value	
At 31 December 2017	1,658

MICROGEN BANKING SYSTEMS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

11. Tangible assets

	Computer equipment £000
Cost	
At 1 January 2017	310
Disposals	(33)
At 31 December 2017	277
Depreciation	
At 1 January 2017	121
Charge for the year	95
Disposals	(31)
At 31 December 2017	185
Net book value	
At 31 December 2017	92
<i>At 31 December 2016</i>	189

MICROGEN BANKING SYSTEMS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2017**

12. Trade and other receivables

	2017	2016
	£000	£000
Trade receivables	773	712
Amounts owed by group undertakings	7,182	2,477
Deferred taxation	112	85
Prepayments and accrued income	31	17
	<u>8,098</u>	<u>3,291</u>

Amounts owed by and to group undertakings are interest free and repayable on demand.

13. Trade and other payables

	2017	2016
	£000	£000
Trade payables	14	1
Amounts owed to group undertakings	4,234	593
Corporation tax	16	10
Other taxation and social security	165	165
Accruals and deferred income	2,273	2,651
	<u>6,702</u>	<u>3,420</u>

14. Deferred tax asset

	2017	2016
	£000	£000
At beginning of year	85	83
Credited to profit or loss	27	2
At end of year	<u>112</u>	<u>85</u>

MICROGEN BANKING SYSTEMS LIMITED

**NOTES TO THE FINANCIAL STATEMENTS
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14. Deferred tax asset (continued)

The deferred tax asset is made up as follows:

	2017 £000	2016 £000
Accelerated capital allowances	25	(6)
Tax losses carried forward	87	90
Short term timing differences	-	1
	112	85
Comprising:		
Asset - due within one year	112	85
	112	85

Deferred tax assets have been recognised in respect of taxable losses and other temporary differences, giving rise to deferred tax assets where it is probable that these assets will be recovered.

At the balance sheet date, the Company has unused tax losses of £2,931,000 (2016: £3,413,000) available for offset against future profits. A deferred tax asset has been recognised in respect of £455,000 (2016: £455,000) of such losses which is the maximum the Company anticipates being able to utilise in respect of the year ending 31 December 2017. No deferred tax asset has been recognised in respect of the remaining losses of £2,476,000 (2016: £2,958,000) due to the unpredictability of future profit streams.

15. Called up share capital

	2017 £000	2016 £000
Shares classified as equity		
Allotted, called up and fully paid		
8,651,011 (2016: 8,651,011) ordinary shares of £0.05 each	433	433

16. Retirement benefit schemes

The Company operates a defined contributions pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund and amounted to £42,000 (2016: £40,000). No contributions (2016: £nil) were payable to the fund at the balance sheet date.

MICROGEN BANKING SYSTEMS LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

17. Financial commitments, guarantees and contingent liabilities

The Company entered into a cross guarantee on 21 July 2017 in respect of the loan agreement between the ultimate parent undertaking Microgen plc and Bank of Ireland consisting of a £10 million term loan in addition to a revolving credit facility of £10 million. At 31 December 2017 Microgen plc had a total loan balance of £10 million in respect of this facility.

18. Post balance sheet events

On 26 June 2018 Microgen Solutions Limited, a fellow subsidiary undertaking, acquired the trade and assets of the Company's Cortex and Musketeer businesses for consideration of £500,000. Full details will be provided in the 2018 financial statements.

19. Controlling party

The immediate parent undertaking is Microgen Financial Systems Limited.

The ultimate parent undertaking and controlling party is Microgen plc, a Company incorporated in England.

Microgen plc is the parent undertaking of the largest group of undertakings to consolidate these financial statements. The consolidated financial statements of Microgen plc are available from Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ.

Microgen Financial Systems Limited is the parent undertaking of the smallest group of undertakings to consolidate these financial statements. The consolidated financial statements of Microgen Financial Systems Limited are available from Old Change House, 128 Queen Victoria Street, London, EC4V 4BJ.