

IBM and Pegasystems Form Strategic Alliance to Deliver Global Banking Solutions

IBM and Pegasystems Inc. (NASDAQ: PEGA) have formed a global strategic alliance to deliver payments exceptions and compliance management solutions to the world's top-tier banks and card issuers and acquirers, the companies announced today, in order to solve some of the most demanding challenges facing global financial institutions.

Through solution development that will pair IBM's infrastructure with Pegasystems' 'smart' BPM applications for exceptions and dispute management, wholesale and retail banking customers can benefit from dramatically reduced costs; decreased payment risks and loss; and rapid issue resolution for greatly improved service and increased customer loyalty.

The world's largest financial institutions turn to IBM for systems and services, said June Felix, general manager of e-payments, risk and compliance at IBM. Deploying Pegasystems financial services applications as the exceptions 'hub' on our scaleable infrastructure can allow customers to realise breakthrough value in reduced costs and risk, while delivering greatly improved customer service. Pega's extensive domain expertise and their unique approach where business rules and process can change on demand can help us execute IBM's on demand strategy even more effectively. Under the terms of the agreement, the two companies will market Pegasystems' entire Quality & Exception Manager suite of financial services applications, optimised for IBM eServer* systems and IBM TotalStorage* Solutions, DB2* Universal Database software and the WebSphere* Internet infrastructure platform, including WebSphere Application Server and WebSphere MQ.

This alliance creates synergies that will both deepen our vertical expertise and significantly expand our footprint across the financial services industry, said Henry Ancona, Pegasystems' president and COO. Customers will benefit from state-of-the-art payments solutions on leading-edge platforms, for accelerated improvements in cost reductions, risk control and customer service. Pegasystems will gain the leverage of IBM's 2000-plus sales staff, as well as the world's leading IT services organisation. And IBM can profit by driving significant incremental business in both their installed base and green-field opportunities.

Today's announcement marks a further step in the growing relationship between the two companies. In March of this year Pegasystems joined IBM's Business Performance Management program and its ISV Advantage Initiative, and also reached an accord with IBM Business Consulting Services (BCS) for global services delivery. This new strategic alliance is another example of IBM's commitment to go to market with independent software vendors (ISVs) to deliver leading-edge solutions.

Pegasystems provides a genuinely differentiated approach for solving complex exceptions, payments and risk-management challenges, combining out-of-the-box rule sets, pre-packaged workflows and front-to-back-office integration abilities to give organisations exceptional automation and productivity gains, and business users the agility to change and specialise their processes quickly and easily. The company's smart BPM applications leverage 20 years of experience with some of the world's largest financial institutions and healthcare organisations.

About IBM's Financial Services Sector

IBM is the world's largest provider of information technology (IT) services, hardware and software and a preeminent technology partner to the world's financial services industry. Working directly with its financial services customers, IBM helps them to become more competitive through the innovative deployment of high-impact solutions. These solutions comprise the full range of IBM capabilities, including consulting, services, implementation, software, hardware and research. Additional information can be found at www.ibm.com/solutions/financialservices.

About Pegasystems

Pegasystems Inc. (NASDAQ: PEGA) provides rules-based, smart business process management (BPM) software to large organisations, helping to deliver significant ROI and providing them with the flexibility and agility to respond to changing business needs. The company offers applications for the financial services, healthcare, insurance and government markets, as well as a cross-industry BPM application. Pegasystems is headquartered in Cambridge, Mass., and has regional offices in North America, Europe and the Pacific Rim. For more information, visit www.pega.com.

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Forward-Looking Statements

Certain statements contained in this press release may be construed as 'forward-looking statements' as defined in the Private Securities Litigation Reform Act of 1995 including, without limitation, our financial guidance with respect to 2004 revenue, profit before tax, tax rate, earnings per share and cash from operating activities. The words 'believe,' 'expect,' 'hope,' 'anticipate,' 'plan' and similar expressions, among others, identify forward-looking statements, which speak only as of the date the statement was made. The Company does not undertake and specifically disclaims any obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. These statements are based on current expectations and assumptions and involve various risks and uncertainties, which could cause the Company's actual results to differ from those expressed in such forward-looking statements. These risks and uncertainties include volatility of our quarterly operating

results, difficulty in predicting the completion of product implementations and consequently the timing of our license revenue recognition, the timing of term software license renewals, customer acceptance of our new PegaRULES Process Commander technology, our ability to develop new products and evolve existing ones, the impact on our business of the ongoing consolidation in the financial services market, historically our core market, our ability to attract and retain key employees, reliance on certain key third-party relationships, and other risks and uncertainties. Further information regarding these and other factors, which could cause the Company's actual results to differ materially from any forward-looking statements contained in this press release, is contained in the Company's most recent report on form 10-K and other recent filings on file with the Securities and Exchange Commission. The forward-looking statements contained in this press release represent the Company's views as of July 29, 2004. Investors are cautioned not to place undue reliance on such forward-looking statements and there are no assurances that the matters contained in such statements will be achieved. Although subsequent events may cause the Company's view to change, the Company does not undertake and specifically disclaims any obligation to publicly update or revise these forward-looking statements, whether as the result of new information, future events or otherwise. The statements should therefore not be relied upon as representing the Company's view as of any date subsequent to the date of this release.

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* Denotes a trademark or registered trademark of the International Business Machines Corporation.