

Alfa[^]

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MOMEN
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Alfa Financial Software Holdings PLC
Annual Report and Accounts 2020
Co No. 107BS17



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2020 HIGHLIGHTS

Group revenue

£**79**m
£64m in 2019

Operating profit

£**24**m
£14m in 2019

Net cash

£**37**m
£59m in 2019

Operating profit margin¹

30%
21% in 2019

Special dividend

£**44.2**m
nil in 2019

Number of customers²

32
26 at 31 December 2019

Alfa team at 31 December 2020

360
employees
316 at 31 December 2019

1. Operating profit margin being operating profit as a proportion of revenue.
2. Includes four pipeline customers at 31 December 2020.

DEVELOPING
MOMENTUM

WE ARE ALL ABOUT SOFTWARE & DELIVERY

Alfa is a leading provider of software and services to the global auto and equipment finance industries. We deliver our leading-edge technology with smart, diverse people, making our customers future-ready.

Exploring opportunities in AI through Alfa iQ

Alfa iQ was established with a mission to make access to assets efficient and successful by delivering intelligence to the world's auto and equipment finance providers.

Accelerating growth with Alfa Start

Alfa Start facilitates quicker implementations both through the Alfa Start implementation model and as a project accelerator.

Read more on **page 28**

Read more on **page 34**

DEVELOPING MOMENTUM

LAUNCH OF ALFA SYSTEMS 5.6

**We push the boundaries of
what software for auto and
equipment finance really
means, with customers at
the heart of everything we do.**

Quicker implementation

Alfa Start
page 34

New products

Cash accounts,
usage-based billing
page 13

New user interface

Comprehensive UX
and UI redesign
page 27

Changing regulations

LIBOR reform:
support for SONIA and SOFR
pages 17 and 27

**The leading software
choice for asset finance
companies, worldwide.**

**DEVELOPING
MOMENTUM**

DELIVERING FASTER EFFICIENT SYSTEMS

**Successful delivery of
customer critical projects:**

Five go-lives during 2020

Read more on **page 5**

“Alfa Systems gives us key API capabilities that weren’t available in our legacy banking platform, enabling us to launch a wider range of new products, improve speed and efficiency, and offer a significantly improved service to our brokers and their customers.”

Paul Bartley
MD Asset Finance,
Hampshire Trust Bank

**2020
Successful
delivery projects**

1

US automotive

Right at the start of the year we achieved the go-live for a large US automotive client with 4.6 million active vehicle contracts demonstrating the scalability of Alfa Systems and our ability to handle the most complex projects.

2

Hampshire Trust Bank

In March, Hampshire Trust Bank's specialist business finance division went live, only 19 weeks after contract signature, which was the first live demonstration of the advantages of the Alfa Start model.

3

South African Retail Bank

Following the 'go' decision in March, the first live contracts went onto the system in June. This project has demonstrated how we can successfully integrate partners into our delivery teams and how Alfa Hosting can enable fast start-up and stable environments.

4

First Alfa Start for US auto

We saw the successful go-live of our first US Alfa Start client in US automotive. It is really impressive to see how quickly this project has been delivered, particularly considering that deployment and implementation was delivered remotely.

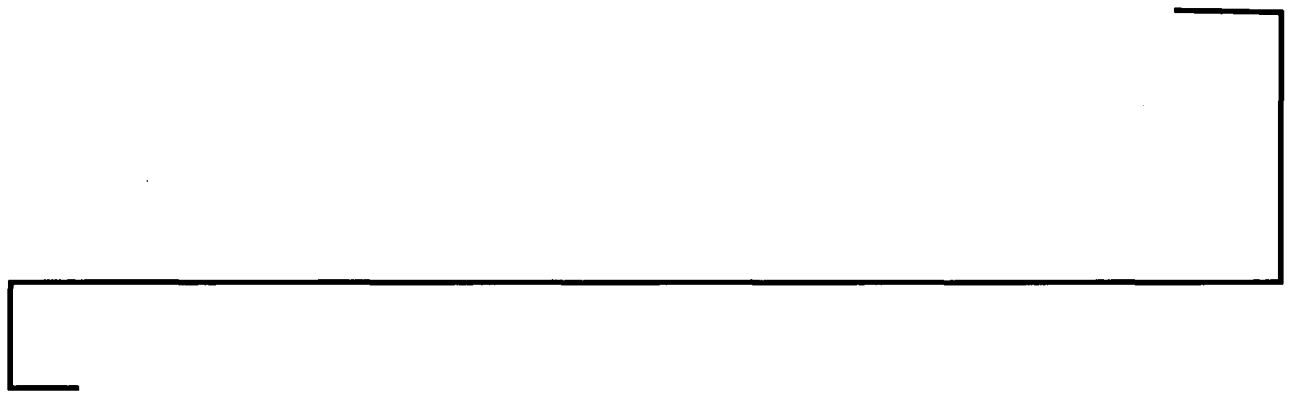
5

European Retail Bank

May saw the go-live of the retail automotive portfolio for new contracts before full migration of existing contracts in October, with go-live for the wholesale portfolio taking place in September.

DEVELOPING
MOMENTUM

WE HAVE THE
BEST IN THE
BUSINESS...



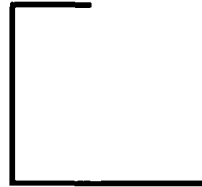
Cloud Hosted solutions

Global reach

Providing innovative solutions



Recruiting the best



Adapting our operations

Proven delivery

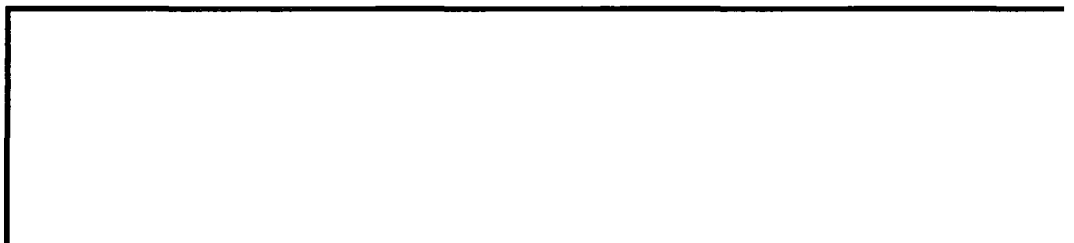
...IN OUR BUSINESS

**Alfa is growing: recruiting
new people through Covid-19,
and we continue to invest
in our graduate programme.**

Read more on [page 24](#)

Leading edge technology

Creating a positive impact



DEVELOPING MOMENTUM

Delivering across European locations

We delivered an upgrade for an equipment finance company across multiple offices in Luxembourg, Spain, the UK, and Germany.

Upgrading multiple locations simultaneously

We delivered a full upgrade for an automotive finance company across multiple offices in the Americas.

In numbers:

7

ongoing software
implementation
projects as at 31
December 2020

3

Alfa Start projects
completed or in the
implementation phase
as at 31 December 2020

5

successful go-lives
during 2020

10

Cloud Hosted projects
as at 31 December 2020

12

upgrades were
delivered in 2020

26

countries served

30

years in the industry

GROWING GLOBAL INNOVATION OPPORTUNITIES

**Live across four continents,
our class-leading software
platform is at the heart of
some of the world's largest
and most innovative asset
finance companies.**

Read more on [page 16](#)

Multiple time zones; no problems

We implemented, went live and delivered an upgrade for a global bank across multiple locations in three regions: Europe, Americas and Asia Pacific.

**DEVELOPING
MOMENTUM**

BUILT FROM OUR PURPOSE

**To deliver our leading-edge
technology with smart,
diverse people, making our
customers future-ready.**

AT A GLANCE

What we do

Software implementation

35%
revenue

We had seven ongoing implementations at 31 December 2020, an increase of one since last year end. One new and one restarted implementation project were offset by the completion of one implementation project earlier in the year. Software implementations vary in length and size depending on the complexity of the lending portfolio, the number of systems being replaced and the level of change management required. During a software implementation, there may be a number of go-live events as different portfolios are migrated. Software implementation includes both implementation and development services. Implementation services include data migration, testing, configuration of customer-specific automated processes and reporting.

Ongoing development and services

41%
revenue

Ongoing development and services ('ODS') represents additional services or development provided to customers after the go-live of the software implementation. It also includes work done pre-implementation for customers who have not yet signed a licence agreement. At 31 December 2020 we had four customers engaged on pre-implementation work, 20 post go-live customers procuring additional services and one implementation customer procuring additional services incremental to the services associated with their main implementation project.

Maintenance

24%
revenue

At 31 December 2020, we had 27 maintenance customers, up from 22 last year. Maintenance pricing is based on countries or geographical areas in which Alfa Systems is being used, the number of finance contracts managed on Alfa Systems and types of assets. In addition, by year end customers procuring Cloud Hosting services had doubled to 10.

Where we do it

Americas

£29m
revenue

37%
of revenue

We primarily served customers out of offices in Michigan and Texas, across the US generating £29m of revenue in 2020. We have deep experience of the US automotive finance sector, but with a growing presence in equipment finance.

EMEA

£47m
revenue

60%
of revenue

We had 19 customers based in Europe and Africa, including four of our ongoing implementation customers as at 31 December 2020. Alfa Systems has been implemented and is live in 17 EMEA countries, with a further expansion underway into additional countries over the next few years.

Rest of World

£3m
revenue

3%
of revenue

We have operations in Australia and New Zealand specialising in both automotive and equipment finance. As at 31 December 2020 we had 17 team members in this region.

Who we do it for

Banks

62%
revenue

Customers classified as banking institutions are finance entities associated with regulated banking groups.

Original equipment manufacturers

18%
revenue

OEMs include both equipment and automotive manufacturers, whose main purpose is the sale of the asset rather than the provision of financing.

Independents

20%
revenue

Independent customers are customers who are neither part of a regulated banking group nor manufacturers of the asset being financed. Independent customers tend to be smaller, both in portfolio volumes and personnel using Alfa Systems.

CEO BUSINESS REVIEW

“During 2020, despite the short-term challenges, we have continued to believe in our strategy of attracting the best people and investing in our product to support our long-term ambitions. This along with our successful delivery record and sales performance is developing momentum for our business.”

Andrew Denton
Chief Executive Officer

Strong financial and operational performance

2020 has been a volatile year from an economic and societal perspective. However, one thing which has remained constant throughout the year is the resilience and strength of our people and the consistent delivery to our customers, which has been largely unaffected by the events around us.

The year started with some encouraging signs from new contract announcements, but was then overshadowed by the impact of the Covid-19 pandemic. As part of our strong risk management processes, we implemented working from home for all employees in early March in advance of government-imposed lockdowns. The switch to remote working was accomplished smoothly and without disruption, across all of our offices, reflecting the investments we had made in our infrastructure, the flexibility of our systems and the dedication of our people.

We engaged with our customers throughout the year to ensure we understood how the pandemic was impacting their ongoing business and, where relevant, their plans for implementing and developing Alfa Systems. In the early stages of the crisis there was inevitably a lot of uncertainty around these plans, including the cancellation of a newly won contract with a US auto customer. Whilst we were cautious about the short-term outlook for the business, we remained confident in our medium to long-term outlook and so continued with our plans to grow the

business, recruit into our client-facing teams, and invest in our technology. Towards the end of Q2 and into Q3, we saw customers recommit to plans and in particular a number of customers look to upgrade to Version 5. We also saw an increase in interest from potential new customers. This was triggered in part by remote working highlighting the need for a digital offering.

We exited 2020 with a strong late stage pipeline, and with a renewal of interest in digital transformation from potential customers particularly in relation to our Alfa Start proposition and our Cloud Hosting services with 24/7 support.

We showed progress across all areas of the business, but with particularly strong growth in ODS and maintenance revenues. ODS revenues were boosted by pre-implementation work, along with post go-live support for a number of large customers. Maintenance revenues benefited from our growing customer base along with strong growth in our Cloud Hosting revenues. As a consequence, we have seen a strong financial performance with revenues up 22% on prior year at £78.9m (2019: £64.5m).

We have increased the total number of customers from 26 at the end of last year to 32 at the end of 2020, and this has helped to continue to diversify our customer base. The top 5 customers account for 48% of revenues in the period, down from 61% in 2019. We had ten customers contributing revenues of more than £2m in the period, up from seven last year. Average headcount for the period

Group revenue

£78.9m
£64.5m in 2019

Operating profit

£23.9m
£13.7m in 2019

was 341 (2019: 313) which, along with the pay increases awarded last year drove higher salary costs, but this was partially offset by reduced costs of travel, conferences and marketing, resulting in an overall increase in operating profit of £10.2m to £23.9m (2019: £13.7m).

Increasing our technology advantage

Alfa Systems is a market leading, digitally enabled platform, with functionality that we believe is unrivalled on a modern technology stack. This is enabled by continued investment and the quality of our engineers and subject matter experts.

During 2020 we continued to invest in Alfa Systems, and launched Version 5.6 which included a comprehensive redesign of the user experience along with many other features, enhancements and technical innovations.

Alfa Systems' new 'Mercury' user interface enables users to complete their daily tasks with ease in an environment that is fresh, clean and uncluttered. The new interface draws on end-user experience and Design Thinking to give users a more positive experience.

We have improved Alfa POSkit, our component-based toolbox for building Point of Sale applications with maximum agility.

We have also continued to deliver new functionality:

- Usage-based billing, a pay-per mile mobility solution that allows end customers to be billed only for the distance travelled by using real-time data collected through telematics devices installed in each vehicle
- Cash accounts, a new product for wholesale funders that pays interest on account balances, or uses the interest on account balances to pay off the interest on a loan
- New reference interest rates such as SONIA and SOFR to support the move away from existing money market-based rates like LIBOR

We continue to invest in further modularisation for our software. This initiative simplifies our code-base, which reduces the cost of maintenance whilst increasing speed of development for new functionality and features. We are also investing in our software development lifecycle by improving the tooling and processes for making changes to the system, giving quicker developer feedback from our extensive automated testing, and ensuring that our development is more efficient.

Accelerating growth with Alfa Start

Alfa Start is our Cloud Hosted entry level version of the Alfa Systems platform. It uses a predefined, leading practice configuration and process catalogue which allows any finance company to take full advantage of the proven Alfa Systems platform, which until now has been within reach only of larger, more established operators. This optimised approach accelerates systems change, maximises value and minimises risk, and enables lean businesses to automate and innovate. Alfa Start customers can be in live production with their new system in less than 20 weeks, quickly leveraging Alfa's functionality and performance. It can also be used as an accelerator for all implementations, cutting the time to get even large scale customers live using a Minimum Viable Product approach.

In the first half of 2020 we successfully went live with an Alfa Start implementation for Hampshire Trust Bank in the UK, delivering within 19 weeks.

We have continued to refine the Alfa Start package and during the year, Alfa Start was formally launched for the US Auto Finance sector, where we are building on our long-established experience of working with market leading companies in that market. In October we announced that we had achieved a successful go-live for a US automotive manufacturer, our first US Alfa Start for a US Auto customer, in under 23 weeks. We have an implementation underway for another UK equipment customer, due to go-live in Q1 2021.

Cloud Hosting growing

Cloud Hosting is becoming an increasingly important part of our business. It not only provides a predictable, accretive revenue stream for us and a great service for our customers, but also allows us to provide environments quickly to enable projects to get started.

During the year we announced four new contract wins for our Cloud Hosting solution. These were with a major South African bank to support a multi-phase implementation, a leading UK provider of auto finance solutions and two UK equipment finance companies. One of the UK equipment finance companies was an existing customer that is upgrading from Version 4 to Version 5 as well as moving to our Cloud Hosting solution.

We now host a total of 10 customers. Two of these are in pre-implementation, four are in implementation and four are in live production. Monthly revenues grew from £0.1m per month in January 2020 to £0.4m per month by the end of the year.

Our Differentiators

This is why our customers choose Alfa Systems.

Delivery track record

Our best practice methodologies and specialised knowledge of asset finance enable us to deliver large system implementations and highly complex business change projects. With an excellent delivery record over three decades in the industry, Alfa's track record is unrivalled.

Unify systems

Alfa Systems helps customers reduce complexity by consolidating legacy systems and eliminating integrations and workarounds. Alfa Systems removes these inefficiencies by using a single platform with a single database.

Innovate and challenge in multiple markets

Multi-entity, multi-regulatory, multi-currency and multilingual. We react quickly in a complex and changing market and adapt to match business requirements and customer needs as they evolve.

Create an omnichannel experience

We empower customers, dealers and vendors through enhanced self-service and omnichannel technology. We operate with a clear and complete picture of the customer journey, from onboarding, throughout in-life management to end of term and retention.

Perform through leading-edge tech

Alfa Systems is designed ground-up with the latest technology to allow easy integration into other systems and work in a web environment with scalable performance, proven for a 10 million-contract portfolio.

Achieve operational agility

Streamline operations through process automation, across different functions and geographies. Achieve greater control, connected processes and a seamless flow of information.

CEO BUSINESS REVIEW CONTINUED

Growing partnerships

A key component of our growth strategy is to develop strategic alliances with selected partners. The partners increase our operational capacity with flexible resource, and also enhance our capacity to target new customers in both existing markets and markets where we are not currently present.

In February 2020 we announced a global partnership agreement with a leading international professional services firm and at the end of the year we agreed a global partnership agreement with another international professional services firm which took our total number of implementation partners to six. These agreements will help us to accelerate our ability to deliver Alfa to customers who want the operational and financial advantages that Alfa Systems can bring.

During 2020 partners worked with us across six different projects with customers in four different countries, and since the year-end we have partners now working on an additional project.

Exploring opportunities in AI through Alfa iQ

In May we formed Alfa iQ, a 51:49 joint venture between Alfa and Bitfount, a company founded by Blaise Thomson. The joint venture structure allows Alfa iQ to address the widest possible market.

Blaise was a founder and CEO at VocallQ, which was sold to Apple in 2015. He then led the Apple Engineering office in Cambridge, UK until he left in 2019 to start Bitfount. The joint venture has been created to greatly enhance Alfa's ability to develop artificial intelligence solutions for the auto and equipment finance industries. We believe that this has the potential to be transformational for our customers in how they use and understand data to make better decisions and improve their performance.

Alfa iQ is working on three engagements already, understanding data and exploring potential options for development.

During 2021, Alfa iQ plans to build a decision support architecture that is tightly integrated with business process automation tooling and includes real-time, intelligent proactive and reactive decision-making as well as informed strategic decision-making.

This joint venture is at an early stage and is aiming to impact revenues in 2022. As Alfa iQ meets the definition of a joint venture as per IFRS 11, all profits and losses made by Alfa iQ will be equity method accounted for in line with IAS 28.

In September 2020 Alfa also published its second position paper on artificial intelligence titled 'Using Machine

Learning in the Wild'. This paper describes two machine learning related projects that Alfa engineers had pursued as part of Alfa's innovation framework. It has interesting insights into the trade-offs between adopting off-the-shelf approaches and building up models internally, as well as showing how much can be done with a relatively small investment.

Board evolution and governance

In the first half two new Non-Executive Directors, Adrian Chamberlain and Charlotte de Metz, were appointed to the Board, and Duncan Magrath was appointed Chief Financial Officer. Below Board level, the addition of Vicky Edwards as Chief People Officer completed the Company Leadership Team which now comprises eight people and blends deep Alfa experience with new external expertise. I am delighted with the Board and leadership team we have assembled and I am enjoying working with them, albeit remotely at the moment.

On 22 July 2020 we announced that as a result of a competitive tender process we had appointed RSM UK Audit LLP (RSM) as our new auditor. To ensure that we can work with the widest range of partners possible, Deloitte, our previous auditor, which is one of the leading service providers to the global asset and automotive finance market, was not considered as part of the tender process for our audit. The appointment of RSM as auditor for the 2021 financial year will be subject to approval by shareholders at the next Annual General Meeting of the Company to be held on 10 May 2021.

Strong engagement with our people

In response to Covid-19, we did not furlough any staff, have not taken any government support though the pandemic, and provided funds to support home working. We proactively moved to remote working in advance of government-imposed lockdowns, and our offices generally remained closed through the year. Where safe to do so, and where allowed under local rules, we reopened offices for those who wished to return to an office environment. Where needed we have supported homeschooling by providing time off. We currently do not expect full-scale office working to return before September 2021 at the earliest and are considering what our working model will be once the impact of the pandemic has eased.

Along with the Board and Company Leadership Team changes noted above we have continued to invest in our people, both by continuing to recruit but also committing time and effort to ensure we maintain engagement despite the difficulties of remote working. We held both our annual global conference and global Christmas meeting remotely, and

we have continued to encourage feedback through regular Company meetings, and engagement surveys. We also held live video meetings where the whole Company can ask questions of the senior management and, on one occasion, the Non-Executive Directors as well.

We continue to monitor the engagement of our people through our bi-monthly Pulse surveys. Through active communication to ensure that our people understand our strategy, objectives and performance and keeping them up to date with developments, our engagement rating has consistently been above 70% since March 2020, and continued to improve through 2020.

We recognise that the Covid-19 pandemic has imposed many difficulties on our people, but they have tackled them with great commitment so we would like to thank them for all their efforts this year and we are confident that they will continue to do so as the situation develops.

Making a positive impact

One of our core values is 'Making a positive impact' and I am delighted that despite the challenges of 2020, we have continued to live this value throughout the organisation and we have made exceptional progress in the year.

We have been more focused in our environmental and social efforts, using four of the United Nations Sustainable Development Goals to help direct our work. The four goals we chose to work with initially are: Quality Education, Gender Equality, Climate Action and Partnerships.

We have provided the environment to help the formation and growth of new communities within Alfa, for example, the growth of the Women's Community and the formation of the Alfa for Racial Equity Group. These communities and others have organised many social talks and events for us to engage the company and support wellbeing. Externally we have highlighted important issues by using our corporate voice to support and champion bodies such as the Black British Network, Stonewall and the Women's Association, and we have supported our supply chain through a difficult year.

Special dividend and initiation of regular dividend payments

We remain a strongly cash generative business and clearly have excess capital for our present and predicted needs.

Having carefully considered both our short-and-medium term requirements including a number of downside scenarios, the Board decided to declare a special dividend of 15 pence per share which was paid on 6 November 2020 to shareholders on the register as at 16 October 2020, with the shares going ex-dividend on 15 October

2020. This amounted to a total return of capital to shareholders of £44.2m.

We continue to be cash generative, and our cash balance was £37.0m at the year end, even after the payment of the special dividend.

Looking forward, we believe that Alfa will continue to be able to sustainably support investment in growth and its technology through organic means. Therefore, the Board has concluded that it would be appropriate to start a regular program of dividends, starting with an initial dividend of 1.0 pence per share for the full year ended 31 December 2020. The Board intends to progressively increase the dividend as the company grows, whilst ensuring that we retain a strong balance sheet.

Resilience of underlying asset finance market

The underlying asset finance market tends to be relatively resilient in economic downturns, because it is a more secure form of lending, meaning its share of the overall finance market tends to increase. We saw greater resilience in the US than in the UK and Europe although there were reductions in new lending all regions in the first half of the year, but with significant improvement in the second half. The medium-term resilience in the auto and equipment finance market means that in the related software market, big systems projects that are underway tend not to get stopped, although projects can look to save money in the short term which can change plans. We do however expect that the pandemic is accelerating opportunities from those businesses who have found their systems have not been flexible enough to cope with remote working, changes in regulation, and the need to quickly reschedule payments. These organisations are now looking to digital technologies to improve operational efficiencies and transform their business.

Good pipeline development in target markets

2020 was a successful year for pipeline development in our core target markets of US Auto, US Equipment, European multinational and the UK. Continuing to be successful in these core markets allows us to deliver more implementations more quickly.

We are also becoming a leading supplier for global brands. For some customers we increasingly support them across multiple continents, and we can provide a seamless joined up approach that few of our competitors can rival. Lifting and shifting a product from country to country allows us to go faster and is in line with our vision of delivering more concurrent implementations.

We define our early stage pipeline as prospects where there is active engagement with a potential customer through either

a demo or responding to an RFI (Request for Information). Our late stage pipeline includes prospects where we are at the workshop stage or where the work has been won subject to completion of contracts.

During the first half of the 2020 we saw a reduction in our early and mid-stage pipeline, partly as a result of good progress of opportunities into the later stage of the pipeline but also an absence of lead activity which we believe was a result of the impact of Covid-19 on customers' desire to think about initiating large new systems projects.

The second half saw a return of new prospects and so we see the early-stage pipeline as having largely recovered back to the levels of last year end.

The late stage pipeline from the beginning of the year developed well with five opportunities progressing to signed contracts, offset by one small project being cancelled, and one large project which did not progress beyond the pre-implementation work. With the good flow through to the late stage pipeline, we have ten opportunities with final negotiations/discussions underway.

Outlook

During 2020 we have started to build real momentum in the business despite the impacts of the pandemic. We have continued to develop our product, we have recruited more implementors and engineers, we have successfully delivered five go-lives, and we have started to get real traction with our Cloud Hosted solution. This combined with a cash generative business model and a very strong balance sheet means that we have the structures and resources in place that would enable us to see further revenue growth in 2021 if the pipeline converts.

The nature of our current business model is that whilst we have good visibility for the next six months, contractual cover falls off quite quickly thereafter and so whilst positive about our prospects, in the current environment we remain cautious in setting our expectations. Consequently, we currently expect 2021 revenues to be in line with 2020 underlying revenues on a constant currency basis. We will continue to invest for the future by growing our team further to enable us to convert our sizeable late stage pipeline. In addition profitability will be further impacted as some travel and marketing expenses rebuild as lockdowns ease. We continue to believe in our strategy of attracting the best people and investing in our product to support our long term ambitions.

Andrew Denton
Chief Executive Officer

Our Covid-19 response

The impacts of Covid-19 are being felt across the globe. We were fortunate that our business model meant that we were impacted a lot less than others.

1. Speedy response

Our Incident Response Team met regularly at the start of the year, before the scale of the crisis was understood, and we swiftly moved to remote working in advance of government imposed lock-downs, and provided support for our people to work from home.

2. Resilient operations

We already had the systems and infrastructure in place to ensure that we could quickly transition to fully remote working. This, along with the dedication of our people, meant that our ability to support our customers was unaffected. We have continued to recruit and have had over 54 people join since we closed our offices, with induction and training being conducted remotely.

3. Supporting our people

We did not furlough any of our staff, but refocused those people who previously supported our offices and conferences to supporting people working remotely, through organising regular meetings and events, both company focused and social, to ensure that everyone remained connected and to maintain the Alfa culture.

4. Financial measures

Our strong balance sheet meant that we entered the pandemic with significant cash reserves. Throughout the year we have continued to be strongly cash generative, so much so, that we were able to pay a special dividend in November, and still retain a healthy cash balance. We have not accessed any government funds throughout the period. Any incremental costs that we have incurred with remote working have been more than outweighed by savings in travel, accommodation and marketing costs.

MARKET OVERVIEW

Alfa has been at the forefront of the digital revolution in asset finance. Significant investment into our Cloud Hosted offering means that this is also a top-quality proposition and both aspects together mean that we are well positioned to meet customer requirements.

Technology trends

The industry continues to evolve technologically: companies now routinely look for digital solutions, capable of interacting seamlessly with the rest of their systems landscapes. A desire for artificial intelligence ('AI') and machine learning ('ML') also plays an increasing role, although the industry remains unsure of how to use these tools.

The restrictions in movement caused by Covid-19 have seen companies move further online, with customer portals and apps seen as the future. Similarly, Cloud Hosted solutions are easily accessible from anywhere, also removing the need for physical hardware. Both elements bring risk, however, with a need for greater focus on information security.

What this means for Alfa today

Alfa has been at the forefront of the digital revolution in asset finance, and Alfa Systems has a rich application programming ('API') allowing seamless connectivity. Significant investment into our Cloud Hosted offering means that this is also a top-quality proposition, and both aspects together mean that we are well positioned to meet customers' requirements.

What this means for Alfa tomorrow

Alfa's joint venture, Alfa iQ will provide industry-leading direction into the use of machine learning, and the possibility of incorporating ML into a range of Alfa processes is an exciting one. Our Digital Gateway module allows clients to build deep integrations from portals and apps without Alfa assistance, and we expect to see this use case accelerate.

How this links to our strategy

Product Sales

Global trends

2020 was dominated by the difficulties posed by Covid-19. However, asset finance has always been a resilient industry. After a period of uncertainty, it became clear that asset finance would remain important, and companies returned to considering IT projects.

Covid-19 has changed the focus, however, with requirements around payment holidays and flexible billing profiles suddenly becoming crucial, and collections requirements now also rising.

One unchanged element is the move towards Everything as a Service (XaaS), with usage-based billing becoming more prevalent and mobility solutions still viewed as an important growth area.

What this means for Alfa today

Alfa Systems has long had the flexibility to allow uneven payment structures and payment holidays, which allowed Alfa clients to act quickly when the pandemic struck and puts Alfa in an excellent position for future sales. While macro conditions will remain challenging, Alfa has weathered the storm, and the sales pipeline is strong.

What this means for Alfa tomorrow

Alfa continues to invest in its product, with new-look collections functionality scheduled for early 2021 to respond to market demand. Similarly, while Alfa already supports a range of usage-based billing products, further work in this area is planned.

How this links to our strategy

Product Simplification

EMEA

Large multi-national companies dominate the European market, and with Covid-19 hitting profits, the cost savings available from multi-country IT rollouts have never been more in demand. At the same time, smaller companies serving niche markets continue to appear, particularly in the more mature markets.

In Alfa's home market, the full effects of Brexit are still to be established. While it seems that Brexit will not affect asset finance products directly, the reduced freedom of movement may have impacts. In parallel, the shift from LIBOR to SONIA means many finance companies must rethink their variable rate products.

What this means for Alfa today

Alfa's product flexibility and delivery experience across Europe means it is well placed to implement multi-country projects successfully. The 2020 launch of Alfa Start means that Alfa now also provides for the smaller end of the market. Meanwhile, the existence of Alfa's German subsidiary mitigates some of the risks of Brexit.

What this means for Alfa tomorrow

As Alfa continues to implement successfully with its European client base, we will extend our functional footprint to meet the requirements in additional countries, further enhancing our multi-country proposition. In the UK, the first client will go live in 2021 with our market-leading SONIA functionality.

How this links to our strategy

Product Delivery Simplification

USA

The US response to Covid-19 has resulted in a sharp but only partial economic recovery and a long-term recession remains likely. However, low interest rates have boosted loan volumes and some sectors have prospered. For example the used car market has been driven to highs due to low new vehicle inventories.

In auto finance, Covid-19 restrictions have accelerated the nascent trend away from dealerships and towards direct sales, often online. More generally, IT implementations themselves are moving online, with travel reductions again accelerating the trend for distributed working. Implementations are also moving to shorter, incremental approaches allowing clients to realise benefits more quickly.

What this means for Alfa today

Alfa Systems supports any class of asset, new or used, mitigating against a downturn in one sector. While dealer networks remain important, our experience in other verticals means we already support the growing direct market. Alfa's proven delivery methodology flexes to align with a customer's requirements, allowing us to support both traditional and agile deliveries.

What this means for Alfa tomorrow

We expect the distributed working policies introduced by clients for Covid-19 to continue beyond the current pandemic. These result in reduced travel expenses and time, and allow more of our people to support multiple clients. This will also make working with partners easier, again allowing us to increase our number of concurrent deliveries.

How this links to our strategy

Delivery Partnerships

Australia and New Zealand

While Covid-19 hit Australasia along with the rest of the world, strong leadership meant that the effects were minimised, and after an initial slump business has mostly continued as usual.

The market in these countries is smaller than Europe and the US, and the banking sector in particular is concentrated on four main players. However, agriculture and mining are large and growing markets, meaning that both local and global equipment captives also see opportunity – as do global auto captives, particularly from Asia.

What this means for Alfa today

With a smaller market, Alfa's ability to build strong and long-lasting relationships is crucial in maintaining its position, and clients of over 15 years are testament to this. At the same time, our ability to provide a single package that covers multiple markets makes us a good fit for global players.

What this means for Alfa tomorrow

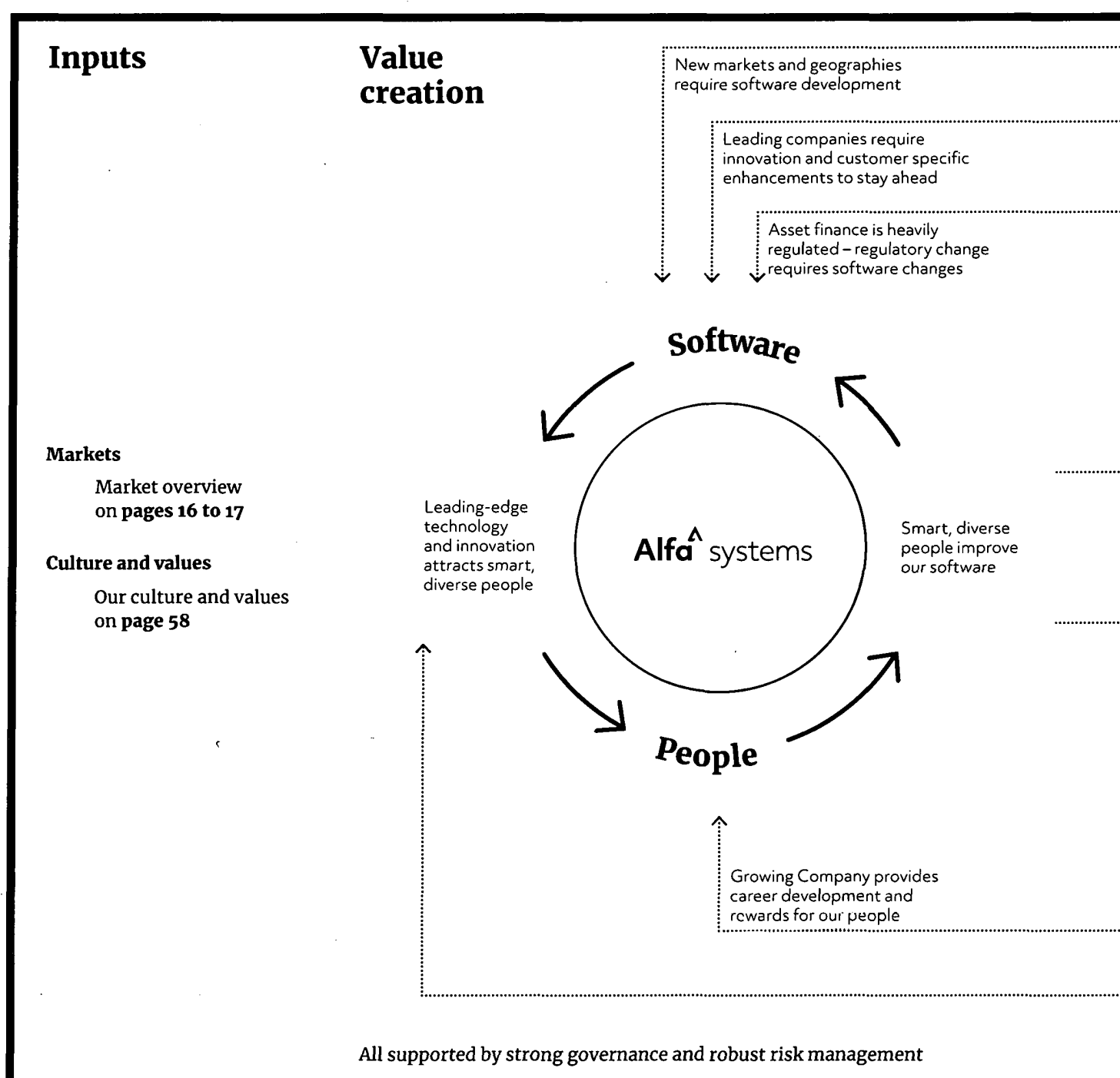
The reduced impact of Covid-19 means an increase of opportunities for the Australasian market in the medium term, and Alfa's long-standing presence gives us a strong platform for growth. Global relationships will also play a part, with multiple current Alfa clients looking to bring their Australian portfolios onto the system.

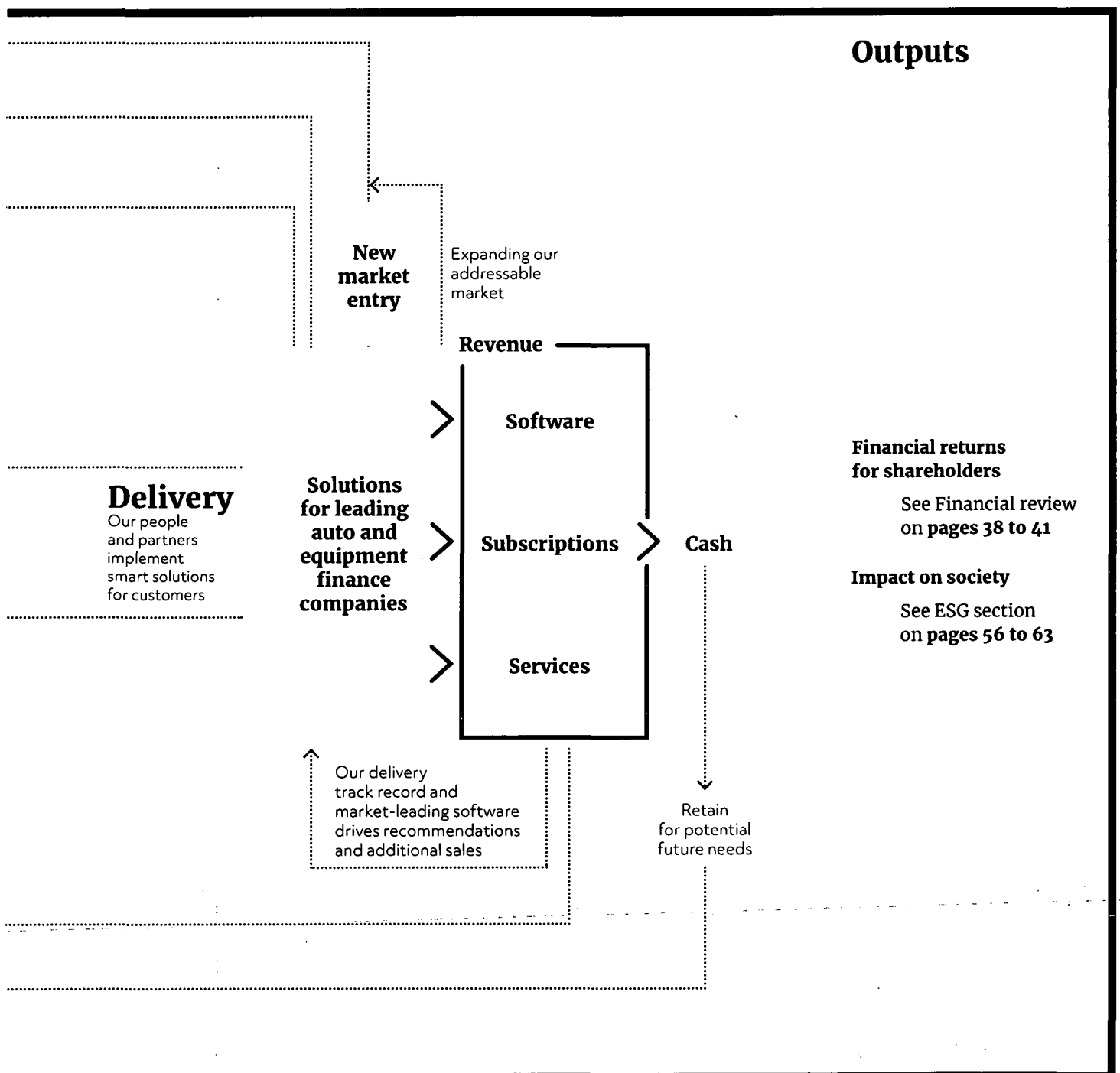
How this links to our strategy

Product Simplification

OUR BUSINESS MODEL

We create value by successfully delivering leading-edge technology, with smart, diverse people across the breadth of the auto and equipment finance industry.





ALFA INVESTMENT CASE

ALFA SYSTEMS IS A LEADING ASSET FINANCE SOFTWARE PLATFORM

**Purpose-built for asset
finance enterprises
globally, developed to
meet the current and
future needs of the global
asset finance industry.**

1

Strongly positioned in a large resilient addressable market with clear structural growth drivers

We have an established position of leadership in the asset finance software market, underpinned by our experience, our track record of delivery, and our in-depth understanding of the asset finance industry.

Changing regulations (for instance risk-free rates), the need for digital capabilities (accelerating as a result of changes in customer processes as a result of the global pandemic) and the need to replace ageing infrastructure and outdated systems are driving underlying demand for Alfa Systems.

We are committed to growing our market share by recruiting the smartest people, maintaining and developing our leading-edge technology, and surpassing customer expectations through delivery excellence.

3

Constant innovation delivers leading-edge technology embedding strong long-term customer relationships

Alfa has **invested significantly in the development of its technology platform** to ensure it is secure, reliable, resilient and scalable to grow with our customers' business ambitions.

Our **hosted solution adds further value** by reducing implementation timescales and provides a single, resilient, actively monitored infrastructure.

Our **strong, long-term customer relationships** drive recurring revenues as well as providing references for new prospects.

Our **suite of integrated modules** can be deployed and configured as a full end-to-end solution covering the entire asset finance lifecycle or alternatively to provide stand-alone support for functional or product areas.

We have multi-year relationships with our customers, built on our consistent delivery.

2

Our differentiated business model is difficult to replicate

30 years and growing

With an excellent delivery history over three decades in the industry, Alfa's track record is unrivalled.

Our business model typically involves the sale and deployment of our asset finance software platform into large enterprises, which have highly complex and varying requirements.

We are able to leverage our understanding of these complexities to enhance Alfa Systems – a **significant selling point** for new prospects.

Our Alfa Start methodology enables us to deliver a subscription-based service rapidly to smaller, less complex customers.

We have established a partner network that extends our sales channel and enables us to increase our capacity to implement more Alfa Systems, hence leveraging our IP.

4

Strong cash generation delivering a strong balance sheet supporting growth plans

A robust balance sheet

£37m

of cash (2019: £59m) and no bank debt (2019: £nil)

An impressive cash conversion rate

114%

(2019: 138%)

We have a clear strategy and a cash generative model that enables us to fund our growth internally

COMPANY STRATEGY

Our strategy for creating long-term sustainable business value. Everything we do at Alfa is aligned with our strategic hierarchy.

Our values

Challenge without being challenging

We do the right thing in service of the bigger picture. Use your knowledge and expertise to benefit others.

Create a positive impact

We want to make a difference for each other, our customers, and the communities we work within. Give something back.

Let great ideas grow

We believe that great things can come from anywhere. Have the confidence to share your ideas – they will always be received.

Make it better together

We believe everything can be improved through critical questioning. Whatever it is, ask yourself "how can it be better?"

Our purpose and Identity

To deliver our leading-edge technology with smart, diverse people, making our customers future-ready. We are a software and delivery company.

Our vision

To grow our company size naturally, but grow our impact rapidly – always retaining our underlying culture. Key to this is delivering more concurrent Alfa implementations, more efficiently, with a world-class product. We will have a big company impact, but a small company feel.

Our strategic priorities

People

Maintain our differentiation of market leading People.

We will attract, develop and retain a smart, diverse team. We will continue to offer a supportive, diverse and collaborative working environment and be considered to be an employer of choice.

Our objectives

- Retain and attract the best people
- Encourage inclusivity and diversity
- Provide career development and learning opportunities
- Make a positive impact to contribute to a more sustainable future
- Foster innovation throughout the Company
- Encourage open communication and strategic alignment

Strategy in action

pages 24 to 25

Product

Maintain our differentiation of market leading Product.

We will maintain our leading-edge technology and ensure its secure, effective delivery to make our people, and customers, future-ready. Our target markets inform and direct our product development.

Our objectives

- Reinvest in the product to increase value for customers and prospects
- Seize market opportunities for new products
- Continue to direct product roadmap by target markets
- Integrate Alfa Systems with best of breed solutions
- Drive innovation in our existing solutions

Strategy in action

pages 28 to 29
& 34 to 35

Delivery

Maintain our differentiation of market leading Delivery.

We will maintain our unrivalled track record for delivering large system implementations and highly complex business change projects.

Our objectives

- Successful delivery of all Alfa implementation projects and ongoing services
- Maintain strong customer engagement and loyalty

Strategy in action

pages 28 to 35

Sales

Focus on Cloud Hosted sales to our target markets as an engine for revenue growth.

We will grow our share of the enterprise asset finance sector and our sales approach is cloud-first. Our target markets inform and direct our sales and marketing effort.

Simplification

Enable more concurrent Alfa implementations, more efficiently, with a higher margin, by:

- Simplifying our product;
- Simplifying our implementations;
- Simplifying our processes across our organisation.

We will continue to invest in simplification to achieve our vision of delivering more concurrent Alfa implementations, more efficiently with a world class product.

Partnerships

Develop our partner network, to improve our sales opportunities and to enable more concurrent Alfa implementations.

We will work with a select group of partners to create additional sales channel opportunities and increase our delivery capabilities whilst maintaining quality.

Volume Market

Improve our offering for smaller asset finance providers as a platform for innovation and to increase our reach within our industry.

We will become a market leader in the volume market of the asset finance industry.

Our objectives

- Grow target market share
- Grow Cloud Hosted sales
- Grow incremental sales to existing customers
- Improve prospect engagement and sales process

Our objectives

- Improve product engineering scalability
- Simplify our supported codesets and platforms
- Simplify our implementation delivery approach
- Improve operational efficiency
- Improve management information and control

Our objectives

- Leverage our partner ecosystem for sales
- Scale and leverage our partner ecosystem for delivery
- Add to our partner ecosystem
- Deliver training to partners and maintain ongoing information exchange

Our objectives

- Continuous improvement of Alfa Start delivery
- Continuous improvement of Alfa Start product
- Win customers in the volume market, based on Alfa Start proposition
- Continue investment model for volume market

Strategy in action

pages 26 to 27
& 34 to 35

Strategy in action

pages 26 to 27
& 30 to 31

Strategy in action

pages 26 to 27
& 32 to 33

Strategy in action

pages 34 to 35

STRATEGY IN ACTION

Our people
Our success as an organisation hinges on being able to recruit, retain and develop our Alfa team, allowing our people to innovate and grow throughout their career.

Retain and attract the best people

- We undertook a full review of our Reward and Benefits strategy to ensure we are offering a competitive total reward package.
- Delivered a varied and comprehensive calendar of virtual social events and wellbeing activities to support everyone as we moved to remote working.
- Reviewed and enhanced our global mobility approach.

For 2021, we will continue to recruit the best talent in line with growing business needs, continually monitoring the external market to remain competitive. We will ensure new ways of working are considered to support our people and help with the added pressures for families and people with caring responsibilities. We will continue our wellbeing and social initiatives to maintain our unique culture.

Encourage inclusivity and diversity

- A new 'Alfa for Racial Equity' community was created to provide support for colleagues and increase awareness of key movements.
- In addition to our diverse calendar of social talks and events organised by our active communities, we also ran a series of Inclusion and Diversity workshops providing a safe place for everyone to share views, ideas and lived experiences.
- We improved our gender diversity across the organisation, but importantly at Board and Leadership level.
- For 2021, we plan to launch our Inclusion & Diversity Charter and help everyone understand the role they play in creating an inclusive culture at Alfa. The Charter will be supported by an action plan, which includes the development of a programme of inclusion and diversity training to ensure an inclusive culture where everyone can succeed.

Number of new employees

70

Career development and learning opportunities

- We have recruited an experienced L&D manager to ensure we support people development as well as skills and knowledge training.
- We successfully transitioned to remote onboarding and induction, as well as converting and delivering our initial technical training in a virtual environment.
- We achieved our target of an average of 5 learning days per person.
- For 2021, we will be focusing on a new approach for our graduates to include a formal rotation to provide a broader experience; developing a new management and leadership curriculum and undertaking succession, capacity and capability planning for key senior roles in support of team development.

Contribute to a sustainable future

Our focus is to:

- Continue to support our 4 chosen UN Sustainability Goals, increasing awareness and driving action across Alfa.
- To implement offsetting for carbon neutrality and update our corporate policies in support of lower carbon emissions.
- Champion our CSR communities, providing guidance and support for its calendar of events.

Link to strategy

People

STRATEGY IN ACTION CONTINUED

**Strategic investment
In our leading-edge
software to make our
customers future-ready.**

Delivering a faster Alfa Systems, more efficiently, enabling our customers to generate value earlier

As customers drive their businesses harder and expect more access to information, Alfa Systems' performance has been improved, continuing our journey to an always-available system. Simple deployment models, such as Cloud Hosting and Docker containers, enable us to deliver Alfa Systems more efficiently and earlier, allowing our customers to focus on their business differentiators rather than infrastructure. Meanwhile, the same hardware handles more users and processes portfolios faster, improving the user experience. Our support for alternate database platforms provides mechanisms for customer cost savings.

Investing in our whole engineering process, including our people, ensures that our onboarding, tools and infrastructure enable us to scale teams efficiently, whilst benefiting more from external expertise and leading-edge technology.

Continued system modularisation effort has separated workflow components allowing us to use them more easily in more contexts. As part of the Software Development Life Cycle (SDLC) initiative, we have made significant investment and progress towards providing better isolation between different parallel enhancements. Process, tooling and continuous integration framework changes to allow automated tests to run prior to being merged into the mainline are being further developed and verified ahead of rollout. This is anticipated to be a significant change to allow us to efficiently further scale our engineering team and improve release flexibility, which should benefit our customers.

Plans

Our future investments will continue to focus on shortening the cycle from requirements to delivery, ensuring that our customers receive the best service and are kept future-ready. We will progress our modularisation and SDLC initiatives, further focusing on simplification and bottlenecks. In parallel, we will continue to review and update our process to improve team autonomy and individual mastery within our engineering teams as well as to balance the different types of work we do.

Support for risk-free interest rate calculations

LIBOR, EURIBOR and other similar rates, used all over the world as a benchmark to determine customer interest rates, are being phased out in favour of risk-free rates such as SONIA and SOFR.

This year we've worked closely with the international Alfa user groups to implement a solution that is consistent with the usage of risk-free rates across other lines of business, and allows a smooth transition for existing business at scale. Alfa Systems could already handle different interest rate types and transitioning between them, but risk-free rates required new features, e.g. to support compounding of the rate separate from the margin. Relevant finance products were then amended to be able to use this new type of rate.

Read more in our whitepaper on the impact of LIBOR reform
<https://www.alfasystems.com/eu/perspectives/libor-reform>

Concise, responsive, clearer user interface

This year we introduced a new user interface to Alfa Systems, code-named Mercury, the first to be entirely driven by direct end-user feedback. The refresh to leading-edge technology has improved user experience and eased training requirements, while the faster, more seamless transitions have increased productivity.

We continue to engage in regular end-user research sessions, watching people use Alfa Systems in their day jobs. This helps guide us on how the user interface can be continuously improved and, combined with our close customer relationships, helps us to prioritise investment.

Alfa is committed to continuing collaborations with our customers, including through hosted user groups, identifying opportunities to create meaningful improvements and a seamless experience on the platform.

Link to strategy

Sales

Simplification Partnerships

STRATEGY IN ACTION CONTINUED



Alfa iQ

Alfa iQ was established to deliver intelligence to the world's auto and equipment finance providers.

Artificial intelligence and machine learning

Embedding Artificial Intelligence (AI) into business applications, more specifically through the use of Machine Learning (ML) is becoming more commonplace. Numerous organisations are using modern machine learning techniques to improve user experience and drive wider adoption based on data, from SaaS applications that we use every day through to auto and equipment manufacturers who are pushing the boundaries of what can be automated. With more tools and platforms being released all the time to facilitate machine learning, this is a branch of technology that is only going to become more mainstream, even in more risk averse industries like asset finance.

There are numerous challenges, covering areas as wide as ethics, bias, fairness, data quality and interpretability but none of these are insurmountable. The path forward will require collaboration between experts in business sectors with those who deeply understand the application of the right technology.

It is understandable that the excitement for the possibilities that AI and machine learning present could be weighed down by the associated risks and challenges but this is where we at Alfa feel that we can make a difference by applying our deep knowledge of asset finance and partnering with recognised experts to develop new propositions to better support customers in our target markets.

Potential cost savings for banks from AI applications by 2023¹

\$447bn

1. Autonomous Next research.

Highlights

2020 saw the formation of our joint venture with Bitfount, Alfa iQ. Alfa iQ was established with a mission to make access to assets efficient and successful by delivering intelligence to the world's auto and equipment finance providers. The joint venture brings together Alfa's industry experience and asset finance data structures, with Bitfount's team of AI data scientists. Our ambition is to provide the best machine learning models for the asset finance industry.

We have been steadily introducing Alfa iQ to leading industry players, including but not limited to existing Alfa customers. This has culminated in starting work with our first customer, with early results showing the potential for improved returns, which could be of the order of an increase of 1% or more in return on capital. In addition to our first customer, we have three qualified leads in the late-stage pipeline.

A core strategy group consisting of senior leadership from Alfa and Bitfount has worked to define the strategy for Alfa iQ, prioritising a roadmap of the use cases for AI in asset finance.

Plans

We will continue to work to expand our customer base, with the aim to deploy our first models into production. In order to achieve this, we will need to build out a core Alfa iQ team and our product offering. The latter will focus on the use cases which have been highlighted by our research and experimentation.

Another key objective will be to prove the advantages of AI over traditional approaches, helping the wider industry better understand the benefits and promote further adoption. For this purpose we will be producing further white papers on machine learning and aim to release a case study with one of our early customers later in 2021.

[Link to strategy](#)

Product

Delivery

STRATEGY IN ACTION CONTINUED

Cloud Hosting

Alfa Hosting is a fundamental part of our strategy to deliver Alfa more efficiently and offer our clients value earlier in the implementation process.

Delivery

- Live with four clients across EMEA and the Americas. Two of these used Alfa Start and one was a migration from an on-premises Alfa installation.
- Managing infrastructure for 10 clients currently in the project implementation phase.
- Provided infrastructure to accelerate projects which will eventually be managed by our clients in their data centres or the cloud.
- Supported other areas of Alfa Systems business providing environments and experience to support external partner and client training and our sales teams.

Alfa Hosting is a fundamental part of our strategy to deliver Alfa more efficiently and to offer our clients value earlier in the implementation process. When clients select Alfa Hosting, their users and engineers are able to start using Alfa from the beginning of the project in support of integration, configuration and testing. In 2021 we will continue to provide secure, high performance infrastructure to new and existing clients allowing them to focus on delivering value to their business.

Scalability

- Invested in our platform to automate the rollout of security and infrastructure patches. Reducing the time spent per environment on routine tasks will ensure that we can support an increasing number of environments for an increasing number of clients going forwards.
- Invested in a fully automated monitoring solution covering all aspects of our managed infrastructure to provide our 24/7 support team with exactly the information they need at the moment they need it. This will ensure that the teams supporting our client environments can provide a high quality service to an increasing number of environments without needing to scale the team.

2021 will see opportunities to automate more of our processes and to continue to improve the customer experience wherever we can. Our investment in technology and automation is allowing us to support a growing number of clients more quickly than we are growing the team.

Technology

- Delivered a complete solution for the deployment of the Alfa reporting platform along with offering the replication of real-time reporting data to client-managed data stores for consumption into a data lake or integration layer.
- Delivered support for OAuth/OIDC for API authentication and authorisation alongside a managed OAuth authorisation server offering clients flexibility in how they secure API access.
- Delivered support for flexible rate limits configurable against specific APIs. This will allow the safe deployment of internet-facing APIs for use in web applications or from external services and augments our digital strategy.

2021 will see a continued investment in our platform to support seamless multi-region disaster recovery, a client-facing management portal and investment in our containerisation strategy to simplify deployments. We will also be implementing support for additional messaging services such as Amazon SQS to provide our clients with more flexibility in their integration solutions.

Link to strategy

Delivery

Sales

Simplification

STRATEGY IN ACTION CONTINUED

Partnerships

Our partner programme is a key part of Alfa's long-term growth strategy.

Approach

Partnerships are an important growth accelerator, bringing a number of benefits to Alfa and our customers.

- Increased operational capacity through partner staff augmentation of our teams, allowing us to deliver more Alfa Systems implementations concurrently.
- Greater flexibility to change resourcing rapidly by leveraging our partners size and bench strength.
- Increased sales opportunities through joint business development and access to a wider range of customers through our partner network.
- Faster/less risky implementation projects through smoother system integration by skilled Systems Integrator (SI) partner resources with Alfa experience.
- Extended local market expertise, language skills and presence enabling more effective sales and implementation.
- Client-side resourcing capability through our partner network, allowing us to provide an additional service to customers.
- Extended product offering and simplified implementations through integrating Alfa Systems with complementary solutions from technology partners.

We work with a small, carefully selected partner ecosystem of like-minded organisations with geographical spread and complementary delivery capabilities.

We utilise three types of partnering – the first is staff augmentation where industry expert partner staff augment our teams and assist with our standard implementation consultancy work with Alfa priming the delivery. Typical roles include configuration, training and testing support.

The second type is working with Systems Integrators to perform activities outside of Alfa's standard implementation scope and which are key to the successful delivery of the project. Typical roles include programme management, integration development, test management, document production and report creation.

The third type is working with technology partners for out of the box integrations with best of breed solutions.

Highlights

This year we have successfully scaled our partner relationships, remotely onboarding one large partner intake and embedding more partners in our project teams, sales activities as well as in client-side/SI roles. On the delivery side, partner resources have been utilised across six customer projects in four different geographies and we have seen three partner assisted projects go live.

We have also grown our partner ecosystem, agreeing engagement terms with Accenture and initiating a global collaboration with another notable professional services organisation for the combined marketing and delivery of the Alfa Systems platform.

We have continued to invest in partner training, further developing our training programme including the creation of a technical course for SI partners. Updates to our partner portal and access to additional resources mean that our partners have better access to supporting information and tooling, bringing increased efficiencies.

Plans

In 2021, we will continue to scale our existing partnerships and evaluate other potential partners to strengthen further our partner ecosystem and core market coverage. This will include commencing partner assisted delivery in North America.

Partner
relationships

6

Proven partner assisted delivery

This year we have seen notable partner assisted delivery success with three partner assisted projects going live. Taking one of these projects below as a case study:

Alfa Systems implementation for a leading South African Bank

Approximately a third of the Alfa implementation team comprised staff augmentation partners from Teamwill Consulting. This ranged from between three and five partner resources over the duration of the project, covering Alfa Systems configuration, supporting the creation of business processes, producing new document templates and supporting the client reporting and UAT activities. All partner resources came with strong industry knowledge and systems implementation experience, and for the lead partner resource this was his fourth Alfa project.

Quoting Nathan Dean, the Alfa project manager, regarding his experience managing a partner assisted team:

"I have been really impressed with the partners from Teamwill assisting on the project. They are smart, confident and experienced, and they've been successfully delivering on a number of key roles on the project and providing the high level of service I would expect of an Alfa consultant. What's more, they fit in really well with the Alfa and client teams, which is something that I think is equally important, particularly when working on secondment as we have been".

Partner assisted project go-lives in 2020

3

Ongoing partner assisted projects

4

Sales collaboration helping to secure long-term growth in our project pipeline

Sales collaboration is an important aspect of our partnerships, with new sales acting as a growth accelerator, both for Alfa and for scaling our partner relationships further. Selling with partners also enhances the effectiveness of our partner relationships through mutual trust and cooperation.

In EMEA we have one early stage opportunity that will be a co-bid with a partner. In North America we have two late stage opportunities which, if sold, will be our first partner assisted delivery projects in this region.

We work closely with our partners on joint marketing and research opportunities, enhancing our visibility within the industry and giving our collaborations increased credibility with prospective customers.

Partners continue to provide local language and market expertise that is invaluable in the sales process, particularly with regard to new market entry opportunities.

We have also benefited from increased sales channel opportunities via our partner relationships and the extended global reach and credibility they provide.

[Link to strategy](#)

Delivery

Partnerships

STRATEGY IN ACTION CONTINUED

Alfa Start

Alfa Start not only highlights the ability of our people to deliver Alfa projects, but also their creativity, collaboration and expertise within the asset finance industry.

What we have done during the year

2020 saw a number of Alfa Start successes with the first UK Equipment Start and US Auto Start implementations going live in 19 and 22 weeks, respectively. This coincided with marketing launches for each variation, increasing market awareness and bringing Alfa Start to the forefront of discussions with prospective clients.

2020 also saw the commencement of a second UK Equipment Start project and a number of other new projects using Alfa Start as an accelerator. This was not just limited to the markets for which Alfa Start directly serves; we also saw projects in other regions, such as Asia Pacific, use Alfa Start to propel their implementation. Projects that implement Alfa Start as an accelerator serve as a useful tool for expediting implementations, exploring future Alfa Start offerings and providing another avenue for feedback and subsequent development of our existing products.

A number of internal investment initiatives have also begun to ensure continuous development of Alfa Start. This includes incorporating project feedback and new product features, expanding functional and integration capabilities, establishing more client-facing documentation and improving internal testing.

Why this is exciting for Alfa

Alfa Start contributes to Alfa's strategy by consolidating the expected use of Alfa, allowing us to add new clients without increasing the complexity of the software we build and maintain.

Alfa Start facilitates quicker implementations both through the Alfa Start implementation model and as a project accelerator. The amount of effort often duplicated across implementations is reduced, enabling more concurrent projects.

The rapid implementations enabled by Alfa Start make the Alfa Systems product available to a wider range of customers, not just Alfa's traditional large enterprise implementation customers. It also complements phased implementation approaches, allowing them to realise value sooner.

Alfa Start is a product of internal strategy and investment. Its success and interest from our target markets in 2020 reinforces our direction and processes. Furthermore, Alfa Start also highlights the ability of our people to not only deliver Alfa projects, but also their creativity, collaboration and expertise within the asset finance industry.

First UK Equipment Start implementation live in:

19 weeks

How it has contributed to the Alfa strategy

Alfa Start enables simplification in a variety of areas of an implementation project including planning, process design, testing, and integration design and build. Shorter implementation timelines present Alfa as a more competitive package, especially amongst smaller asset finance providers in key markets.

Alfa Start is complemented by Alfa Hosting, which allows clients to use Alfa without having to establish and maintain environments. Together, both allow the client to go live quicker with an Alfa platform that meets both the functional and technical requirements.

Finally, Alfa Start consolidates the expected use of Alfa, making partner onboarding simpler and in turn providing more options for project staffing. This, combined with the reduced implementation timelines, make Alfa Start a key factor in Alfa's ability to run more concurrent implementations.

2021 opportunities

Recent years have seen a shift in appetite for technology projects amongst asset finance providers.

The emphasis is now less on projects with large scope and long implementation timelines, and more on minimum viable product implementations. It is expected that this trend will continue in 2021.

Alfa Start satisfies this demand, allowing clients to implement Alfa Systems sooner and make changes after go-live. This year has highlighted the importance of strong enterprise technology and it is expected that the economic implications of Covid-19 will result in more providers looking to cheaper implementation models.

2021 will also see a number of existing implementations progress. The benefits of Alfa Start are compounding; each implementation provides the opportunity to gather feedback, build more expertise, make improvements and build our Alfa Start user group. This, combined with keeping our Alfa Start offering in line with Alfa's latest features, industry trends and technology will further cement our class-leading offering.

**First US Auto Start
implementation with
a strategic client live in:**

22 weeks

Link to strategy

Product

Delivery

Sales

Volume Market

KEY PERFORMANCE INDICATORS

Measuring our performance

Alfa measures a range of Financial and Operational metrics to help manage business performance. During 2020 we reviewed our KPIs and rationalised them to focus on those that are most critical to performance delivery.

Our strategic priorities

People	Product	Delivery	Sales
Simplification	Partnerships	Volume Market	

Financial

Group revenue £78.9m

2020 performance

Group revenue performed positively across all revenue streams with particularly strong growth in ODS and Maintenance. ODS revenues increased as a result of activity with pre-implementation customers, along with increases in post go-live support for some of our customers.

Why do we measure this?

Growing revenue is a measure of customer and business success. It is central to our objective of growing by maintaining our leading competitive position through differentiation of People, Product and Delivery.

Linked to remuneration:
Yes

Links to strategic priorities:

Operating profit £23.9m

2020 performance

The favourable Operating profit performance was driven by increased Group revenues, partially offset by an increase in the cost base as we continued to invest across the business, principally in headcount. Some of the cost increase was offset by reduced spending as a consequence of the pandemic.

Why do we measure this?

Operating profit is an indicator of the Group's profitability. It can be used to analyse the Group's core operational performance without the costs of capital structure and tax expenses impacting profit.

Linked to remuneration:
Yes

Links to strategic priorities:

Operating profit margin 30%

2020 performance

Operating profit margin has improved significantly during the year due to the benefit of Group revenue flowing through to Operating profit at a greater rate than the cost base increase (see comments under Group revenue and Operating profit above).

Why do we measure this?

Operating profit margin is a measure of how effectively we sell Alfa Systems and manage our cost base. It also allows comparison across different companies and sectors.

Linked to remuneration:
Yes

Links to strategic priorities:

Cash £37.0m

2020 performance

During 2020 a special dividend of £44.2m was paid, reducing the Group's Cash balance. After adjusting for this underlying Cash has further improved due to a favourable Operating free cash flow performance together with collection of £3.6m of one-off licence revenues recognised during 2019.

Why do we measure this?

Cash is critical to allow the Group to cover its expenses, provide funds for investment, growth and to meet its long-term needs. Cash generation is a good indicator of the underlying health of the business.

Linked to remuneration:
Yes

Links to strategic priorities:

Operating free cash flow conversion 114%

2020 performance

Operating free cash flow conversion continued to perform well driven by positive business performance and continued focus on cash management. Relative to 2019 the metric has reduced due to that year's performance being boosted by the recovery of receivables where the related revenue was recognised in previous years. Note 2018 and 2019 have been restated – see page 37.

Why do we measure this?

A strong unencumbered balance sheet position is key to growing the business in the future. Our business has always been cash generative and this KPI allows us to monitor cash flows before investment in capital projects.

Linked to remuneration:
Yes

Links to strategic priorities:

Total contract value (TCV) £112.9m

2020 performance

Year on year total TCV has seen significant growth from 31 December 2019 with improvements across all elements and in particular increases in ODS and Maintenance TCV. See page 39 for further detail.

Why do we measure this?

Helps to predict revenue and the value of a contract over its lifetime, which will generally extend beyond the current financial year. See page 37 for a detailed explanation of the calculation.

Linked to remuneration:
No

Links to strategic priorities:

Definition and KPI calculation method

In considering the financial performance of the business, the Directors and management use Key Performance Indicators (KPIs), some of which are defined by IFRS and some of which are not specifically defined by IFRS.

We believe that Operating free cash flow conversion is a key measure required to assess our financial performance. It is used by management to measure liquidity. This measure is not defined by IFRS. The most directly comparable IFRS measure for Operating free cash flow conversion is Cash flows from operations. The measure is not necessarily comparable to similarly referenced measures used by other companies. As a result, investors should not consider this performance measure in isolation from, or as a substitute analysis for, our results of operations as determined in accordance with IFRS.

The calculation method for each metric is as follows:

(1) Headcount

Represents the number of Alfa employees under contracts of employment as at 31 December of each year.

(2) Retention rate

Represents the retention of Alfa employees over the previous 12-month period, excluding any managed staff attrition.

(3) Total contract value (TCV)

TCV is calculated by analysing future contract revenue based on the following components:

- (i) an assumption of three years of maintenance and Cloud Hosting payments assuming these services continued as planned (actual maintenance and Cloud Hosting contract length varies by customer);
- (ii) the estimated remaining time to complete any software implementations and recognise deferred licence amounts (which may not all be under a signed statement of work). Where licence is paid on a monthly subscription it has been assumed to continue for three years assuming these services continued as planned; and
- (iii) ODS work which is contracted under a statement of work.

Given this KPI is forward looking, in calculating the TCV we have used the budget 2021 exchange rates. These budget rates are; USD; 1.29, EUR; 1.11, AUD; 1.84, and NZD; 1.96.

(4) Employee engagement

Extracted from bi-monthly employee Pulse survey ratings. Questions asked are "Would I recommend Alfa to a friend as an employee", "I am happy with Alfa's strategy and business goals" and "Alfa has an excellent atmosphere and culture."

(5) Operating free cash flow conversion

Operating free cash flow is calculated as cash generated from operations, less capital expenditures, less the principal element of lease payments in respect of IFRS16. Operating free cash flow conversion represents Operating free cash flow generated as a proportion of Operating profit.

As explained on page 41 we no longer report the Adjusted EBIT measure. Operating free cash flow conversion was previously calculated using Adjusted EBIT rather than Operating profit. In addition, total lease payments were previously included in Operating free cash flow; in order to make the cash flow measure consistent with the profit measure we have changed Operating free cash flow to only include the principal element of lease payments. The 2019 and 2018 KPIs have been restated accordingly from 142% to 138% and from 87% to 86% respectively.

Operational

Headcount

360

2020 performance

Headcount has increased due to planned recruitment and investment continuing across the business together with an improved employee Retention rate.

Why do we measure this?

Our Revenue growth and ability to win new business is heavily dependent on the number and deep expertise of our people and therefore growing our team for the future is key to this goal.

Linked to remuneration:

No

Links to strategic priorities:

Retention rate

93%

2020 performance

The Retention rate has improved during the year due to greater employee satisfaction (visible in the significantly improved Employee engagement metric below) as a result of continued focus and initiatives to drive improvements in this area. This has also been helped by lower attrition due to the pandemic.

Why do we measure this?

Our deep expertise in the industry and our ability to service our customer relationships is driven by the quality of our people. A higher Retention rate demonstrates sustained engagement and maintenance of key skills and knowledge.

Linked to remuneration:

No

Links to strategic priorities:

Employee engagement

72%

2020 performance

Employee engagement has improved significantly during the year, to a three year high, due to a particular focus from senior management on this area. Initiatives to help employees stay positive during the pandemic have also contributed to this favourable performance.

Why do we measure this?

Measures levels of employee satisfaction and connection to the business. There is a positive correlation between employee engagement and business performance and the metric should be a lead indicator for Retention rate performance.

Linked to remuneration:

No

Links to strategic priorities:

Greenhouse gas emissions per 1,000 square feet (tCO₂e) 198

2020 performance

Our emissions have fallen significantly due to much reduced travel driven primarily as a result of the pandemic combined with a review of travel needs generally.

Why do we measure this?

Responsible operations and a commitment to a positive Environmental, Social & Governance (ESG) agenda. We are committed to a position of carbon neutrality through assessing our carbon footprint and emissions.

Linked to remuneration:

No

Links to strategic priorities:

FINANCIAL REVIEW

“Despite the challenges we have faced in the year we have delivered a strong financial performance and paid our first dividend as a listed company, whilst retaining a robust balance sheet.”

Duncan Magrath
Chief Financial Officer

Financial results

£m	2020	2019	Movement %
Revenue	78.9	64.5	22%
Operating profit	23.9	13.7	74%
Profit before tax	23.2	13.0	78%
Taxation	(2.9)	(2.8)	4%
Basic Earnings Per Share	6.93p	3.50p	98%

We started 2020 expecting to see a drop in both revenue and profit compared with 2019 as a result of the economic uncertainty. However, as the year progressed, our expectations for the full year increased. Through a number of trading updates issued in the second half of the year we highlighted the increasing expectations for full year revenue and profit. Our final result is ahead of our 17 December 2020 trading update principally due to the licence fee revenue recognition in respect of the five year contract extension that was agreed towards the end of the year and which was confirmed in a trading update on 26 February 2021. Overall the results show strong growth over FY19.

Revenues increased by £14.4m to £78.9m in the twelve months ended 31 December 2020 (2019: £64.5m) with increases across all revenue streams, but with particularly strong growth in ongoing development and services (ODS) revenues, up 38% to £32.4m and maintenance which was up 29% to £19.2m. ODS revenues increased as a result of work with pre-implementation customers, along with increases in post-go live support work for some of our key customers. In 2020 ODS revenue benefited from £5.6m of one-off licence revenues associated with a five-year contract extension. This was almost exactly matched the £5.5m of one-off licence revenues recorded in 2019. Maintenance revenues increased in 2020 due to increased levels of hosting activity, inflationary increases and a higher volume of contracts being supported for certain customers.

Operating profit increased by £10.2m to £23.9m (2019: £13.7m), due to the £14.4m increase in revenues, partially offset by a £4.1m increase in expenses, of which £3.2m was as a result of an increase in research and product development expenses, £2.5m was as a result of an increase in sales, general and administrative (SG&A) expenses, net of a £1.6m decrease in implementation and support expenses.

Net finance expense of £(0.7)m (2019: £(0.7)m) resulted in profit before tax of £23.3m (2019: £13.0m) and with an effective tax rate of 12.4% (2019: 21.7%) the resulting profit for the period was £20.4m (2019: £10.2m).

Revenue

Revenue – by type	2020	2019	Movement %
Software implementation	27.3	26.1	5%
ODS	32.4	23.5	38%
Maintenance	19.2	14.9	29%
Total revenue	78.9	64.5	22%

Software implementation revenues increased by £1.2m, or by 5%, to £27.3m in 2020 (2019: £26.1m), reflecting the six ongoing implementation projects from the end of 2019 and three additional projects that were commenced during 2020. One of these continuing projects was our first Alfa Start implementation which was completed and moved to the ODS revenue category during the period. Of the three additional projects that commenced during 2020, one was a customer who signed a contract but then cancelled before significant activity was underway as a result of the pandemic, one related to a customer who had previously put their implementation project on hold during 2018 and one was our second Alfa Start implementation. As such, the Group has seven ongoing implementation projects as at 31 December 2020.

Software implementation revenue £m	2020	2019
New	0.1	–
Ongoing	24.9	25.0
Paused / Restarted	1.3	(0.2)
Completed	1.0	1.3
Total Software implementation revenue	27.3	26.1

One of the projects classified as ongoing at the end of 2020 completed its pre-implementation phase in October 2019. This customer contributed £6.7m to ongoing software implementation revenue in 2020 (2019: £1.2m). Revenue from the remaining implementation projects classified as ongoing in the table above contributed £18.2m in 2020, a decrease of £5.6m compared with £23.8m in 2019. This decrease is primarily due to the fact that during 2019 the largest of these ongoing implementation projects was running two phases concurrently, however, the larger of the two phases went live in January 2020 and as a result moved to the ODS category at this time. This decrease was then partially offset by write-backs of licence revenues in the prior year. These write backs resulted from the deferral of certain go-lives dates and the establishment of material right to use liability, reflecting discounts of the right to use renewal payments customers will be required to make in future years.

During the year one implementation project that had previously been paused in 2018 restarted and contributed £1.3m in 2020 (2019: £(0.2)m).

Revenue from the implementation projects that were completed or cancelled in the period contributed £1.0m (2019: £1.3m). The ongoing revenue from these projects has moved to the ODS category following implementation completion.

ODS revenues increased by 38% or £8.9m to £32.4m in 2020 (2019: £23.5m). This significant increase was the result of:

- An increase in revenue from customers from pre-implementation work of £1.4m. During H1 2020 the Group had three customers who were undertaking pre-implementation work. One of these moved to implementation during the first half but as previously noted was subsequently cancelled due to the economic uncertainty at the time. In the second half of 2020 we mutually agreed with one customer to bring the project to an end due to being unable to agree on contractual terms. The third contract moved into implementation in early 2021. During H2 2020, three new pre-implementation projects commenced.
- An increase of £4.0m due to new ODS customers. This includes revenue from those customers who on completing their implementation project, or one phase of their implementation project, transitioned to the ODS category during the period.
- An increase of £3.4m of revenue from ongoing ODS customers resulting from the current mix of ODS projects in 2020 compared to the prior year. In particular several key customers have ongoing ODS specific projects to either upgrade from v4 to v5 of the Alfa Systems or expand the use of Alfa to new geographical regions.
- An increase in one-off licence revenues of £0.1m. In 2019 we recorded £5.5m of one-off licence revenue of £1.6m received when a customer exceeded their current licence band, and £3.9m due to the extension of a previously terminated contract. In 2020 this same customer chose to extend for a further five years through to October 2025. This resulted in £5.6m of additional licence revenue which was recognised in 2020 on agreement of the five year extension.

ODS £m	2020	2019
New	4.0	–
Pre-implementation	3.9	2.5
Ongoing	18.9	15.5
One-off licence revenue	5.6	5.5
Total ODS revenue	32.4	23.5

Maintenance revenues increased by £4.3m, or by 29%, to £19.2m in 2020 (2019: £14.9m). This increase was partly due to inflationary annual maintenance price rises, a higher volume of contracts being supported for certain customers and an increased number of customer utilising the Group's relatively new Cloud Hosting offering.

Maintenance £m	2020	2019
Maintenance	16.6	14.4
Hosting	2.6	0.5
Total Maintenance revenue	19.2	14.9

Total Contract Value (TCV) £m	2020 FY	2020 H1	2019 FY
Software implementation	32.4	32.5	27.4
ODS	12.2	6.4	8.0
Maintenance	68.3	57.5	45.1
Total TCV	112.9	96.4	80.5

Total contract value (TCV) – as defined in the definition section on page 37 – at 31 December 2020 is £112.9m (30 June 2020: £96.4m, 31 December 2019: £80.5m). **Implementation TCV** has remained relatively stable compared to H1 2020 due to the further completion of ongoing software implementation projects which has been almost completely offset by the addition of a new software implementation project that commenced in January 2021.

ODS TCV has increased compared to H1 2020 as a result of a number of new statements of work being contracted prior to 31 December 2020. The largest movement compared to H1 2020 has been to the **maintenance TCV** which is principally due to a maintenance element of the new five year contract extension referred to above, and more of our clients moving to a Cloud Hosted solution, (we have included three years' worth of the maintenance, from the five year extension contract, and of planned hosting revenues within the maintenance TCV figure). Of the £112.9m total TCV at 31 December 2020, £52.5m is anticipated to convert into revenue within the next 12 months, assuming contracts continue as expected and are not cancelled or delayed. This includes £17.6m of software implementation revenues, £12.2m of ODS revenues and £22.7m of maintenance (and hosting) revenues.

Operating profit

The Group's operating profit increased by £10.2m, or 75%, to £23.9m in 2020 (2019: £13.7m) primarily reflecting the £14.4m increase in revenues, partially offset by an increase in the Group's cost base as we continued to invest in the business, through increased headcount and partner costs, offset by reductions in travel, conference and marketing costs, as a consequence of the pandemic. The Group's operating profit on a constant currency basis increased by 73%.

FINANCIAL REVIEW CONTINUED

Expenses – net £m	2020	2019	Movement %
Implementation and support expenses	15.3	16.9	(9)%
Research and product development expenses	18.9	15.7	21%
Sales, general and administrative expenses	21.3	18.8	13%
Other income	(0.5)	(0.6)	–
Total expenses – net	55.0	50.8	8%

Headcount numbers as at 31 December 2020 were 360 (2019: 316), and our staff retention rate has been 93% over the 12 months to that date.

Implementation and support (I&S) expenses have decreased by 9%, to £15.3m (2019: £16.9m). I&S expenses predominantly comprise personnel costs, travel and partner costs, with the total of these contributing 88% of the total I&S expenses (2019: 87%). In the year the average software implementation headcount decreased by 6, to 102 employees (2019: 108 employees). In addition, the Group's travel costs significantly decreased as our project teams were not travelling due to the pandemic, which also resulted in some reduced customer billings. The corresponding reduction in personnel-related and travel costs were partially offset by the increase in partner costs of £1.5m during 2020, reflecting the Group's focus on delivering on its strategic objectives of utilising partners. In 2020 we deployed partners on six of our customer projects, including pre-implementation, implementation and v4 to v5 upgrade projects.

Research and product development (R&PD) expenses increased by £3.2m, or 21%, to £18.9m (2019: £15.7m). 86% of R&PD expenses are personnel costs (2019: 84%) and the average number of developers increased in the year by 22 to 156 employees (2019: 134 employees). In addition to the increase in the average headcount, the personnel-related costs have also increased due to the above inflationary pay rises that were awarded in November 2019 as part of the Group's overall strategy to invest in its people.

As in prior periods, our development efforts centred primarily on customer project development. In addition to this customer development, for which the amounts are expensed in the profit and loss, during 2020 a total of £0.7m (2019: £1.1m) of development costs were capitalised. The key amounts capitalised related to £0.3m in relation to enhancements of the Alfa user interface and £0.1m in relation to the changes required to prepare Alfa for the new interest rates such as SONIA and SOFR.

SG&A expenses increased in the year by £2.5m to £21.3m (2019: £18.8m). This included increased salary costs through strengthening some of the support functions; increases in the share-based payment charges in 2020 to £1.3m (2019: £0.6m) in relation to LTIPs granted in May 2018, November 2019 and June 2020; and increased amortisation costs of £0.8m (2019: £0.4m) reflecting the higher amounts of intangible assets capitalised over the past two years. These increases have been partially offset by the decrease in foreign currency differences of £0.8m, which moved from a loss of £(0.3)m in 2019 to a gain of £0.5m in 2020.

Overall in 2021 we expect to continue to increase our headcount, to see some bounce back in the circa £2m reduction in cost that resulted from the Covid-19 lockdown, and also some increased IT hosting costs as this business grows.

Finance costs

Net finance costs of £(0.7)m (2019: £(0.7)m) remained relatively unchanged. Income on cash balances remained low given the current low interest rate environment.

Profit for the period

Profit after taxation increased by £10.2m, or 100%, to £20.4m in 2020 (2019: £10.2m). The effective tax rate decreased to 12.4% in 2020 against the effective tax rate for the 2019 year end (2019 21.7%) primarily due to research and development tax credits arising in respect of the 2018 and 2019 claims. These claims were finalised during 2020.

Earnings per share

Basic earnings per share increased by 98% to 6.93 pence in 2020 (2019: 3.50 pence). Diluted earnings per share increased by 99% to 6.79 pence (2019: 3.41 pence).

Cash flow

Net cash (including the effect of exchange rate changes) decreased by £21.8m to £37.0m at 31 December 2020, from £58.8m at 31 December 2019. The most significant impact was the payment of the special dividend of £44.2m on 6 November 2020. This more than offset the increase driven by cash generated from operations of £30.1m. In 2020 we received £3.6m of one-off licence revenue items recognised during FY19 along with £4.5m from the five year contract extension which was behind revenue recognition by £1.4m. Continued focus on cash management by the Group saw net change in working capital of £2.9m. Taken together, the Group's Operating free cash flow conversion (FCF) was 114% (2019: 138%).

In addition to the cash generated from operations of £30.1m, the Group incurred £1.0m on capital expenditure (2019: £2.1m), provided funding of £0.4m to its newly set up joint venture, Alfa iQ, and made tax payments of £3.8m (2019: £4.1m) during the period. The Group has no external bank borrowings.

In 2020 there were net cash outflows of £45.9m (2019: £1.6m) from financing activities related to the principal element of lease payments and the 15 pence per share special dividend, amounting to £44.2m which was paid on 6 November 2020. No ordinary dividends were paid during the year.

Operating free cash flow conversion £m	2020	2019
Cash generated from operations	30.1	22.5
Adjusted for:		
Capital expenditure	(1.0)	(2.1)
Principal element of the lease payments in respect of IFRS 16	(1.7)	(1.6)
Operating free cash flow	27.4	18.9
Operating profit	23.9	13.7
Operating free cash flow conversion	114%	138%

Balance sheet

The significant movements in the Group's balance sheet, aside from the cash balance which is described above, from 31 December 2019 to 31 December 2020 are detailed below.

The trade and other receivables balance decreased by £0.2m to £13.7m (2019: £13.9m). At the end of 2019 there had been some delays in invoicing overseas customers and a higher accrued income balance as a result of £3.6m from non-recurring revenue items. Both of these issues were resolved in 2020 and the cash collected. This improvement was offset by the impact of the

overall increase in revenue during 2020 and the increase in accrued income of £1.4m from the five year right to use and maintenance extension contract.

The trade and other payables balance increased by £2.2m to £8.1m (2019: £5.9m) principally due to an increase in the sales tax payable, including VAT and the overseas equivalents, of £0.8m (largely as a result of increased customer invoicing activity in the last two months of 2020 compared to the same months in the prior year), an increase in the holiday pay accrual of £0.3m reflecting the impact of fewer holidays being taken during the year as a result of the pandemic and an increased in the bonus accrual of £1.7m.

Contract liabilities have decreased by £1.6m to £7.0m (2019: £8.6m) with a decrease in the deferred software implementation contract liabilities of £2.6m, due to work progressing on the current software implementation projects, being offset by a £1.0m increase in deferred maintenance liabilities, reflecting the higher maintenance revenues charged in the year.

Capital allocation and distributions

Alfa seeks to deliver high-quality visible earnings and future earnings growth, and maintain a strong balance sheet. The Group's capital allocation policy includes the following elements aimed at supporting the achievement of strategic objectives:

- Reinvestment in people and technology; and
- Maintaining strong liquidity.

Having reviewed the strategy of the business and the resources required to support its growth, the Directors concluded that there was excess capital in the Group and paid a special dividend amounting to £44.2m in 2020 (2019: £nil). Looking forwards, the business continues to be cash generative with a healthy net cash balance and as a consequence the Directors concluded it was appropriate to start a regular dividend programme, commencing with proposing a final dividend of 1.0 pence per share for the 2020 full year, which will be paid in July 2021. The Board intends to progressively increase the dividend as the Group grows, whilst ensuring that we retain a strong balance sheet.

In making investment decisions regarding our people, the Directors considered the Group's financial performance and position as well as investor and analyst feedback; dialogue and feedback from employees, covering employee engagement and retention rates; requirements for training and professional development; and appropriate reward structures in the context of the current labour market. The allocation of capital towards our people will support the Group in achieving its strategic objective to maintain a high-performance organisation with a culture of continuous improvement.

Key financial metrics

The Group uses a number of key financial metrics which are not specifically defined by IFRS but which management use as key measures to assess financial performance. Previously Adjusted EBIT and Adjusted EBIT margin had been used by management to monitor performance. The differences between these measures, and the equivalent IFRS measures was becoming relatively small and so the use of these alternative financial metrics has been stopped.

Operating cash flow conversion is monitored by management and now that the adjusted EBIT measure has been dropped this is calculated as cash generated from operations as a percentage of operating profit.

These measures are not directly comparable to similarly referenced measures used by other companies and, as a result, investors should not consider these performance measures in isolation from, or as a substitute analysis for, our results of operations as determined in accordance with IFRS.

In making investment decisions to develop our technology, the Directors considered the Group's financial performance and position; the feedback and requirements of customers; the operational efficiency of the existing technology; and the efficacy and expected return on investment of certain development and enhancement work. The allocation of capital to technological development will support the delivery of our strategic objectives to grow market share, to extend our best in class digital agenda, and to promote and grow value and develop resilience.

Related party transactions

The ultimate parent undertaking is CHP Software and Consulting Limited (the 'Parent'). There was no trading between the Group and the Parent. There were no balances outstanding from, or to, the Parent at 31 December 2020 and 31 December 2019.

Going concern

The financial statements are prepared on the going concern basis. The Group continues to be cash generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance including the possible impacts of Covid-19, show that the Group has sufficient cash reserves to continue to operate for a period of not less than 12 months from the date of approval of these financial statements.

The going concern assessment also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is continued uncertainty surrounding the future impacts of Covid-19, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

Viability statement

The viability statement containing a broader assessment by the Board of the Company's ongoing viability, which also includes consideration of the impact of Covid-19, is set out in the Strategic report on pages 50-51.

Subsequent events

There have been no reportable subsequent events since the balance sheet date.

Duncan Magrath
Chief Financial Officer
22 March 2021

New customer revenue

New customer revenue comprises revenue generated by customers who have not previously generated revenue in the applicable segment in the prior year.

Constant currency

We provide percentage increases or decreases in revenue and operating profit to eliminate the effect of changes in currency values as we believe it is helpful to the understanding of underlying trends in the business. When trend information is expressed herein 'in constant currencies', the comparative results are derived by re-calculating non-pound sterling denominated revenue and/or expenses using the average monthly exchange rates of this year and applying them to the comparative year's results, excluding gains or losses on derivative financial instruments. The average rates are as shown in note 1.4 to the financial statements.

RISK MANAGEMENT

Our aim is to foster a culture of effective risk management by encouraging appropriate and monitored risk-taking and innovation.

Introduction

2020 has been a year of unprecedented external events, with the Covid-19 pandemic having widespread social and economic impacts across all of Alfa's operating regions. Layered on top of this was the complicated US political situation, and the uncertainty around the eventually-concluded Brexit trade deal negotiations. During these uncertain times Alfa's risk management framework has provided us with a solid basis for assessing, preparing for and reacting to these types of challenges.

As the Covid-19 situation developed in Q1 2020, we were in the fortunate position of being well prepared to execute our pandemic plan. Our Covid-19 Incident Response Team worked closely with the Company Leadership Team (CLT) to identify, control and mitigate risks as they arose. Their activity has continued throughout 2020, and we will continue to react proactively to the situation as it unfolds throughout 2021, doing our part to ensure the safety and wellbeing of our employees, customers and their families, and to minimise the risk to our operations.

Risk management is integral to our strategic objectives

The events of 2020 have demonstrated the interconnectedness of many of the risks and opportunities that our business faces. In order to deliver our strategy and achieve excellence through our business model, both operationally and financially, we must make sure that we maintain the right balance between safeguarding against potential risks, and taking advantage of potential opportunities as they arise. Our aim is to foster a culture of effective risk management by encouraging appropriate and monitored risk-taking and innovation, in order to achieve the Group's strategic priorities.

Our strategic priorities as set out on pages 22 and 23, are to:

- Maintain our differentiation of market-leading **People, Product and Delivery**;
- Focus on Cloud Hosted **Sales** to target markets as an engine for revenue growth;
- Enable more concurrent Alfa implementations more efficiently, with a higher margin, by: **Simplifying** our product; **Simplifying** our implementations; **Simplifying** our processes across our organisation;
- Develop our **Partnership** network, to improve sales opportunities and enable more concurrent Alfa implementations;
- **Volume Market** – improve our offering for smaller asset finance providers as a platform for innovation and to increase our reach within our industry.

How we monitor risk

1

Identify risks

Whilst overall responsibility for risk lies at the Board level, the Directors have delegated authority for risk identification to the CLT.

A bottom-up approach has primarily been undertaken to provide a detailed review of risks by relevant business owners and this is led by the Risk Officer, twice a year. The output is then reassessed by the CLT to provide assurance over completeness of the risk register.

2

Define risk appetite

Our systems and processes are designed to manage our exposure to risk rather than eliminate the risk completely. Therefore the Audit and Risk Committee, with the CLT, will reassess the Group's risk appetite each year with this in mind. The Audit and Risk Committee will consider the risks associated with the conduct of our business and the delivery of our strategy, assessing the risks we are exposed to and evaluating whether this exposure is acceptable given the likelihood and severity of the risk.

3

Assess and quantify

Risks are assessed to understand the likelihood and the impact of the risk crystallising. We assess risk across our business areas, and we analyse their impact across these categories:

- Financial
- Operational
- Reputational
- Legal and regulatory

4

Respond, manage and mitigate

Each risk is reviewed, twice a year. At each review date, the existing controls are reviewed for adequacy and effectiveness. Due to the ever-changing business landscape and the industry we work in, it is quite possible for the control requirements to change and for processes and policies to require updating. If this is the case, then a business owner is identified and they are responsible for implementing changes.

5

Monitor and review

Management monitors progress against the principal risks. This is shared with our internal auditor, BDO, to assist with forming the internal audit plan for 2021. The Board reviews the summary risk register and assesses the adequacy of the principal risks identified, as well as the mitigating controls and procedures which are in place and are operational.



Our risk management framework

Our risk management framework is designed to be flexible and proactive, and links tightly into our operations and decision-making, allowing us to react with speed and agility to new and evolving risks as they arise across all of our business areas. This has helped us in 2020 to continue to progress our strategic objectives, and to identify and pursue opportunities as they arose.

We recognise that managing risk effectively is integral to executing our strategy. We have therefore implemented a five-step process for monitoring and managing risk throughout our business, allowing the Directors to conduct a robust assessment of the principal risks facing the Group. Risk is not something that should be eliminated but, instead, identified, assessed and managed in a timely manner.

Creating the right corporate culture for effective risk management

Our organisation has an open and accountable culture, led by our experienced CLT, whose members have many years of experience in their areas. The Board and the CLT set the tone for our risk management activities, embedding risk consideration and assessment into the culture within the organisation. Ownership and accountability for risks is an integral part of our risk management framework.

The Board has overall responsibility for the governance of risks, ensuring we have adequate and effective systems in place and setting the tone for our risk culture. It does this in various ways:

- Risks are considered by the Board as an intrinsic part of our strategic planning, and in the consideration of new opportunities – risk is recognised as an inherent part of each opportunity, and is assessed together with the opportunity.
- There is a twice-yearly review by the Audit and Risk Committee of principal risks, their evolution, and consideration of emerging risks.
- The CLT members are the owners for each risk in the Corporate Risk Register, and they, and their teams, are responsible for the identification, assessment and treatment of the risks in their own areas. Risk management is thus embedded into each area of the business, which is best placed to progress the actions and mitigations.
- The Risk Officer coordinates risk management activities and collates the risks into the Corporate Risk Register. The Risk Officer is an advocate for best practice across the organisation.
- Risk assurance is achieved through our external and internal audits as well as through our attainment of ISO27001 and ISO27018 certifications, and through our SOC2 Type 2 audit.

Responsibilities

Board

- Defines the risk governance framework, risk culture and principles
- Sets the tone for risk management including risk appetite
- Responsible for an effective system of internal controls
- Approves risk decisions that are beyond delegated authorities

Audit and Risk Committee

- Reviews the risk management framework and the effectiveness of internal controls, risk management systems and major risk initiatives
- Reviews and challenges the principal risks in the risk register, and risk scores
- Reviews the internal audit programme and reports

Risk Officer and CFO

- Responsible for collating updates, managing the risk register and presenting principal risks and uncertainties to the Company Leadership Meeting and Audit and Risk Committee
- The Risk Officer acts as an advocate for risk management across all levels of the business
- The Risk Officer reports to the CFO in relation to risk management matters
- The CFO has responsibility for governance and risk management review

CEO and CLT

- Review the risk management framework and the effectiveness of internal controls, risk management systems and major risk initiatives across the Group
- Review the risk profile against risk appetite and make recommendations to Board in relation to risk profile, strategy and key controls
- Review and challenge the risk register, and risk scores
- Review the sustainability of risk methodologies, metrics and policies
- Assess major risk-related projects
- Assess new commercial arrangements through participation in the Deal Committee

Operational management

- Assesses for new risks, updates on current risks assessment and implements mitigation strategies and actions

All employees

- Be alert to risks associated with the activities that they perform
- Report inefficient, unnecessary or unworkable controls

PRINCIPAL RISKS AND UNCERTAINTIES

Our risk appetite

Our risk appetite provides us with guidance on the levels of risk we are prepared to take in pursuit of our objectives, and is considered a fundamental part of the planning and execution of our strategy. In March 2021, the Board, assisted by the Risk and Audit Committee and the CLT, assessed and updated our risk appetite in light of the developing in-year and emerging risks.

We take a cautious approach to risk, aiming to operate in a manner that would not put the business at risk of significant financial, operational or reputational damage. This risk appetite has shaped our response to the Covid-19 pandemic as it evolved through 2020, forming the basis of our approach to protecting our employees, our customers and our deliverables to our customers.

Principal risk analysis (including mitigating activities)

Focus for 2021

Continuous improvement of risk management procedures, including training and awareness within the Company of our risk management best practices.

Risk identification and assessment – bi-annual risk reviews including assessing actions and control reviews.

Cyber security and data protection – Maintain SOC2 Type 2 and ISO programme compliance, and continue to assess and strengthen our cyber security defences.

Business continuity and disaster recovery – scenario testing exercises, and reflecting on best practice based on experience from Covid-19.

Internal audits – we plan to perform reviews of various financial and IT controls, amongst others.

Risks

A Socio-economic and geo-political risk

B Pandemic outbreak in Alfa and/or customer geographies

C Risk to people, skills, location and working environment

D High customer concentration risk

E IT security and cyber risks

F Business interruption or continuity

/// Acceptable risk appetite

Principal risks and uncertainties in more detail

The Group faces a number of risks that may adversely affect our strategic and business objectives, operations, liquidity, financial position, reputation or future performance, not all of which are wholly within our control or known to us. Some such risks may currently be regarded as immaterial and could turn out to be material. We accept that risk is an inherent part of doing business.

The Board consider the following matters to be the principal risks and uncertainties (in no specific order) affecting our business at this time.

Our strategic priorities

People – Maintain our differentiation of market-leading People.

Product – Maintain our differentiation of market-leading Product.

Delivery – Maintain our differentiation of market-leading Delivery.

Sales – Focus on Cloud Hosted sales to our target markets as an engine for revenue growth.

Simplification – Enable more concurrent Alfa implementations, more efficiently, with a higher margin, by: Simplifying our product; Simplifying our implementations and Simplifying our processes across our organisation.

Partnerships – Develop our partner network, to improve our sales opportunities and to enable more concurrent Alfa implementations.

Volume Market – Improve our offering for smaller asset finance providers as a platform for innovation and to increase our reach within our industry.

Risk A – Socio-economic and geo-political risk

Links to strategic priorities:

Movement:
Increased probability



Impact:
Major

Probability:
Likely

How does it impact us?

There is considerable uncertainty in the global economic outlook, as well as in each of our operating regions. This is caused and exacerbated by current and emerging factors such as:

- The unprecedented events surrounding the Covid-19 pandemic may have short or long term economic impacts on our customers, potentially leading to a reduction in our addressable market. These economic impacts are included under this principal risk, whereas the health and wellbeing, and business continuity aspects are included in Risk B – Pandemic outbreak in Alfa and/or customer geographies;
- Any impacts due to economic policy of a new US administration; and
- The change in trade relationships between the EU and the UK following the end of the Brexit transition period.

Alfa specialises in providing software and services to the asset finance sector. Changes in economic conditions and unforeseen external events, such as political instability, international trade uncertainties, inflation and other unforeseen events may put pressure on the profitability of the players in this market. This in turn may decrease the amount they have to spend on improving their internal systems and processes or may extend the decision-making when contemplating a new asset finance system.

What are we doing to manage the risk?

Despite the uncertain outlook, we have attracted continued interest from sales prospects throughout 2020, from diverse geographies and sectors within the asset finance industry.

Our strategy includes continuing to build a diverse customer base, both geographically and by asset type (i.e. automotive, equipment) but also by type of customer (i.e. banking, OEM or independent) which therefore have different and often contrasting risk characteristics. This mitigates some of this risk as there is often a degree of cyclical in trends affecting the asset finance industry.

This risk goes hand-in-hand with opportunity, as our customers may seek to adapt to the changing economic environment, seeking operational efficiency, introducing new products or reacting to regulatory changes. Alfa is well placed to help with the system and process changes needed for such adaptation, either where Alfa Systems is the incumbent system or where a new system is needed.

We ensure that the Group is financially robust and resilient to economic downturns, or project pauses, by retaining cash reserves and collecting maintenance and licence revenues in advance.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk B – Pandemic outbreak in Alfa and/or customer geographies

Links to strategic priorities:

Movement:

Decreased level of risk



Impact:

Moderate

Probability:

Likely

How does it impact us?

The Covid-19 pandemic has developed considerably during 2020, and at the time of writing a variety of government restrictions are in place across our regions attempting to restrict the spread of the disease. Whilst distribution of vaccines by public health organisations has begun, it will likely take considerable time for the situation to return to normal – for example, for lockdowns to be relaxed and for travel to resume.

The risks relating to the current pandemic are intertwined with other principal risks, notably Risk A – Socio economic and geo-political risk, and Risk C – Risk to people, skills, location and working environment.

We have reassessed the level of this risk, and have concluded that the business continuity and health and wellbeing risks have decreased over the last year, due to the strong actions we have taken in adopting remote working, and the external actions taken to tackle the pandemic.

Whilst this pandemic continues to develop, we face a number of possible impacts:

- The health and wellbeing of our employees, their families and other stakeholders may be impacted. Mitigating this is of critical importance in shaping our response to this risk.
- We may experience significant infection levels at the peak of the virus outbreak. This could temporarily reduce the resource capacity of our business and our professional services fee earning capacity, potentially resulting in deferred or lost revenue.
- Similarly, customers and potential customers may become temporarily resource-constrained, limiting their capacity to manage large-scale IT projects and run sales processes, respectively.
- Travel is being restricted by our own policy, customer policy and government policy, and this may temporarily reduce, or be perceived to reduce, our ability to operate for some of our geographically diverse customer sites.
- Remote working relies on third party cloud-based services such as video calling and chat software. Such services may experience problems during peak remote working times, impacting the efficiency of our employees.
- We may experience a slowdown in supply for our IT equipment needs.
- The pandemic may have short or long-term economic impacts on our customers, potentially leading to a reduction in our addressable market. This is discussed in more detail in Risk A – Socio-economic and geo-political risk.

What are we doing to manage the risk?

We have continued to adapt our pandemic response throughout 2020, and into 2021, following our established and rehearsed pandemic response plan.

Our Incident Response Team (IRT) manages and coordinates our actions relating to the pandemic. This team is chaired by our Chief People Officer, and contains representatives from across our business units and geographies.

The IRT monitors expert and government advice in each of our operating regions, and takes timely action on that advice.

We made an early move to remote working, during March 2020, as part of the activation of our pandemic plan. Remote working was already an established practice in our organisation, with the majority of our employees, including all of our consultants and engineers, using laptops, remote connections and remote working tools. We tested the capacity and resilience of these tools before instructing employees to work remotely, and our systems have functioned well with the increased remote working load.

The IRT and other internal teams communicate regular guidance and advice to our employees, including on their working location, working environment and wellbeing. We have an active programme of employee wellbeing events, and we recognise the importance of supporting and engaging with our employees whilst they are working remotely.

We regularly liaise with our customer organisations to ensure that we abide by their policies – for example, with respect to business travel, and to ensure that they are satisfied with the service they are receiving from our remote teams.

Our essential customer services – Alfa support, Alfa Hosting and Technical Operations – are run by globally-distributed teams, using cloud infrastructure, providing resilience against business continuity risks.

The providers of our key remote working tools have confirmed and demonstrated throughout 2020 that they have suitable business continuity and capacity planning in place.

We have taken many actions to improve the efficiency of supply of our IT equipment. For example, we have implemented more efficient processes for delivering and setting up new laptops where needed (for new or existing employees), with delivery directly from suppliers to the recipient. We are carefully managing the stock levels held with our IT supplier, and are actively monitoring lead times.

Risk C – Risk to people, skills, location and working environment

Links to strategic priorities:

Movement:

Same level of risk

Impact:

Moderate

Probability:

Likely

How does it impact us?

Our business is heavily dependent on our people because they are integral to the development and delivery of Alfa Systems.

The health, wellbeing and security of our employees is of utmost importance to our organisation. We work in geographically diverse locations, and our employees may be at risk from external factors, such as the impacts of the Covid-19 pandemic, and the safety and security in each region. This impact is intertwined with Risk B – Pandemic outbreak in Alfa and/or customer geographies.

A failure to attract, train and retain high quality individuals in our key operating regions may limit our ability to deliver implementations, maintain product quality and leading-edge functionality, manage customer relations and deliver on our strategic plan.

As our global reach expands and opportunities arise in new regions, we may find it difficult to provide employees across geographically diverse customer sites. This has the potential to have an impact on our ability to deliver implementation services to our customers.

What are we doing to manage the risk?

In 2020 our HR team has run an active programme of employee wellbeing events, and we recognise the importance of supporting and engaging with our employees whilst they are working remotely.

Employee engagement surveys are carried out every two months, and allow areas for improvement to be identified and acted upon.

We have seen an improvement in our employee retention figures in 2020. Our employee surveys indicate that our proactive response from leadership to the Covid-19 epidemic has been a significant contributing factor in employee satisfaction, and this has helped to improve employee retention.

We benchmark our remuneration levels against relevant roles in the industry and aim to be competitive.

Recruitment of graduates and experienced hires is continuing, using a diverse number of sources, searching for candidates from varied backgrounds and ethnicity and with varied core skills.

Alfa Partnering provides a strong and growing network of professional services partner organisations, who have extensive established geographical presence. This provides us with resourcing flexibility, and wider geographical coverage, and is key to our strategy to decouple our growth from our own headcount.

The move to remote working in 2020, in response to the Covid-19 pandemic, has helped us to redistribute work, where this is efficient, between locations. Many of our teams are already globally-distributed, allowing us to cover more regions and time zones effectively. By its very nature, remote working is an effective mitigation against the risk of not being able to provide employees in geographically diverse customer sites.

We have an established presence in our key strategic markets in Europe and the USA. We have actively recruited on both continents in 2020, and this continues in 2021. Continued recruitment of EU citizens is important to us following Brexit, allowing us more opportunity for expansion in the EU bloc.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Risk D – High customer concentration risk

Links to strategic priorities:

Movement:

Same level of risk

=

Impact:

Major

Probability:

Possible

How does it impact us?

- Alfa specialises in providing software and services to the asset finance sector. At the core of our customer base are large corporate players in this industry.
- We have significant customer-concentration risk due to the size and duration of the software implementation projects for these large corporates. If one, or more, of our key customers pauses, or terminates their implementation activities, there is a risk of a material impact on revenue targets.
- Such a pause or termination is a possible impact of other principal risks, such as Risk A – Socio-economic and geo-political risk, or Risk B – Pandemic outbreak in Alfa and/or customer geographies.

What are we doing to manage the risk?

We continue to build a diverse customer base, both geographically and by asset type (i.e. automotive, equipment) but also by type of customer (i.e. banking, OEM or independent) which therefore have different and often contrasting risk characteristics.

We have had further diversification success in 2020 and early 2021 by targeting smaller organisations, with our Alfa Start product designed for this sector.

Initiatives such as Alfa Partnering allow us to take on more concurrent implementations, thus reducing this risk.

We ensure that the Group is financially robust and resilient to economic downturns, or project pauses, by retaining cash reserves and collecting maintenance and licence revenues in advance.

Nevertheless, we accept that a significant focus on large corporates in our industry is inherent in our strategy, and so there is an element of this risk which is accepted.

Risk E – IT security and cyber risks

Links to strategic priorities:

Movement:

Slightly increased risk

↑

Impact:

Major

Probability:

Possible

How does it impact us?

- Our systems, networks and products may be subject to cyber attacks, specifically designed to disrupt our business, obtain our intellectual property or data, or harm our reputation. Such a security breach could impinge upon our ability to operate our business, including our ability to continue providing support to our customers.
- Our Alfa Hosting offering stores our customers' data on third party cloud hosting platforms. A security breach in our Alfa Hosting offering could result in compliance violations, identify theft, malware infections, diminished customer trust and loss of revenue.
- The frequency of cyber attacks against IT companies rose in 2020, with a number of high-profile incidents impacting other companies. Consideration of this trend, which has continued in 2021, has led us to increase the probability of such an attack impacting our business. Considering the mitigations we have in place, and the fact that attacks experienced are usually of a lower impact than a theoretical worst case scenario, the impact of this risk has been lowered. The net effect of these two changes is that we consider this risk to have increased slightly.

What are we doing to manage the risk?

Our internal IT and cyber security team monitors key security and cyber risks, assesses and monitors the control framework of our key technology suppliers and undertakes day-to-day monitoring of IT security incidents.

We implement continual improvements in our IT security environment and maintain an annual education and training programme for all staff.

We have maintained our SOC2 Type 2, ISO27001 and ISO27018 compliance in 2020.

Where we provide Alfa Hosting services, using third party cloud hosting suppliers, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.

Our customers perform thorough assessments of the security of the Alfa Hosting platform during their system selection and implementation process, measuring our IT security and data protection processes and controls against their own, typically stringent, internal policies. These compliance checks sit alongside our own policies and procedures, and provide independent assurance for our customers that appropriate security controls are in place.

Risk F – Business interruption or continuity

Links to strategic priorities:

Movement:

Same level of risk

=

Impact:

Major

Probability:

Unlikely

How does it impact us?

We are at risk of disruption to our day-to-day operations if there is a disaster incident which causes our internal IT systems to fail or we do not have access to our office space.

A failure to be able to use key IT systems or access our infrastructure could lead to a failure to deliver maintenance services to our customers and therefore have a negative reputational impact.

Note that the risk that Covid-19 poses to us, and our readiness for this, is given specific focus as Risk B – Pandemic outbreak in Alfa and/or customer geographies.

What are we doing to manage the risk?

We have an established, detailed and tested incident management procedure and escalation process.

We have a disaster recovery and business continuity plan which is reviewed and tested annually.

Our SOC2 Type 2 reporting and complete fail over testing has identified no significant required remedial actions.

Where we provide Alfa Hosting services, using third party cloud hosting suppliers, we have a continuity plan in place to transfer our customers' data to a similar supported environment should the services not be available.

Our response to Brexit

Brexit negotiations continued throughout 2020, beginning with the start of the transition period when the UK left the European Union (EU) on 31 January 2020. The transition period then ended on 31 December 2020, with the UK and the EU having finalised the Trade and Co-operation Agreement. Throughout this period of uncertainty, we actively monitored and prepared for Brexit, considering the various possible outcomes, analysing the effects they would have on our business and people, and determining the actions we needed to take in preparation. We formed a

Brexit Task Force, responsible for taking action across all impacted areas of our business, and sought input from external advisors on specialist topics. Our internal auditor, BDO, was engaged, which provided assurance over the progress we had made to prepare for the end of the transition period and concluded that we had taken an appropriate and proportionate approach. As a result of these actions, we are ready and committed to continuing to serve our customers and prospects in the EU and globally.

The Group does not consider that the residual effects of Brexit give rise to a principal risk. We have considered the changed political and economic landscape within which we will be operating, and the effects of this are incorporated into Risk A – Socio-economic and geo-political risk.

VIABILITY STATEMENT

In accordance with the UK Corporate Governance Code, the Board has addressed the prospects and viability of Alfa.

Assessment of prospects

Alfa is one of the leading providers of software to the asset finance industry and it is the Group's clear focus to increase its relatively small market share in this space by:

- Maintaining differentiation of market – leading People, Product and Delivery;
- Focusing on Cloud Hosted sales to our target markets for revenue growth;
- Enable more concurrent Alfa implementations, more efficiently, with a higher margin;
- Developing our partner network, to improve sales opportunities and enable more concurrent Alfa implementations; and
- Improving our offering for smaller asset finance providers to increase reach.

During the year ended 31 December 2020, the Group generated profit before tax of £23.2m and, excluding the payment of a £44.2m special dividend in the year, was cash generative with net cash generated from operating activities amounting to £25.6m.

Taking into account the Group's current position and its principal risks and uncertainties as described on pages 44 to 49 of this Annual Report, the Directors have assessed the Group's prospects and viability.

Assessment period and process

The business model and strategy as set out on pages 18 to 19 and 22 to 23 are central to an understanding of the Group's prospects. These inputs provide a framework for assessing the Group's prospects and viability.

The three-year timeframe for assessing both prospects and viability is considered to be appropriate because:

- It reflects reasonable expectations in terms of the reliability and accuracy of operational forecasting models; and
- Projections looking out beyond three years become significantly less meaningful in the context of the fast-moving nature of the asset finance industry and the software and technology landscape.

The Group's prospects are assessed primarily through its annual planning process, led by the CEO with the CLT. All relevant functions are involved, including finance, sales, recruitment and resourcing, and commercial.

The Board participates fully in the annual process and has the task of considering whether the plan appropriately takes into account the external environment, including technological, social and macroeconomic changes, as well as the risks and uncertainties of the business.

The output of the annual review process includes the annual financial budget and an analysis of the risks which could prevent the plan being delivered. Detailed financial forecasts which include profit, cash flow and key financial ratios have been prepared for the three-year period to December 2023.

The Group's 2021 budget forms the first year of the financial forecast and is subject to a reforecast process each quarter. The second and third years are prepared in detail based on the Group's three-year strategic planning process and are flexed based on the actual results in the first year.

Assessment of viability

The Board's assessment of the Group's prospects, as described on this page, has been made with reference to current market conditions and known risk factors, including the possible impacts of the Covid-19 pandemic, as described in principal risks and uncertainties on pages 44 to 49.

Whilst the pandemic has brought about significant economic uncertainty and has led to the majority of Alfa's service delivery being provided remotely, there has been a limited effect on the Group's ability to deliver services and to convert and contract for new opportunities to date.

The Board has considered the Group's financial performance in 2020, particularly in the context of the Covid-19 pandemic, and the risk factors noted above and consider that the key risks which could impact the delivery of the Group's financial objectives are as follows:

- Deterioration of the pandemic situation causing projects to be delayed or cancelled;
- Socio-economic or geo-political risks impacting conversion of the sales pipeline and/or spending by existing customers; and
- Loss of significant customers.

The Directors also reviewed the outputs of two alternative scenarios described on page 51 which were produced to model the effect on the Group's liquidity and solvency of severe but plausible combinations of the principal risks and uncertainties affecting the business.

Conclusion

It was determined that none of the individual risks would, in isolation, compromise the Group's viability.

Scenario 2 is more severe than Scenario 1 and reflects the combination of all risk factors identified and is considered a 'worst case scenario'. The Directors consider that this scenario addresses the key risk factors outlined above, including deterioration of the Covid-19 pandemic situation.

Based on the current assessment of the Covid-19 situation and the limited effects on the business and commercial outlook to date, Scenario 2 is considered extremely severe and has been prepared for the purpose of creating outcomes that have the ability to threaten the viability of the Group.

In the case of such a scenario crystallising the Group would be required to take some mitigating actions largely related to the level of headcount in the business, the level of partner usage and discretionary spending. In addition, there are many other different levers that could be pulled to further minimise the financial impact and maintain liquidity to continue in operation.

Revenue and profitability are clearly affected in these alternative scenarios, however, based on the Group's existing cash reserves, combined with incremental cost reduction measures, the business would retain sufficient cash reserves to continue in operation throughout the three-year forecast period, with the lowest cash balance modelled in this period of £32.4m.

Whilst it is acknowledged that there is continued uncertainty surrounding the future impacts of Covid-19, based on the assessment of prospects and viability, the Directors confirm that they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the three-year period ending 31 December 2023.

Scenario 1 – Includes significantly reduced conversion of sales pipeline

Includes significantly reduced conversion of sales pipeline and ongoing spend by existing customers.

The level of recruitment and uplifts in salaries are reduced in this scenario, along with reductions in discretionary spend associated with personnel, partners and travel.

No other mitigating actions are required in this scenario.

Scenario 2 – Includes loss of significant customers, major project cancellations and significantly reduced conversion of sales pipeline

Includes significantly reduced conversion of sales pipeline, cancellation of major ongoing implementation projects, significant loss of customers resulting in termination of existing maintenance agreements and significantly reduced ongoing spending by remaining customers.

Reductions in recruitment and other cost areas are required of a similar nature to scenario 1, but more extensive in quantum.

No other mitigating actions are required in this scenario.

SECTION 172 STATEMENT

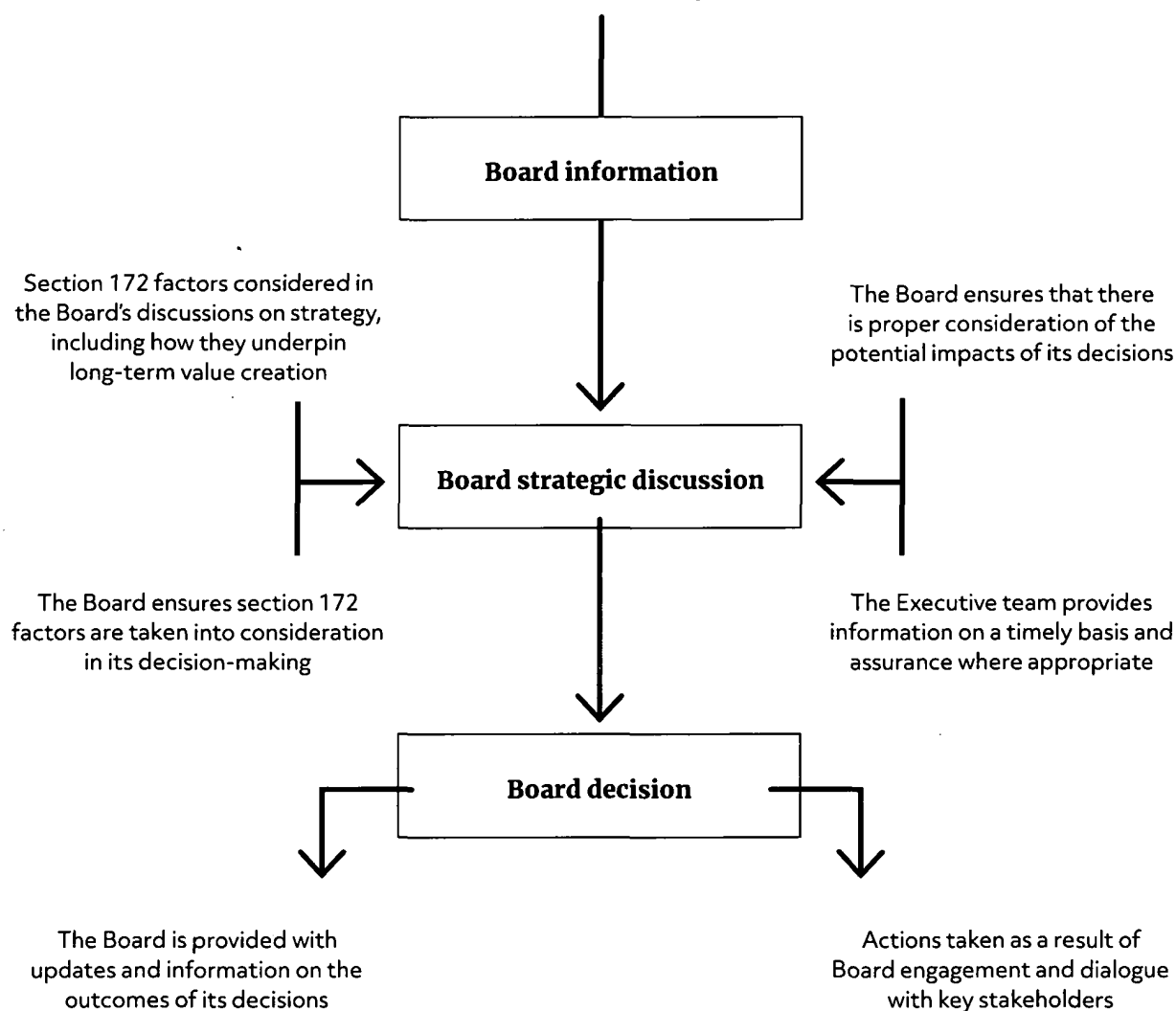
The Board of Directors of Alfa has always taken decisions for the long term, and collectively and individually our aim is always to uphold the highest standards of conduct.

A broad range of stakeholders are important to the Group at local, regional and functional levels. Day-to-day engagement with our key stakeholders, and other local stakeholder groups, is conducted at the business level and in a format best suited to the context. This may be locally, regionally or functionally, by the Board or senior management, depending on the

stakeholder. Where the Board does not engage directly with our stakeholders, it is kept updated so Directors maintain an effective understanding of what matters to our stakeholders and can draw on these perspectives in Board decision-making and strategy development. As the Board receives presentations and makes decisions, we ensure that the long-term impact on any of these groups is considered.

We periodically review which are our key stakeholder relationships and examine how we engage with them. We also consider ways to ensure that we maintain open lines of communication with those stakeholder groups and whether there are ways that the Board's engagement can be improved to help us operate more effectively.

Setting the right tone from the top



HOW WE ENGAGE WITH OUR STAKEHOLDERS

The Board is responsible for leading stakeholder engagement, ensuring that we fulfil our obligations to those impacted by the business.

Engagement with our shareholders and wider stakeholder groups plays a vital role in Alfa's business. Alfa's key stakeholders are set out below.

We believe that considering our stakeholders in key business decisions is not only the right thing to do, but is fundamental to our ability to drive value creation over the longer term. In this section we identify our five key stakeholder groups and have provided an overview of their interests, their concerns and the ways in which the Board acted with regard to these groups when taking its key strategic decisions throughout the year and what the Board has learned from these interactions, having regard (among other matters) to the factors set out in section 172(1)(a) to (f) of the Companies Act 2006. The Board will sometimes engage directly with certain stakeholders on particular issues, but the size and distribution of our stakeholders and of Alfa means that stakeholder engagement often takes place at an operational level, within the context of the Board's agreed strategy. In this section we show how the Board engaged with each of our key stakeholder groups, summarise the specific actions we took for stakeholder groups in response to the Covid-19 pandemic and set out some case studies which give more detail of how our stakeholders are considered when making specific decisions.

[Link to business model](#)
page 18

[Link to risks](#)
page 44

Customers

Our customers are central to our business and without them we would not exist. We aim to deliver our leading edge technology making our customers future-ready.

How the Board engaged

The Board receives an update on existing and potential customers throughout the year. As part of the Board strategy day, we looked at our customer needs and the Board considered how we could potentially diversify our customers when discussing strategic opportunities.

The impact of Covid-19 on our ability to meet the needs of our customers and how this was addressed was discussed as part of the broader Covid-19 response debate. Identifying our customers' needs, alongside changing market dynamics and regulations, allows us to identify opportunities for Company growth and to focus our product research and development such that it will produce innovative and functional solutions for the asset finance industry.

Outcome of engagement

Our customers have direct channels to engage with all levels of the organisations, including providing feedback via user groups in both EMEA and the US, chaired by a customer representative. During the pandemic, we continued to build on our long-term relationships with our customers. This is key to developing our leading-edge technology and increasing customer loyalty, which in turn enables us to win new business.

Engagement in 2021

Looking ahead, the challenge is to ensure that the systems evolve and the technology we use continues to meet the demands of our customers. We will continue to explore new business methods and how we can innovate new technologies to improve the customer journey and develop our ongoing relationships with customers.

HOW WE ENGAGE WITH OUR STAKEHOLDERS CONTINUED

Employees

Our talented and engaged employees are committed to upholding our values, enabling us to deliver our strategic priorities. We recognise that listening to our employees and keeping them engaged is essential to our success.

How the Board engaged

Workforce engagement continues to be a key priority for the Board. Vicky Edwards, the Chief People Officer, attends Board meetings once a year to provide an update on all HR initiatives, while Matthew White the COO, updates the Board with an HR dashboard, showing key statistics and Pulse survey results are reviewed at each Board meeting. Our employee opinion survey formally captures their views and is a key part of how we track engagement. In response to the challenges raised by the pandemic, we held a number of live events via Zoom led by the Company Leadership Team and a town hall with the Board.

Feedback, suggestions and concerns from employees across the business are also considered through channels such as town hall meetings and CLT questions and answers sessions.

Outcome of engagement

Our employees are proud to work at Alfa and we are proud of Alfa's response to Covid-19, we did not furlough any staff and provided funds to support home working. Following their appointments, both Adrian Chamberlain and Charlotte de Metz published video messages to introduce themselves to our employees and provide an overview of their experience.

Inclusion and diversity is very important to the Board and wider employees and the education and awareness programmes in this area are very much in demand. Mental wellbeing has been a key focus area during the year, with many colleagues finding the loss of physical office space isolating.

Engagement in 2021

Listening, learning and responding to our people will continue to be a priority during the next 12 months. We have, as part of this, formalised our internal communications calendar to ensure we have the opportunities to interact whilst the Company works remotely.

Communities

As a long-term sustainable business, we want to maximise our social value, whilst reducing our impact on the environment. Our culture is based on individual accountability. We encourage employees to support and engage with the local community.

How the Board engaged

The Board endorses the encouragement of our employees to contribute to the community and the environment through the provision of their time and expertise. This includes supporting local schools and charities through Company led activities and Company matched monetary donations.

We are dedicated to reducing our environmental impact and continually improving our environmental performance as an integral part of our business strategy and operating methods, with regular review.

Outcome of engagement

The Board aims to contribute positively to the communities and environments in which Alfa operates. The Board supported a number of key initiatives during the pandemic. In addition to providing financial support to local charities, Alfa donated hand sanitiser, face masks and gloves to two hospitals and a food bank and socks to a local mission.

Engagement in 2021

We believe Alfa has an important role to play in creating a positive impact on the health of the environment in which we live and operate. The Board will enhance Alfa's approach to ESG and recognise that we have an opportunity to more actively manage the environmental impact of our business.

Partners

Building trusted partnerships through ongoing dialogue helps us to better understand the needs of our partners and to develop and improve our offering.

How the Board engaged

The Board receives reports on how we have worked with our partners throughout the year, with a focus on key commercial events, which have been mainly virtual events due to strict worldwide restrictions on large gatherings.

The Board considered how we can build and improve on our existing commercial partnerships when discussing strategic opportunities during the Strategy day in August 2020.

Outcome of engagement

Executive Directors are involved directly with partner senior management and provide regular updates to the Board on key partner developments and issues. The Board supports the continuing development of our partner training and learning programme, which aims to deliver a comprehensive training schedule including Alfa Systems training, our delivery methodology and simulation based implementation workshops.

Engagement in 2021

We will continue our engagement with our commercial partners, ensuring we are adapting to their needs in this changing environment.

Our partnership programme is an important part of Alfa's long-term growth strategy. We aim to develop our partner ecosystem to increase Alfa's operational capacity and sales opportunities.

Investors

The Board places great importance on having positive relationships with all shareholders and seeks to ensure there is an appropriate and constructive dialogue with investors.

How the Board engaged

We conduct extensive engagement with our institutional investors throughout the year. The Board was disappointed that, due to Covid-19 restrictions, the AGM was held as a closed meeting in 2020. An invitation to all shareholders was included in the Notice of Meeting to invite questions from the shareholders.

The Board receives regular updates on investor communication activity, changes to the shareholder register, analysis of share price performance and particular investment themes such as environmental, social and corporate governance. In addition, the feedback from shareholder/analyst interactions is shared with the Board on a regular basis, via our corporate brokers.

Outcome of engagement

The Board considers information from across the Company to help it understand the impact of its decisions, and to consider the interests and views of our key investors. Our Investors understand the strategy that underpins our future growth plans and are keen to engage with regard to financial and operating performance of the business.

We undertook a shareholder consultation on the implementation of our new Remuneration Policy, which received constructive feedback from shareholders.

Engagement in 2021

We will continue to engage with our shareholders throughout 2021. Due to the ongoing uncertainty around Covid-19 restrictions, the Board has taken the decision to hold the 2021 AGM via an online meeting platform to facilitate shareholder participation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Andrew Denton
Chief Executive Officer

“It is crucial to the vitality of our business that we contribute to the wider society. We are in a position to provide assistance and expertise to the communities in which we operate, and therefore have an obligation to do so, be that through the provision of interview training in local schools, or fundraising for our charity partners.”

This section highlights what we are doing to make a positive impact through our sustainability and stakeholder engagement. At Alfa, we have a passion for using our expertise to create shared value for the communities in which we work. We believe that our corporate activity should positively impact the lives and livelihoods of everyone we work with, as well as the wider community.

Our dedicated Corporate Social Responsibility (CSR) team has been in place for over 15 years, with team members drawn from across the Company. We have recently expanded our CSR activities around the globe, with a new local CSR team being created in the Asia Pacific region and a number of inclusion-related breakfast sessions, and social and wellbeing events being coordinated globally. These teams and events not only showcase our commitment to communities in which we operate, but provide an invaluable platform for people to both share their experiences and learn from others.

United Nations Sustainable Development Goals

The United Nations Sustainable Development Goals are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to inequality, climate change, environmental degradation and poverty.

Alfa has initially selected four sustainable development goals to help shape and inform our CSR efforts. We feel these goals fit well with many of the initiatives we currently have in progress, and some of the things we want to focus on in the future.

1. Our people

2. Our customers and suppliers

3. Our community

4. Our environment

The deeply collaborative nature of our culture means that we see active employee engagement in a wide variety of activities, from our employee volunteering scheme, fundraising for charity partners, donation of equipment such as old laptops to local schools, a commitment to reducing our environmental impact and much more.

4. Quality Education

5. Gender Equality

13. Climate Action

17. Partnerships for the Goals

Our people
We strive to be a great employer.
Our people are key and we want to thank each and every one of them for helping us provide a first-class service to our customers. We are committed to helping our people grow both professionally and personally, within an inclusive workplace.

Alongside supporting and promoting equality and diversity in the workplace, we are committed to helping our people grow both professionally and personally.

Health and wellbeing

Never before has wellbeing been more important. During the pandemic, rather than accessing the furlough scheme we have redirected internal time to develop a rich programme of wellbeing resources, activities and events to support our employees through a difficult period. We enhanced our paid carer leave allowance for parents having to care for and educate their children. We implemented an employee benefits platform giving access to physical, mental and financial advice and assistance, and we made available a working from home allowance to ensure that working from home was both safe and a comfortable experience for our people.

Recruitment and retention

Alfa strives to be an appealing prospect to all candidates irrespective of gender, race, ethnicity, religion, age, sexual orientation or disability and we are proud to have been in a position to welcome 70 new joiners across a variety of teams in our offices in 2020. We introduced new recruitment channels in 2020, such as Tech Returners, to give us access to candidates from a wider range of backgrounds and we look forward to carrying that theme into 2021.

We have a structured career development programme which provides all employees with visibility of career progression and promotion opportunities. Our annual salary review and promotion process gives all employees the opportunity to be recognised for their performance and progression.

Inclusion and diversity

Our dedication to diversity and inclusion runs from the Board through the whole

Company. Staff work hard to facilitate a safe and enjoyable working environment for all colleagues, enhancing morale and productivity.

Our approach to inclusion and diversity is a critical part of our business and culture. Our team, which speaks over 30 languages and comprises more than 50 nationalities, is more productive for our diversity of thought and experience. Our inclusion community meets regularly to contribute to sustainable growth and unleash possibilities by embracing our mix of different perspectives.

Gender equality

In 2019, the Alfa Women's Community was formed. This body represents female staff and strives

to achieve a progressive and inclusive working environment where all can thrive. The community also aims to provide support to people of any gender to address concerns of bias related to women, and actively encourages gender diversity – not only within Alfa, but across the industry in which we operate.

Within Alfa globally, 30% of our people are female (2019: 29%). Alongside our work to improve gender balance, we have continued our long-standing relationship with Women in Tech, an organisation which provides guidance and support to women either seeking to enter, or operating in, the technology sector. In 2020 we began a partnership with The Women's Association where we have taken part in a number of initiatives such as the 'For the Women' campaign, which aims to raise the visibility of women in organisations. This is vital to empowering women and achieving gender parity.

Women's Community and initiatives

Our internal Women's Community is in place to support our existing

population of women. It exists to foster a progressive environment with equal representation of women by providing a support network of allies to encourage gender diversity in Alfa and across the industry.

James da Silva

"In my time with Alfa, I've experienced the transformation to the diversity of people. My co-workers are an eclectic mix of many backgrounds, races, orientations, genders, and most importantly different viewpoints. This makes us stronger as an organisation."

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Vicky Edwards
Chief People Officer

“We are proud of the work that we do at Alfa to create and support diverse and balanced teams throughout the organisation. I am inspired by the passion and drive of our employees in maintaining an inclusive working environment. I am confident that our continued focus and long-term plans will enable us to create a more diverse organisation that we are all proud of.”

**New hires in 2020
that were female**

37.5%

Flexible working

We have seamlessly switched to remote and flexible working, providing support depending on personal circumstances. With mental and physical wellbeing considerations, as well as home-schooling commitments, we have encouraged a more flexible approach to the working day to ensure that everyone feels able to cope. Employees have fed back that they value many of these changes to their working patterns and we fully intend to continue on this path post pandemic. We continue to maintain a 100% record of employees returning to work after maternity and paternity leave.

Mentoring and Coaching

To continue the development of a female talent pipeline, we encourage and promote uptake of our career management scheme to all employees across the Company. In 2019, we offered our female senior leaders access to an external coaching programme and this continued into 2020. Looking outside of the Company and to the younger generation, our CEO has recently taken part in 'The Executive Challenge', a programme rolled out by the Women's Association that gives girls between the ages of 12 and 16 the opportunity to learn about life as an executive.

Culture

We are very proud of our culture. It is one of our greatest strengths and remains highly valued by our people. We have worked hard this year to ensure our culture is retained in our remote working environments and we are pleased to see this reflected in our positive ratings in our quarterly Pulse surveys. Our culture is a key factor in our consistently high rates of staff retention.

Pivotal to this culture, is our commitment to promoting collaboration and innovation across all levels and roles within the Company.

We continued to run our bi-monthly innovation days and annual hackathon remotely in 2020. The categories for the hackathon and idea suggestions came not only from our engineers but from a range of people and departments including the sales team and product architects.

Caleb Bird

“The Alfa team’s support throughout my first year as a new graduate has been amazing and has set a high standard. I hope to be able to provide the same support for new joiners in the future.”

As well as fun hacks such as 'Humans of Alfa', a way to get to know your colleagues better while we are remote, we had some truly inspirational hacks that will add true value to our day-to-day operations and product.

Our Events team has done a fantastic job of creating a programme of virtual events throughout the year to keep everyone connected and engaged. These range from our Global Company conference; social talks across a variety of topics including our most popular talk to date, with an astronaut, Marsha Ivins; as well as exercise classes, mediation and nutrition sessions, team socials and wellbeing kits posted to home.

Learning and development

We recognise that developing the best people is the key to providing our clients with service of the highest quality, so here at Alfa we are passionate about maintaining a culture of continuous learning and development. We focus on the uniqueness of each individual and adopt an approach that supports career aspirations, and the skills and knowledge needed to ensure they reach their full potential. We have a rich library of development options, from classroom-based courses in our standard curriculum, to bite-sized courses, webinars and resources that can be accessed at the point of need.

Most Alfa employees create a Performance and Development Process (PDP) plan in consultation with their manager which becomes the focus of their personal and professional development. Alfa provides its staff with a budget of up to five days' training per year which we encourage all staff to use.

Our Learning and Development objectives for 2021 include the following:

- Enhance the range of development options – with a specific focus on People Skills.
- Grow the range of 'at point of need' development options.
- Support and develop our existing leaders.
- Identify and develop our next generation of leaders.

We have also introduced a range of tailored coaching programmes and support across the business. This includes those transitioning into leadership roles, particularly during their critical first six months, and for our most senior female leaders, focusing specifically on their personal development and progression within Alfa. We are continually working to improve our ability to formally coach people across the organisation.

"Innovation continues to be at the heart of Alfa culture. Our innovation events are opportunities for the Company to connect, take a step back and think how we see our industry, our ways of working, and our World change; and what that means for us, for our clients, and for our future."

Zoe Chambers

Statutory gender pay gap (GPG) reporting

The gender pay gap is the measure of the difference in average pay between all men and women across an organisation, regardless of their role, level, length of service or location and any other differentiating factors. The gender pay gap is reported as a mean average and median average (midpoint) figure. The gender pay gap is different to the concept of equal pay which requires that women and men are paid the same for doing the same job and it is unlawful to pay people unequally on the basis of whether they are a man or a woman.

We had less than 250 employees in our largest trading subsidiary, Alfa Financial Software Limited, but we are publishing voluntarily to continue our commitment to diversity across our Alfa team. The analysis is based on data as at 5 April of each year and this report reflects the data collected and analysed as of 5 April 2020.

Gender pay gap

Statutory	2020 Median pay gap	2019 Median pay gap	2020 Mean pay gap	2019 Mean pay gap
Alfa	14.7%	23.5%	15.3%	21.1%
UK	15.5%	17.3%	15.5%	16.2%

% in pay quartiles

Pay quartile	2020 men	2020 women	2019 men	2019 women
1st (lowest)	63%	37%	69%	31%
2nd	73%	27%	71%	29%
3rd	78%	22%	84%	16%
4th (highest)	81%	19%	84%	16%
All	74%	26%	77%	23%

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Our customers and suppliers Our EMEA and US user groups provides our customers an opportunity to reflect together on their experience and collectively challenge us in all aspects, from our product to our delivery approach.

We held two remote meetings of the EMEA user group in 2020, covering topics which included the Alfa strategy and product roadmap.

User groups

While a little more challenging as a result of the pandemic, our EMEA user group has continued to grow throughout 2020. Several new Alfa customers joined the group to bolster our numbers and ensure continued representation across our diverse customer base. We held two remote meetings of the user group in May and October, covering discussion of the Alfa strategy and product roadmap amongst other topics. The session in October incorporated the annual feedback and reflection session which provides our customers an opportunity to reflect together on their experience and collectively challenge us in all aspects, from our product to our delivery approach.

Themes derived from the feedback and reflection session will drive the ongoing user group agenda, ensuring that discussion topics and initiatives provide value to all involved. Two working groups met through 2020, focusing on the collaborative delivery of risk-free rates functionality into Alfa Systems alongside discussion of configuration management best practice. There is plenty on the agenda for 2021 already as the group looks to capitalise on more excellent progression in 2020.

The US user group (known as the partner forum in the US) met remotely in June 2020. In addition to discussing Alfa's vision and strategic processes, it covered Alfa's response to Covid-19 and how the Alfa Support team operates (as we introduced 24/7 client support for the first time in January 2020).

Partnering in CSR

In 2020 we partnered more with clients on CSR activities, an example being Hitachi Capital, which delivered a number of social talks, giving us ideas for initiatives we could use to increase levels of mentoring and support throughout the Company. Partnering with clients is something we want to do much more of in 2021 and beyond.

There is regular engagement with the wider Company through dedicated events, blog posts and internal forums. This level of interaction has fostered the development of a valuable platform for open communication at Alfa. Community representatives are active at each of our main locations worldwide, delivering coordinated events and facilitating discussion.

Our community Our corporate social responsibility strategy is focused on adding value to the communities in which we live and work.

As a long-term sustainable business, we want to do more to maximise the social value that we create. Our culture is based on individual accountability. We encourage our people to support and engage with local activities and charities.

Our corporate social responsibility remains central to who we are as an organisation, and is a fundamental part of our culture.

Employee community groups

We have dedicated employee-led communities that focus on various facets of diversity, to ensure employees are treated fairly and respectfully, have equal access to opportunities and resources, and can contribute fully to Alfa's success. Alfa empowers the communities (which include Inclusion, LGBTQ+, Racial Equity, Women's and Parents) to share their experiences and ideas, and to effect change through policy, partnerships and education.

Charitable donations

over **£30k**

Fundraising

Alfa donates to both local and national charities, while many staff members undertake sponsored

activities in their own time, to which their colleagues contribute generously. Specific charitable events, such as the World's Biggest Coffee Morning supporting Macmillan Cancer Support, provide a focus for raising funds. In addition, Alfa events provide an opportunity for staff to contribute money to charities.

In 2020 and 2021 we are partnering with Mind in the UK and Feeding America in the US. To date we have raised over £15,000 for Mind and over US\$5,000 for Feeding America.

The fast pace of technology sometimes means that the hardware that was top of the range a few years ago is now no longer able to run today's power-hungry applications. The safe and environmentally sustainable disposal of IT equipment presents a considerable challenge to

the entire IT community. Alfa's approach to this issue is to donate laptops and other IT equipment that is still functional to schools and charities. This not only reduces our impact on the environment but also allows schools and charities access to IT hardware that they may otherwise be unable to acquire. This has become increasingly relevant with the onset of the pandemic where many pupils do not have access to laptops to support their remote learning.

Volunteering

Our long-established volunteering scheme enables us to strengthen our links with the local community while providing our staff with an opportunity to use their skills outside of the workplace. Alfa has built mutually beneficial, long-term partnerships with a number of community organisations. Ultimately, we want these relationships to be good for the individual, good for Alfa and good for the community. Alfa selects community programmes that can bring real benefits, matching our core business of providing IT expertise and consultancy. Volunteering opportunities allow our staff to take on new responsibilities that would not normally be available to them as part of their day-to-day role. These placements allow our staff to be exposed to new experiences and develop new skills while also giving the community access to technical, consultancy and design services that would not usually be available.

Our volunteering scheme is a big selling point for new joiners to the Company. We offer three days' paid volunteering per year and have a framework in place to help employees choose a suitable volunteering opportunity. All employees are encouraged to take an active part in the schemes offered and volunteers range in seniority from junior consultant all the way to CEO.

2020 presented obvious challenges to in-person volunteering. However, we successfully set up a new scheme with Code Your Future here in the UK. Code Your Future is a technology charity which helps people from disadvantaged backgrounds (for example refugees, asylum seekers and local people on hard times) learn to become full stack developers. A number of Alfa colleagues have volunteered with Code Your Future remotely and have had a great time doing so. It's great to be able to use our specific technical expertise to give back to the communities in which we work.

"It's great to be part of a company that values its employees and is taking strides towards becoming a progressive organisation. It is especially refreshing to witness the gradual increase in the eclectic mix of talent in recent years."

Tobi Strillozzi

ENVIRONMENTAL, SOCIAL AND GOVERNANCE CONTINUED

Our environment

Alfa remains committed to better understanding our contribution to climate change and working collaboratively with stakeholders to reduce potential impacts. We have an environmental policy which recognises our responsibility to the environment beyond legal and regulatory requirements.

We are dedicated to reducing our environmental impact and continually improving our environmental performance as an integral part of our business strategy and operating methods. We have an exciting and challenging set of objectives for 2021 and beyond.

As a company with over 300 staff, Alfa realises that its actions can have a significant impact on the environment. In acknowledging the increasing responsibility that we, as a business, have to our environment, we have really focused our efforts on reducing this impact.

Green Team Initiatives

Spearheaded by the Green Team, Alfa is continuously aiming to review and improve our business practices in order to reduce our carbon footprint. Just as we use video conferencing to reduce travel to client sites, there are many simple measures in place to reduce our energy consumption.

Recycling and reducing waste are areas that we review constantly. In order to decrease the amount of paper we consume, we are no longer printing out training materials and instead use online training resources.

Recycling schemes are in place at all of Alfa's offices and Alfa has seen a consistent quarter-on-quarter improvement in the recycling of paper, cardboard, cans, plastic and glass. We also recycle technical hardware that cannot be donated to charity.

We encourage ideas from staff on how to reduce our environmental impact and these have led to the implementation of Company-wide policies; for example, we have implemented the UK's Cycle to Work scheme to encourage and support carbon-free commuting amongst our staff. The uptake has been good but we anticipate further enthusiasm when we return to commuting. Prior to Covid-19, we had also introduced the recycling of our coffee ground waste through BioBean and had stopped ordering single-use plastic milk bottles which have been replaced with reusable glass bottles which are collected and refilled. With our milk consumption in the UK office (pre-Covid-19) reaching 40 litres a day, this culminates to a significant daily reduction in plastic consumption.

Prior to the closure of the UK office in 2020, Alfa's Green Team was in the process of carrying out a sustainability audit of all food/drink products ordered to our café, 'Moor'. This would ultimately involve switching to more sustainably made suppliers and produce, in line with Alfa's values. This initiative will continue in 2021.

As a company with expertise in IT, we acknowledge that the equipment we operate can be accountable for high levels of energy usage. We have made use of the latest server virtualisation technology to ensure that our IT infrastructure energy consumption is kept to an absolute minimum.

Our staff are encouraged to be responsible for their own energy usage by switching off their computers overnight and using laptop standby mode whenever possible. Turning off lights is a simple step we take to reduce our energy consumption and all Alfa offices have lights on sensors so unnecessary energy is not used when the office is empty. In taking responsibility for their own energy usage, Alfa staff share knowledge so others can benefit from their experience, one example being the use of Bye Bye Standby products to minimise energy usage at home.

We encourage staff to take on Meat-Free Mondays/Veganuary and have previously showcased the benefits of plant-based cooking by hosting a vegan/vegetarian food market in the office (prior to Covid-19). This raised money for WWF whilst also boosting enthusiasm for meat-free diets.

The Alfa Events team is committed to ensuring conference venues are environmentally conscious; for example, no single-use plastic/paper is used for catering, and any Alfa branded clothing is sustainably-made.

Looking ahead into 2021

In 2021 we hope to be back in the office and resurrect our Green Team events and volunteering days which were planned for 2020. This includes a tree-planting drive, regular park clean-ups, another canal clean-up with the Canal River Trust and the introduction of a more regular vegan food market to promote meat-free diets.

We are dedicated to reducing our environmental impact and continually improving our environmental performance as an integral part of our business strategy and operating methods, with regular review. Therefore, we have pledged to carry out a comprehensive review of the total carbon emissions of Alfa's operations, including flights, equipment and electrical output, aiming to identify and implement strategies for reduction. Once a strategy to reduce

our emissions (where possible) has been developed, we will invest in carbon offsetting initiatives to begin the process of bringing our emissions to net zero. We will do the necessary due diligence to ensure we are employing the most appropriate methodology to achieve this for a company of our size and distribution.

We are dedicated to reducing our environmental impact and have pledged to reach carbon neutrality by the end of 2021.

Carbon emissions

Alfa remains committed to better understanding our contribution to climate change and working collaboratively with stakeholders to reduce potential impacts. We have an environmental policy which recognises our responsibility to the environment beyond legal and regulatory requirements. We are hoping to continually improve our environmental performance as an integral part of our business strategy and operating methods, with regular review.

We will be carrying out a comprehensive review of the total carbon emissions of Alfa's operations, including flights, equipment and electrical output, aiming to identify and implement strategies for reduction.

Once a strategy to reduce our emissions (where possible) has been developed, we will invest in carbon offsetting initiatives to begin the process of bringing our emissions to 'net zero'. We will do the necessary due diligence to ensure we are employing the most appropriate methodology to achieve this for a company of our size and distribution.

We will be launching internal information campaigns, including blog posts, to incentivise our employees to take both individual and group actions to reduce emissions. This may involve using alternative forms of transport to flying, and electing to utilise remote meeting software rather than travelling to meet face-to-face where possible. Our number one priority remains to deliver Alfa implementations on time and to the necessary standard, so individual discretion will be required.

The Environmental information provided in this section complies with the UK's new environmental Streamlined Energy and Carbon Reporting (SECR) regulation requirements.

Our footprint is calculated using the EMA methodology for SECR Reporting on calculating organisational footprints. Activity data has been converted into carbon emissions using published emissions factors. Alfa recognises that reporting against the Taskforce on Climate-related Financial Disclosures will become mandatory in the coming years, we will start to align our reporting with this disclosure.

The Strategic Report and the Financial Review are approved by the Board of Directors and signed on its behalf by:

Andrew Denton
Chief Executive Officer
22 March 2021

	2020	2019	2018
Scope 1 – Direct emissions from the combustion of fuels (tCO ₂ e)	–	–	–
Scope 2 – Emissions resulting from the purchase of electricity, heat, steam or cooling (tCO ₂ e)	150	143	153
Total Scope 1 and 2 consumption (kWh)	558,346	–	–
Scope 3 – Business travel where responsible for fuel (tCO ₂ e)	48	678	737
Total (tCO ₂ e)	198	821	890
Revenue (£ million)	78.9	64.5	71.0
Intensity ratio – tCO ₂ e per £m of revenue	2.5	12.7	12.5

CHAIRMAN'S INTRODUCTION TO GOVERNANCE

“The governance environment that Alfa had in place as the Covid-19 crisis unfolded, supported high-quality decision-making which ensured we maintained the strong business momentum we had prior to the pandemic.”

Andrew Page

Chairman of the Board and Founder

Board focus areas in 2020

- Two new Non-Executive Directors and Chief Financial Officer.
- Special dividend of 15 pence per ordinary share.
- Performance of the business, financially and operationally.
- 2021 budget and long-term strategic plan.
- Sales pipeline and business development.

Dear shareholders,

On behalf of the Board, I am pleased to present the Group's corporate governance report for the financial year ended 31 December 2020. This report outlines how the Board has ensured that robust and appropriate governance procedures are in place to ensure effective and prudent management of the Company that will deliver long-term sustainable success for the benefit of our shareholders and broader stakeholders.

In this report, we set out our approach to corporate governance and provide detail on the role of the Board of Directors, followed by more detailed sections on the work of each of the three key Board Committees: the Audit and Risk Committee, the Nomination Committee and the Remuneration Committee. Together, these give a clear insight into how we manage corporate governance principles and processes within the Group.

Momentum in times of uncertainty

The emergence of the global Covid-19 pandemic provided an unprecedented challenge to all companies, as boards and senior management sought to understand the implications of the pandemic for their companies and the necessary steps required to protect their businesses and their stakeholders. The governance environment that Alfa had in place as the Covid-19 crisis unfolded, supported high-quality decision-making which ensured that we maintained the strong business momentum we had prior to the pandemic, whilst at the same time, looking after the interests of all our stakeholders, particularly our employees. Further detail of how the Company responded to these unprecedented times is set out throughout this report and is summarised on page 15.

Despite the initial challenges of 2020, the Company exceeded expectations and through a number of trading updates issued in the second half of the year we highlighted the increasing expectations for full year revenue and profit. As a result of Alfa's strong performance, we were delighted to announce a special dividend in the amount of 15 pence per share, which was paid to shareholders in November 2020.

Our approach to corporate governance

Corporate governance at Alfa takes a thoughtful and considered approach involving the Board as well as other key personnel to identify and apply the principles of good corporate governance.

This means balancing the interests of the Company's many stakeholders, such as shareholders, employees, customers, suppliers and the communities we work in. Strong governance helps to cultivate a company culture of integrity and stakeholder alignment, alongside corporate structures that improve leadership, accountability and effectiveness.

This brings a sharper focus to strategic objectives and translates into better decision-making which, in turn, drives competitive advantage and growth and results in stronger corporate performance and a sustainable business model. The Board has maintained a strong focus during the year on the Company's strategic goals whilst ensuring that the Company has the right people in place to deliver on its strategy. During this period of continued growth, it is vital to ensure that the Company's governance processes are robust in order to ensure that the business is protected and that all stakeholders' interests are taken into account.

Culture, values and people

Alfa has fostered a strong Company culture which is underpinned by a set of values which ensure that everyone stays focused on delivering our strategy whilst staying true to who we are. The Board recognises the importance of setting this culture and ensuring that the necessary resources are in place to allow our people to deliver the Company's strategy.

The Board is kept up to date on employee engagement through the inclusion and discussion of the Pulse survey results which are collected on a bi-monthly basis and presented to the Board by the Chief Executive Officer. A focus of the Company Leadership Team this year has been ensuring the overall welfare of our employees throughout the Covid-19 pandemic.

The Board is satisfied that the approach toward engagement with the workforce described on pages 70 to 71 is robust.

Board changes during the year

We were delighted to appoint Adrian Chamberlain and Charlotte de Metz to the Board as Independent Non-Executive Directors on 24 April 2020. I am pleased to report that both Adrian and Charlotte have brought extensive experience and expertise and have made a massive contribution to the Board. The Board is doing an outstanding job of advising, supporting and providing constructive challenge to management. Duncan Magrath joined Alfa in March 2020 as Chief Financial Officer and was appointed to the Board in April 2020. Duncan has continued to transform the finance function and has been a great addition to the Company's executive team. I express my thanks to John Miller who stood down as interim Chief Financial Officer following Duncan's appointment.

Finally, I would like to take this opportunity to thank all of our stakeholders for their continuing support in these unprecedented times.

Andrew Page

Chairman of the Board and Founder

BOARD OF DIRECTORS

Andrew Page Executive Chairman

Appointment
to the Board
May 2017

Committees
N

Other appointments
n/a

Key strengths

Andrew has considerable senior management experience and a deep understanding of the asset finance industry.

Career and experience

Andrew is one of the founding Directors of Alfa. Andrew became the Chief Executive Officer in 2010 and the Executive Chairman in September 2016. Andrew provides commercial oversight and with the Board sets the strategic direction and goals of the Company.

Andrew Denton Chief Executive Officer

Appointment
to the Board
April 2017

Committees
n/a

Other appointments
n/a

Key strengths

Computer scientist by training, considerable senior management experience and significant experience in the asset finance industry.

Career and experience

Andrew joined Alfa in 1995 and became a member of the Board of Directors in 2003 as Sales and Marketing Director. He was made Chief Operating Officer in 2014 and became CEO in September 2016. Andrew is also Director and joint founder of the Leasing Foundation, an organisation that supports the leasing and asset finance industry through charitable activities, research and development.

Duncan Magrath Chief Financial Officer

Appointment
to the Board
April 2020

Committees
n/a

Other appointments
n/a

Key strengths

Extensive experience in senior financial positions both in the UK and internationally, including a deep understanding of investor relations and financial strategy.

Career and experience

Duncan started his career at Price Waterhouse, and qualified as a Chartered Accountant in 1989. He joined Ocean Group in 1992, and spent 13 years in the UK and US in various finance roles as the group transformed into Exel Logistics. He joined Balfour Beatty, the infrastructure company, in 2006 and was Group CFO from 2008 to 2015. In 2016 he joined Rubix, an Industrial Parts Distributor, as Group CFO and was in that role through to 2019.

Matthew White Chief Operating Officer

Appointment
to the Board
October 2019

Committees
n/a

Other appointments
n/a

Key strengths

Considerable senior management experience in software development and all aspects of systems implementation and delivery.

Career and experience

Matthew joined Alfa as a graduate in 1999, starting in a software development role. In his 20-year career delivering software for the asset finance industry, Matthew has direct experience of everything involved in systems implementation, from configuration and testing support to project management for a number of UK and European projects. From 2010 to 2016, Matthew's role grew to include responsibility for most of the operations of the Company, before he led Alfa's IPO in 2017. As Chief Operating Officer, a role which he assumed in February 2019, Matthew is accountable for the international operations of the business, including Alfa's technology platform and project delivery.

Committee membership

A Audit and Risk

N Nomination

R Remuneration

 Committee chair

Steve Breach Independent Non-Executive Director

Appointment
to the Board
August 2019

Committees

 N R

Other appointments

Advisor to a number
of private companies

Key strengths

Steve has held a number
of CFO roles and has
extensive experience
in corporate finance.

Career and experience

Steve is a member of the
Institute of Chartered
Accountants in England and
Wales, having qualified with
EY in 1993 where he focused
on providing corporate
finance advice to technology
businesses in the UK and
internationally. Steve has
16 years' experience as Chief
Financial Officer of a number
of businesses. Between 2010
and 2016, Steve was CFO of
Tribal Group PLC, a leading
international provider
of student management
software to the education
market. Steve has
subsequently pursued
a portfolio career, acting
as adviser to a number of
privately owned companies.

Adrian Chamberlain Independent Non-Executive Director

Appointment
to the Board
April 2020

Committees

A N 

Other appointments

Chairman of eConsult Ltd
Non-Executive Director
of Cambridge University
Hospital NHS and Chair of
the Performance Committee

Key strengths

Extensive experience
internationally in both the
private and public sectors,
particularly in strategy
formulation and execution,
technology and Software
as a Service.

Career and experience

Adrian is a Non-Executive
Director of Cambridge
University Health Trust, one
of the country's largest NHS
Trusts, where he chairs the
Performance Committee.
He is also Executive Chairman
of eConsult Ltd, a leading cloud
based medical triage company.
He previously has held senior
executive positions in a number
of private and public hi tech
and telecommunications
companies including
Chief Executive Officer of
Messagelabs and Achilles Ltd,
a member of the Board of
Cable & Wireless and Bovis
Lend Lease and a member
of the Operations Board at
Symantec. He holds an MA in
History from Trinity College,
Cambridge and an MBA from
the London Business School.

Charlotte de Metz Independent Non-Executive Director

Appointment
to the Board
April 2020

Committees

A N R

Other appointments

CPO, Synamedia Limited

Key strengths

Strong track record in
delivering innovative
employee development,
engagement, and retention
practices. She has extensive
experience in managing
high-impact, enterprise-wide
transformations in
challenging, fast-paced
environments.

Career and experience

Before joining Synamedia
in early 2019 as Chief People
Officer, Charlotte served
as Global Head of Human
Resources and more recently
as Executive Vice President
at Finastra, a global fintech
where she was responsible for
Executive Talent, corporate
social responsibility, culture
and values, and diversity
and inclusion. Prior to joining
Finastra in 2012 as Global
Head of Human Resources,
Charlotte spent over 11 years
at Ventyx, a global provider
of software solutions for
the energy, utility and other
asset-intensive businesses.
During her tenure at Ventyx
she held various HR roles,
latterly as Human Resource
Manager for Rest of World.

Chris Sullivan Senior Independent Non-Executive Director

Appointment
to the Board
July 2019

Committees

A  R

Other appointments

Chairman of the
Westminster Abbey
Investment Committee
Non-Executive Director
of Guild Esports PLC
Non-Executive Director
Goodwood Estates
Senior Independent Director
for DWF Group PLC

Key strengths

Extensive experience of
corporate, investment and
retail banking and asset
financing together with
general management and
listed company experience.

Career and experience

Chris was Chief Executive of
the Corporate & Investment
Bank at Santander UK, and
prior to this held various CEO
roles during a 40-year career
at The Royal Bank of Scotland
and NatWest. His 11 years
on the Group Executive
Committee included leading
Corporate Banking, Retail
Banking, Direct Line and
Retail Direct and culminated
in appointment to the post
of Deputy Group Chief
Executive in March 2014.
A recipient of the Leasing
Life European Lifetime
Achievement Award,
Chris brings expertise in
the asset finance industry,
having spent nearly 30 years
with the Lombard Group
in a number of directorate
roles including as CEO.

COMPANY LEADERSHIP TEAM

Andrew Denton Chief Executive Officer

Duncan Magrath Chief Financial Officer

Matthew White Chief Operating Officer

Richard Raistrick Chief International Officer

Date joined Alfa
May 1995

Relevant experience/previous roles
Richard is responsible for project delivery of some of Alfa's largest customers. He has carried out consultancy and project management engagements around the globe, and has worked in the asset finance sector since 1995.

Vicky Edwards Chief People Officer

Date joined Alfa
March 2020

Relevant experience/previous roles
Vicky joined Alfa in March 2020, bringing 26 years of experience in consultancy businesses. A commercially focused HR leader, Vicky has held leadership roles across HR, commercial and operations functions, as well as C-suite level positions in the professional services, technology and energy sectors.

Andrew Flegg Chief Technology Officer

Date joined Alfa
February 2005

Relevant experience/previous roles
Andrew brings over 35 years of programming experience, with over 25 years in commercial software development and 16 in the asset finance industry. He was previously Alfa's Global Director of Platforms, covering internal IT systems, cloud, information security and solution architecture.

James Paul Chief Delivery Officer

Date joined Alfa
September 1999

Relevant experience/previous roles
James is accountable for all EMEA implementations and takes global responsibility for support, resourcing and partnering. James has over 20 years' experience implementing in asset finance for organisations of all sizes.

Richard Dewire Chief Revenue Officer

Date joined Alfa
January 2001

Relevant experience/previous roles
Richard has 19 years in the asset finance industry and an in-depth knowledge of Alfa Systems through many years of implementation, with extensive knowledge of Alfa's sales and commercial process. He was previously Director of Strategy and Investment.

THE UK CORPORATE GOVERNANCE CODE 2018: OUR COMPLIANCE

Effective corporate governance provides an essential foundation for the long-term sustainable success of the Company. This report sets out the key elements of Alfa's corporate governance arrangements, including how we have sought to apply the principles and provisions of the 2018 UK Corporate Governance Code (the '2018 Code') during the year.

A copy of the 2018 Code, issued by the Financial Reporting Council can be found at www.frc.org.uk. This governance statement, including the Nomination Committee, Audit and Risk Committee, and Remuneration Committee Reports, explains how we have applied the principles and complied with the provisions of the 2018 Code.

Non-compliance with Code provisions

The Group has complied with the Code provisions during the financial year with the exception of the following:

Code provision 9: The Chairman of the Board was not independent on appointment as he previously held the position of Chief Executive Officer and is the controlling shareholder of the Company. On listing, the Board unanimously supported, and continues to support, the appointment of the Chairman to retain his skills and experience, and ensure continuity of service for Alfa's customers and commercial partners.

Code provision 24: For the period from 1 January 2020 to 23 April 2020, the membership of the Audit and Risk Committee had two independent directors pending the appointment of Adrian Chamberlain and Charlotte de Metz as additional members of the Committee on 24 April 2020.

Code provision 32: For the period from 1 January 2020 to 23 April 2020, the membership of the Remuneration Committee had two independent directors pending the appointment of Adrian Chamberlain and Charlotte de Metz as additional members of the Committee on 24 April 2020.

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BOARD LEADERSHIP AND COMPANY PURPOSE

Maintaining good governance is essential to support the delivery of Alfa's strategic objectives, and to ensure that the business is run well for the benefit of all stakeholders and sustainable long-term value. The Board continues to monitor the framework so it remains appropriate to the business.

The governance framework embeds our values into the policies and processes of Alfa and therefore helps to strengthen the corporate culture.

Read more about our **Company Leadership Team** on page 68.

During this year the Board has reviewed and approved an updated Schedule of Matters Reserved for the Board, Board Committee Terms of Reference and Delegations of Authority Policy. There is an internal controls system in place which allows the Board to assess and manage risks to the business.

Read more about our **Risk Management** on pages 42 to 43 and the **Audit and Risk Committee Report** on pages 82 to 87.

The Board provides support in implementing strategic priorities as well as oversight and constructive challenge on the running of the business. Through reporting, including the use of both financial and non-financial metrics, the Board is able to evaluate and guide the progress and performance of the Company. Reports from across the business are provided at Board meetings to update the Board and enable effective discussion.

Defining purpose and creating value

During the year, the Company has continued to embed across the business the purpose and values as set out in the Strategic report on pages 1 to 63 of this report.

The Board continues to monitor the strategic direction of the Company and the key investments we need to make to remain in a leading position in an ever-changing market, and ensures we have the resources and the right people, in the right place operationally, to ensure we remain relevant to the markets in which we operate.

The Board and Company Leadership Team (CLT) embed the Company's values across the business. In order to monitor whether our culture is and remains aligned with our values, the Company seeks feedback from customers and potential customers on how the values have been received and how they have been experienced during the sales process; and through the various stages of software implementations and provision of ODS services.

Governance framework

The Board is made up of a majority of independent directors whose diverse experience enable appropriate debate and challenge at Board and Committee discussions. The Board has an approved governance framework of systems and controls which enables the effective discharge of the Board's responsibilities. Directors have a duty to promote the success of the Company under section 172 of the Companies Act 2006, the Company's section 172 statement can be found on page 52, and this framework supports our directors' compliance with their duties.

Board engagement

The Board recognises its responsibilities to engage with and incorporate the views of key stakeholders in strategic planning and decision-making, and the importance of stakeholder trust in building resilience and long-term sustainability. Although the Board retains overall responsibility for stakeholder engagement there is interaction at various levels of the business so that it is carried out by those most relevant to a particular stakeholder group or particular issue. Our section 172 statement and 'How we engage with our stakeholders' section on pages 52 to 55 sets out the main interests of key stakeholders and the ways in which Alfa engages with them.

The Board recognises the importance of considering all stakeholders in its decision-making, although the weight given to each stakeholder group may vary depending on the subject in question.

Through engagement and greater understanding of the interests of stakeholders, the Board is able to assess the long-term consequences of decisions on stakeholders and the business. We continue to work on embedding practices across Alfa so that consideration of stakeholder interests in decisions is second nature at all levels of the business.

Workforce engagement

The Board has a specific role in identifying, monitoring and assessing the impact of the Company's engagement with its key stakeholder groups, particularly in relation to workforce engagement. In 2020 the Board continued with its approach of an alternative arrangement to understand the views of the wider workforce. Unfortunately during the year, due to the Covid-19, workforce engagement activities were scaled down. The Board met virtually with the whole Company in August 2020, during an all employee town hall.

The Company increased its engagement activities with employees, digitally and through social media, during this time, involving the CLT at every opportunity. Regular reports were provided to the Committee detailing the engagement activities and a number of 'pulse' surveys were distributed during the year asking for feedback from employees on the Company's positioning. Feedback results and direct comments were provided to the Board. The Company continued its focus on the importance of the wellbeing of our workforce and this has been heightened during the pandemic with additional challenges for our newly remote workers. We have introduced a number of new initiatives to provide support for wellbeing including redirected internal time to develop a rich programme of wellbeing resources, activities and events to support our employees through a difficult period.

Engagement with shareholders

Alfa is committed to engaging with shareholders and prospective investors to inform and aid understanding of its strategy and progress. The focus of all communications is ensuring transparent, detailed and meaningful information. The Chairman has overall responsibility for ensuring that the Company has appropriate channels of communication with its shareholders and is supported in this by the Senior Independent Director and the Executive Directors.

Shareholders are consulted on a variety of issues, as appropriate, such as the medium-to long-term strategy of the Company, current trading and market conditions and Directors' remuneration. The Board regularly receives feedback from the Group's brokers, advisors and the Executive Directors on the views of major shareholders and the investor relations programme, and also receives reports on significant changes to the composition of the Group's share register.

Due to the pandemic the usual direct engagement mechanisms with shareholders have been curtailed but the Directors have continued communications virtually through one-to-one meetings and responding to specific shareholder queries and provided digital presentations, including for the half-year results announcement. Given the restrictions on travel and large gatherings, and the guidance available to us at the time, we took the decision to hold the 2020 AGM behind closed doors. As we approach our 2021 AGM, we will continue to monitor the situation, and will prioritise the health and safety of the Board, our colleagues and of course our shareholders. Further details will be provided when our Notice of AGM is published in April 2021. The Remuneration Committee Chair also engaged with key investors and proxy

advisory firms on our new Directors' Remuneration Policy and approach in respect of the 2020 performance year.

The Group's investor relations microsite www.investors.alfasystems.com is updated throughout the year, providing the annual and interim reports, presentations given to analysts and investors, trading updates and other regulatory announcements, and up to date information on the Group's activities. Shareholders are able to contact the Company through the Company Secretary, at the Company's registered office, which is shown on the Directors' report on page 109.

Shareholder agreement

The relationship between the Board and the controlling shareholder of the Company (the 'Controlling Shareholder'), CHP Software and Consulting Limited, is governed by the Relationship Agreement (which was executed on 26 May 2017). This agreement is a framework under which the Controlling Shareholder, and the shareholders of the Controlling Shareholder will operate to protect the rights of the non-controlling shareholders. There have been no changes to the Relationship Agreement during 2020, or up to the date of this report.

Under the Relationship Agreement: Two Non-Executive Directors can be appointed to the Board for as long as the Controlling Shareholder holds 20% or more of the voting rights over the Company's shares;

- One Non-Executive Director can be appointed to the Board for so long as the Controlling Shareholder holds 10% or more but less than 20% of the voting rights in respect of the Company's shares; and
- If none of the Controlling Shareholders are members of the Nomination Committee, the Controlling Shareholder can appoint an observer to the Nomination Committee.

Andrew Page is designated as the first appointed Director of the Controlling Shareholder. Andrew Denton has not been appointed as a designated Director by the Controlling Shareholder. It has been agreed that for as long as the Controlling Shareholder has the right to appoint two Directors to the Board, and whilst Andrew Denton is a Director of the Company, the Controlling Shareholder will not exercise its right to appoint a second Director to the Board. There have been no Board observers appointed either under the Relationship Agreement, or otherwise.

For further details of the Relationship Agreement, see page 111 of the Directors' report.

Workforce engagement

Since the start of the pandemic, regular town halls and electronic updates to all employees from CEO Andrew Denton have proven to be a very successful engagement mechanism. Andrew Denton and the CLT update the workforce on all aspects of the business and take direct questions in real time from employees.

Alfa is focused on the importance of the wellbeing of our workforce and this has been heightened during the pandemic with additional challenges for our newly remote workers. We have introduced a number of new initiatives to provide support for wellbeing including *redirected internal* time to develop a rich programme of wellbeing resources, activities and events to support our employees through a difficult period.

“Employee engagement is a key focus for the Board. The Board ensures that by considering employees in our decisions and communicating these decisions clearly, our employees are happy, motivated and empowered to be play a pivotal part in the success of the business.”

Charlotte de Metz
Non-Executive Director

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Workforce policies and practices

Our people bring a diverse range of experience, expertise and perspectives that contribute to the values and culture of Alfa and are essential for the delivery of our strategic objectives. A positive environment where our people feel valued, motivated and able to thrive are essential to Alfa's continued success. The Board recognises the value of, and supports, significant investment of time and resources in our workforce to allow Alfa to attract and retain talent and develop the skills of our employees.

One central policy in creating this environment and culture is Alfa's Ethics and Code of Conduct (the 'Code of Conduct') which clearly sets out a zero-tolerance policy for dishonest and corrupt behaviour among our employees and seeks to educate team members on unlawful and unethical conduct. Compliance with the policy maintains Alfa's reputation in the marketplace as well as our relationship with our colleagues, investors, customers and other stakeholders.

The Code of Conduct provides clear guidance to employees in respect of legal and ethical issues which they may come across while conducting Alfa business, and what Alfa expects in respect of our employees' behaviour, and provides important information on working at Alfa to help embed the behaviours and values alongside more practical information to enable our employees to work effectively and efficiently.

The Board is responsible for overseeing the Company's arrangements for the workforce to be able to raise matters of concern and seeks to foster an environment where individuals can be confident about speaking up about concerns without fear of retaliation. The Board monitors this area through reports on the number and types of concerns raised through the whistleblowing process and the outcomes of the concerns raised.

Since the start of the pandemic, regular town halls and electronic updates to all employees from CEO Andrew Denton have proven to be a very successful engagement mechanism. Andrew Denton and the CLT update the workforce on all aspects of the business and take direct questions in real time from employees.

Alfa is focused on the importance of the wellbeing of our workforce and this has been heightened during the pandemic with additional challenges for our newly remote workers. We have introduced a number of new initiatives to provide support for wellbeing, including enhancing our paid carer leave allowance for parents having to care for and educate their children; and we made available a working from home allowance to ensure that working from home was both safe and a comfortable experience for our people. We have implemented a new induction programme designed to take place remotely that has been successfully utilised as we have continued to hire during the pandemic.

Alfa is fully committed to maintaining high standards of ethical and professional conduct for the Company and its employees. We have a number of policies in effect which are designed to create an environment and culture where:

- Employees' health, safety, rights and wellbeing are placed at the heart of the way the Group does business;
- Employee diversity and inclusion is celebrated;
- Employees must act ethically, honestly and stand up for what is right; and
- Communication across the business should be open, honest and responsible.

To support the Code of Conduct and our values, Alfa has a number of other workforce policies and practices covering:

- Business expenses;
- Confidentiality;
- Health and safety;
- Diversity and inclusion;
- Harassment;
- Share dealing; and
- Whistleblowing.

We seek to embed our Code of Conduct through continuing communications, training and appropriate controls. The Code of Conduct and all other workforce policies and procedures can be found and easily accessed by our employees through our intranet site.

Whistleblowing

We recognise that our people are our strongest assets for detecting and avoiding legal and ethical failure within our business. Our whistleblowing policy and team provides a safe environment to report concerns regarding illegal, unethical or improper behaviour. The Group's Whistleblowing Policy clearly explains to employees how they can raise concerns directly to the Group's Whistleblowing Officer. All whistleblowing cases are formally investigated by the Whistleblowing Officer and reported regularly to the Audit and Risk Committee and the Board, and the Board is responsible for reviewing the effectiveness of actions taken in response to concerns raised. Where necessary, external specialist third parties, or other members of staff, with appropriate experience, may be appointed to help investigate issues that have been raised.

Share dealing code

Alfa has adopted a share dealing code which applies to all employees and provides further restrictions on the Company's Directors, its other PDMRs and certain persons deemed insiders. In accordance with the Market Abuse Regulation, the Directors and PDMRs have confirmed to the Company they are responsible for procuring the compliance of their respective connected persons with the Alfa share dealing code. The share dealing code has been published on the Alfa intranet and guidance and communication is provided to all new starters and the Alfa team on an ad hoc basis.

Suppliers and modern slavery

We do not support any form of slavery, human trafficking or child labour and we only work with suppliers that have been assessed through our internal processes to be ethical providers. We have an ethical procurement policy and our key procurement personnel have been trained in relation to the relevant requirements and regulations.

DIVISION OF RESPONSIBILITIES

Division of responsibilities

Alfa is led and controlled by the Board which is collectively responsible for the long-term and sustainable success of the Group. The structure of the Board, and management, roles and Committees ensures controls and oversight with a balanced approach to risk aligned with Alfa's culture. The structure assists the Board with carrying out its responsibilities and is designed to ensure that the Board focuses on strategy, monitoring the performance of the Group and governance, risk and control issues.

Board and Committee meetings and attendance

During the year, due to the pandemic, the Board and its Committees have conducted meetings both in person and remotely through video calls to enable the Board to continue to function and maintain the integrity of our governance structure.

In the event that a Director was unable to attend a meeting they still received all the papers for the meeting and were updated on matters discussed at the meeting.

Responsibility of the Board

The Board is collectively responsible for the long-term success of the Group and for ensuring leadership within a framework of effective controls. The key roles of the Board are:

- Setting the strategic direction of the Group;
- Overseeing implementation of the strategy by ensuring that the Group is suitably resourced to achieve its strategic aspirations;
- Providing entrepreneurial leadership within a framework of prudent and effective controls which enables risk to be assessed and managed;

- Ensuring that the necessary financial and human resources are in place for the Group to meet its objectives; and
- Reviewing the Group's culture supported by its values.

How the Board operates

During the year, the Board considers a comprehensive programme of regular matters covering operational and financial performance reporting, strategic reviews and updates, and various governance reports and approvals.

Board meetings

The Board held seven scheduled meetings in 2020 and eight ad hoc meetings, for specific approvals and discussions. If Directors are unable to attend a meeting, they have the opportunity beforehand to discuss any agenda items with the Chairman.

The following diagram shows the role of the Board and its Committees and Company Leadership Team:

Board of Directors

The Board is collectively responsible for the long-term success of the Company. The business of the Company is managed by the Board who may exercise all of the powers of the Company. The Board has a formal schedule of matters reserved for the Board's decision-making which is available on the Company website. Although the Board retains overall responsibility, it delegates certain matters to the Board Committees, and the detailed implementation of matters approved by the Board and the day-to-day operational aspects of the business to the Company Leadership Team.

Audit and Risk Committee

Reviews and reports to the Board on the Group's financial reporting, internal control and risk management systems. Monitors the independence and effectiveness of the external auditor and the effectiveness of the internal audit function.

Nomination Committee

Provides succession planning for the Board and leads the process for all Board appointments. Keeps under review the membership and composition of the Board, including the combination of skills, experience and diversity, and ensures it remains appropriate.

Remuneration Committee

Determines the remuneration, bonuses, long-term incentive arrangements, contract terms and other benefits in respect of the Executive Directors, the Chairman, the Company Secretary and senior management. Oversees the remuneration and workforce policies and takes these into account when setting the policy for Directors' remuneration.

Company Leadership Team

The Company Leadership Team is responsible for the day-to-day running of the business, carrying out and overseeing operational management, and implementing the strategies the Board has set.

Executive Committees

These governance Committees are chaired by an Executive Director and report to the Executive Group, and the Board or Board Committees as appropriate.

Investment Committee

The Investment Committee determines the Strategic Investment initiatives that should be undertaken. The Committee provides a structure through which effective decisions can be made on the priority and scheduling of Strategic Investment initiatives. The Committee ensures that Strategic Investment initiatives align with Alfa's business strategy.

Disclosure Committee

The Disclosure Committee determines whether information that is submitted to it requires disclosure and determines any other issue relating to the application of the Disclosure Procedures that are required.

Deal Committee

The Deal Committee determines standard guidelines for an acceptable deal in terms of financial position and key contractual terms.

DIVISION OF RESPONSIBILITIES CONTINUED

The Board responsibilities

We have clear and documented roles and separation of duties between the Chairman and the CEO. The Alfa CEO, Andrew Denton, is responsible for determining the Alfa strategy and day-to-day operations, and leading the CLT, which assists in the day-to-day delivery of this strategy and general operations. Andrew Page, as Chairman, provides oversight and guidance to Andrew Denton on the strategic direction, key commercial and contracting decisions in addition to his responsibilities for running an effective Board.

The division of responsibilities between our board members is set out below:

Role	Principal responsibilities	
Executive Chairman Andrew Page	Manages and provides leadership to the Board. Acts as a direct liaison between the Board and management, working with the CEO to assist the flow of information. Ensures that the Directors have sufficient information to enable them to form appropriate judgements.	Develops and sets the agendas for Board meetings, working with the CEO and Company Secretary. Recommends an annual schedule of Board and Committee meetings. Ensures effective communications with shareholders and other stakeholders.
Chief Executive Officer Andrew Denton	Responsible for the day-to-day management of Alfa. Responsible for defining the strategy and guiding the CLT on its strategy execution, once this has been agreed by the Board. Creates a framework that optimises resource allocation to deliver strategic objectives over varying timeframes.	Ensures the successful delivery against plan and other key business objectives, allocating decision-making and responsibilities accordingly. Identifies and executes new business opportunities and assesses potential acquisitions and disposals. Manages the Group with reference to its risk profile in the context of the Board's risk appetite.
Chief Financial Officer Duncan Magrath	Overall management of the financial risks of the Group. Responsible for financial planning and record-keeping, as well as financial reporting to the Board and shareholders.	Ensures effective financial compliance and control, while responding to regulatory developments, including financial reporting, effective allocation of capital, management of liquid resources, investor relations and corporate responsibility.
Chief Operating Officer Matthew White	Responsible for day-to-day operational activities. Responsible for software development. Responsible for systems implementation delivery. Responsible for delivery of HR resourcing and planning.	Develops key business operational model, monitoring performance against key performance indicators and ensuring adequate staffing recruitment to deliver development and systems implementation.
Senior Independent Director Chris Sullivan	An Independent Non-Executive Director. Provides a sounding board for the Chairman and CEO.	Serves as an intermediary for the other Directors and shareholders when necessary. Is available to shareholders if they have concerns.
Non- Executive Directors Steve Breach Adrian Chamberlain Charlotte de Metz	Provide constructive challenge to the Executive Directors. Help develop proposals on strategy. Scrutinise management's performance in meeting agreed goals and objectives. Monitor performance reports.	Satisfy themselves regarding the integrity of financial information, and that controls and risk management systems are robust and defensible. Determine appropriate levels of remuneration for Executive Directors. Appoint and remove Executive Directors as required and review succession planning.

Board and Committee meetings and attendance

During the year, due to the pandemic, the Board and its Committees have conducted meetings both in person and remotely through video calls to enable the Board to continue to function and maintain the integrity of our governance structure. In the event that a Director was unable to attend a meeting they still received all the papers for the meeting and were updated on matters discussed at the meeting.

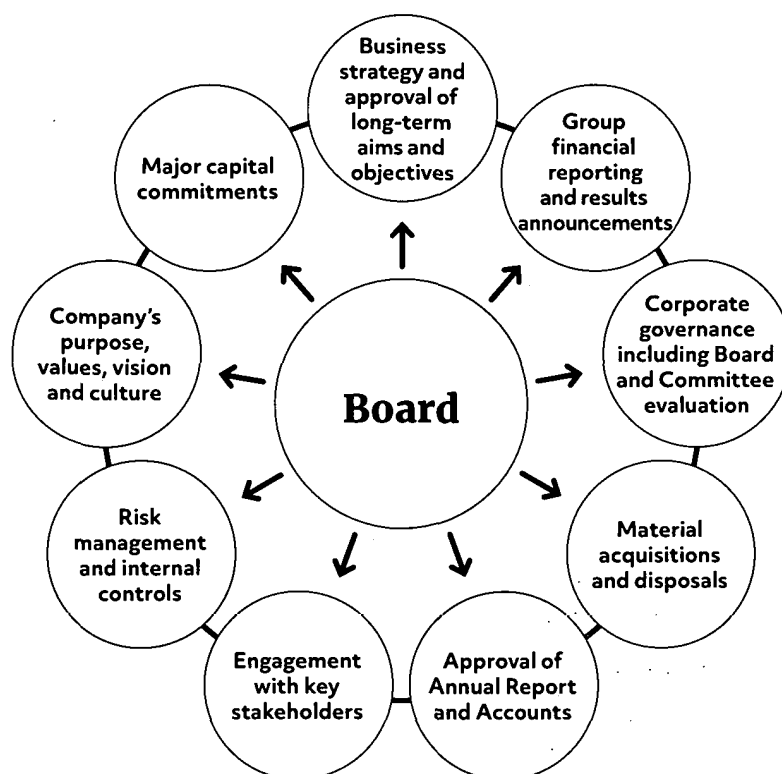
	Board	Audit and Risk Committee	Nomination Committee	Remuneration Committee
Andrew Page	7/7		2/2	
Andrew Denton	7/7			
Duncan Magrath	6/6			
Matthew White	7/7			
Steve Breach	7/7	5/5	2/2	3/3
Adrian Chamberlain ^{1, 2}	5/6	4/4	0/1	2/2
Charlotte de Metz ¹	6/6	4/4	1/1	2/2
Chris Sullivan	7/7	5/5	2/2	3/3

1. Adrian Chamberlain and Charlotte de Metz were appointed to the Board and as Members of the Audit and Risk, Nomination and Remuneration Committees on 24 April 2020.
2. Adrian Chamberlain was unable to attend the Board and Nomination Committee meetings held on 4 November 2020, due to prior commitments of which he had notified the Company prior to his appointment.

Matters reserved for the Board

The Board has a formal schedule of matters specifically reserved for its decision-making and approval. The matters that the Board considers suitable for delegation are contained in the Terms of Reference of each Board Committee.

There are certain key responsibilities that the Board does not delegate and which are reserved for its consideration. The full Schedule of Matters Reserved for the Board is available under the Corporate Governance section on our website.



External commitments and conflicts of interest

The Company is mindful of the time commitment required from Non-Executive Directors in order to effectively fulfil their responsibilities on the Board, particularly providing constructive challenge and holding management to account and utilising their diverse skills and experience to benefit the Company and provide strategic guidance.

Prior to their appointment, prospective Directors are asked to provide details of any other roles or significant obligations that may affect the time available for them to commit to the Company. The Chairman and the Board are then kept informed by each Director of any proposed external appointments or other significant commitments as they arise. These are monitored to ensure that each Director has sufficient time to fulfil their obligations and Chairman approval is required prior to a Director taking on any additional external appointment. Each Director's biographical details and significant time commitments outside of the Company are set out in the Board biographies on pages 66 to 67.

Whenever a Director takes on additional external responsibilities, the Director will discuss the potential position with the Chairman and confirm that, as far as they are aware, there are no conflicts of interest.

Each Director is required to disclose conflicts and potential conflicts to the Chairman and the Company Secretary as and when they arise. As part of the induction process, a newly appointed Director is asked to disclose any conflicts of interest to the Company. Thereafter, each Director has an opportunity to disclose conflicts at the beginning of each Board and Committee meeting and as part of an annual review. None of the Directors declared to the Company any actual or potential conflicts of interest between any of his or her duties to the Company and his or her private interests and/or other duties, except in the case of the Executive Directors, each of whom holds the position of Director of the Company and Director of a number of Group subsidiary companies.

The Companies Act 2006 provides that Directors must avoid a situation where they have, or can have, a direct or indirect interest that conflicts, or possibly may conflict, with the Company's interests.

Boards of public companies may authorise conflicts and potential conflicts, where appropriate, if their company's articles of association permit.

DIVISION OF RESPONSIBILITIES CONTINUED

Key activities of the Board in 2020

Focus area	Key stakeholders	Activities	Link to strategic priorities
Strategy and operations see pages 1 to 63	Customers Employees Partners Investors	• Applying the Board's strategic understanding of principal risks to key challenges and opportunities. • Monitoring the performance of the Company against agreed strategic objectives, including key financial targets.	
Leadership, people and culture see pages 12 to 15 and 56 to 59	Employees Investors	• Receiving updates on employee views and engagement levels. • Maintaining and enhancing Alfa's culture and values. • Continuing to monitor senior executive talent management and development plans to provide succession for all key positions.	
Finance see pages 36 to 41	Customers Employees Community and Environment Partners Investors	• Reviewing and approving the budget. • Reviewing financial key performance indicators (KPIs). • Approving full-year results, half-year results, trading updates and the Annual Report. • Approving a special dividend. • Reviewing the key risks to Alfa and the controls in place for mitigation. • Considering and monitoring the Group's risk appetite and principal risks and uncertainties. • Approving the viability and going concern statements.	
Governance see pages 69 to 112	Employees Customers Investors	• Monitoring and reviewing the Company's approach to corporate governance, its key practices and its ongoing compliance with the 2018 Code. • Reviewing the results from the internal Board effectiveness evaluation. • Approving updated Committees' Terms of Reference. • Receiving and considering feedback from shareholder engagement. • Reviewing and approving the modern slavery statement.	

COMPOSITION, SUCCESSION AND EVALUATION

Appointments to the Board

The Nomination Committee leads the process for Board appointments and makes recommendations to the Board and also ensures that succession plans are in place for the Board and senior management. The formal procedure for Board appointments and succession planning is detailed in the Nomination Committee Report on pages 79 to 81.

Director re-election

Each Director is required under the Articles of Association to retire at every Annual General Meeting and submit themselves for re-election by shareholders.

At the 2020 Annual General Meeting (AGM) of the Company, all of the current Directors stood for reappointment, and were duly elected with majorities ranging from 99.55% to 100% of the votes cast.

All the Directors will retire and seek re-election at the 2021 AGM of the Company. This report and in particular the Board biographies on pages 66 to 67 sets forth the contribution of each Director on the Board to the Company and on this basis the Board, and specifically the Chairman, believes each Director proposed for re-election at the AGM should be reappointed. The Board has based its recommendations for re-election or election, in part, on its review of the results from the Board evaluation process outlined on pages 77 and 78, and the Chairman's review of individual evaluations, and whether a Director has demonstrated substantial commitment to the role (including time for Board and Committee meetings noted in this report) and other responsibilities, taking into account a number of considerations including outside commitments and any changes thereof during the period.

Board composition

The composition of the Board and Board Committees is continually assessed to ensure an appropriate balance of skills and experience is maintained. The Board takes into account various considerations in assessing the composition of the Board including length of Director tenure, Board diversity, independence and the combination of skills and experience of the Directors. The appointment of Adrian Chamberlain and Charlotte de Metz this year has further strengthened the Board due to their business experience as well as extensive leadership experience.

Board evaluation

The Directors completed a detailed Board performance evaluation questionnaire as part of the annual performance evaluation process. Given the recent appointment of two additional Non-Executive Directors and a new Chief Financial Officer, the Board considered that an external evaluation would be more beneficial in 2021 once the newly appointed Directors are more firmly established, and that the 2020 evaluation should therefore be carried out internally. Each questionnaire was analysed and a summary of the results and the Board's performance was presented to the Board for discussion. The Board considers this exercise to be of significant value, and focus is placed on reviewing the quality of information provided to the Board at the Board's discussions, the effectiveness of the Board, the composition of the Board, including the skillset of the various Directors, highlighting whether there are any gaps in the breadth and depth of the Board that should be addressed by the Nomination Committee as part of its succession planning, and to ensure that the Board is best placed to deliver on its strategic goals and ensure the long term sustainable success of the Company.

The Board determined that, going forwards, a performance evaluation should be carried out by an external facilitator once every three years, as required by the 2018 Code, with the first performance evaluation to be conducted by an external facilitator no later than 2021.

Summary of performance evaluation

In 2020, an internal performance evaluation was carried out, by way of questionnaire, identifying areas of strength and weakness. The questionnaire was structured to provide a rounded review of the Board's performance and ensure a direct comparison with the previous year, allowing the Board to identify improving or declining trends and monitor the effectiveness of the steps taken to address the previous year's findings. The 2020 performance evaluation, which was discussed by the Board, concluded that the Board is highly engaged with strong shareholder focus and clear alignment to vision and strategy, making for constructive and challenging debate. There is a culture of open communication, mutual trust and respect for each other's opinions and industry knowledge. The Board agreed on the below steps to be taken during 2021.

2020 evaluation

Objectives for 2021

Reviewing our stakeholder engagement mechanisms in relation to the 2018 Code.

Continuing to set and monitor our corporate culture.

Promoting opportunities for formal/technical training and ensure that regular updates are provided on technological and business developments.

Steps to be taken during 2021

The interests of our stakeholders are central to the way we operate as a company. The Board will review the ways in which we engage with them to ensure that they facilitate dialogue and that the interests of our stakeholders are always considered in our decision-making.

The Board will continue to ensure that the policy, practices and behaviours throughout the business are aligned with the purpose, values and strategy of Alfa.

When a specific training need is identified, where appropriate, such training is delivered by the topic being included at a Board meeting so that all Directors can benefit. Alternatively, training is delivered by way of formal presentations, individual meetings and site visits in order to learn more about a particular initiative or project.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

Board composition and diversity

As required by the Code, at least 50% of the Board, excluding the Chairman, are independent non-executive Directors. As at 31 December 2020, the Board comprised the Executive Chairman, three Executive Directors and four Independent Non-Executive Directors. The Board considers that all the Non-Executive Directors, on appointment, are independent.

It is the Board's policy that appointments to the Board will always be based solely on merit without any discrimination relating to age, gender or any other matter that has no bearing on an individual's ability to fulfil the role of Director.

The Board is mindful of the aims of the Hampton-Alexander Review, an independent review body which aims to improve women's representation at board level and in leadership roles. This principle of Board diversity is strongly supported by the Board, recognising that diversity of thought, approach and experience is an important consideration as part of the selection criteria used to assess candidates to achieve a balanced Board.

The Board is also mindful of the aims of the Parker Review, an independent review body dedicated to improving the ethnic and cultural diversity of UK boards to better reflect their employee base and the communities they serve. The business currently has no director from an ethnic minority background either on the Board or the Executive Committee.

The Board considers that each Director is able to allocate sufficient time to the Company to discharge their responsibilities effectively.

REPORT OF THE NOMINATION COMMITTEE

“A key focus for the Nomination Committee was to continue to monitor the succession of the Board, Company Leadership Team and senior management talent pool to ensure succession planning for business critical roles is proactively reviewed.”

Chris Sullivan

Chair of the Nomination Committee

Dear shareholders,

I am pleased to introduce the Nomination Committee (the ‘Committee’) Report for 2020 which summarises our key activities during the year.

During 2020, the Committee continued to focus on the depth and breadth of the Board, the Company Leadership Team and senior management succession as a key priority. As highlighted in my 2019 report, following a review of the Board composition, the Committee recommended the appointments of Adrian Chamberlain and Charlotte de Metz to the Board in April 2020. Further information on Adrian and Charlotte’s appointments is set out on the next page. I am delighted to welcome Adrian and Charlotte to the Board and welcome the quality insight and contribution that they have provided since joining.

The Committee maintains a well defined specification for each appointment, with a clear understanding of the values required to help the effective functioning of the whole Board. When considering the composition of the Board, we reviewed the skills and experience required to fulfil the Board’s strategy, to make suitable recommendations based on those key attributes.

The Nomination Committee reviewed the membership of all of the Board’s Committees following the appointment of Adrian and Charlotte and it was recommended that Adrian be appointed as Chair of the Remuneration Committee and as a member of the Audit and Risk and Nomination Committees, and that Charlotte be appointed as a member of the Audit and Risk, Nomination and Remuneration Committees.

The Committee led the search for the appointment of a new Chief Financial Officer. In March 2020 the Board confirmed the appointment of Duncan Magrath, who joined the Board in April 2020.

Succession planning

Succession planning for the Executive Directors and Company Leadership Team (CLT) is a particular focus of the Committee. In addition, the Committee has continued to monitor the CLT and senior management talent pool to ensure that succession planning for business-critical roles is proactively reviewed. The Board considered the implications of the new requirements relating to the development of a diverse pipeline for succession for the Board and the CLT contained within the 2018 Code.

Chris Sullivan

Chair of the Nomination Committee

Principal activities in 2020

- Identified and nominated two suitable Non-Executive Directors and the CFO to be appointed to the Board.
- Reviewed the structure, size and composition of the Board and its Committees.
- Considered wider elements of succession planning for Board and the levels below, including how to increase diversity.
- Evaluation of Directors (all of whom are proposed for re-election at the AGM).

Areas of focus for 2021

- Monitor Board composition for alignment of relevant skills, experience and diversity to Company strategy.
- Oversight of the CLT’s development and succession planning.

Attendance at Nomination Committee meetings

	Meetings attended
Chris Sullivan (Chair)	2/2
Steve Breach	2/2
Adrian Chamberlain ^{1, 2}	0/1
Charlotte de Metz ¹	1/1
Andrew Page	2/2

1. Adrian Chamberlain and Charlotte de Metz were appointed on 24 April 2020 as members of the Nomination Committee.

2. Adrian Chamberlain was unable to attend the meeting held on 4 November 2020, due to prior commitments of which he had notified the Company prior to his appointment.

REPORT OF THE NOMINATION COMMITTEE CONTINUED

Role of the Committee

The Nomination Committee is responsible for ensuring that the Board and its Committees have the appropriate balance of skills, knowledge and experience to effectively lead the Company both now and in the future. This is achieved through effective succession planning, the identification and development of internal talent and a clear understanding of the competencies and capabilities required to support the delivery of Alfa's strategy.

The Committee undertakes comprehensive reviews of the leadership needs of the Company, from both Executive and Non-Executives, to ensure the continued ability of the organisation to compete effectively in the marketplace, and keeps informed of the strategic issues and commercial challenges affecting the Company and the market in which it operates.

The Committee regularly undertakes a review of its Terms of Reference to ensure that it reflects the actual role carried out by the Committee and that it is operating effectively. The Board reviewed and approved revised Terms of Reference in December 2020. The Terms of Reference and its operation for the Committee mostly captured the new requirements set out in the 2018 Code, and therefore only minor changes were required.

Committee membership

During the year the Committee carried out a review of the composition of the Committees to take into account the new Board members and made recommendations for changes to the membership of the three Committees. Adrian Chamberlain was appointed as Chair of the Remuneration Committee having served as the Remuneration Chair of Volex plc for four years. In addition, Adrian Chamberlain was appointed as a member of the Audit and Risk and Nomination Committees. Charlotte de Metz joined as a member of the Audit and Risk, Nomination and Remuneration Committees, upon appointment.

Appointment of Directors

There is a formal, rigorous and transparent procedure for the appointment of new Directors under which the Committee is responsible for leading this process and making recommendations to the Board. The search process for new Non-Executive Directors is to appoint an external search firm to secure a strong and diverse list of candidates. A shortlist of candidates is shared with the Committee, meetings are scheduled and then, once the candidates

have been identified, confirmation is provided of the time commitment required and disclosure of any other business interests. If discussions relate to the appointment of a Chairman then Chris Sullivan, as Senior Independent Director, will lead the recruitment process. When the Committee has found a suitable candidate, the Chair of the Committee makes a proposal to the whole Board, which retains responsibility for all such appointments.

The Committee, on behalf of the Board, regularly assesses the balance of Executive and Non-Executive Directors, and the composition of the Board in terms of skills, experience, diversity and capacity. For the appointments of Adrian Chamberlain and Charlotte de Metz, Norman Broadbent Executive Service Limited (Norman Broadbent) was appointed to lead the search for the new Non-Executive Directors. Norman Broadbent does not have any other connection with any of the Directors, or the Company. Working with the Committee, Norman Broadbent developed a candidate specification and drew up a shortlist of suitable candidates for the additional Non-Executive Director role, each of which was subject to a three-stage process including interviews with all the Board members.

In 2019, the Committee appointed FDU Group Limited to lead the search for the appointment of a new Chief Financial Officer. In March 2020 the Board confirmed the appointment of Duncan Magrath, who joined the Board in April 2020. FDU Group Limited has no other connection to the Company or its Directors.

Diversity

Alfa seeks to have a workforce which reflects the world we and our customers live in, whilst facilitating the delivery of our strategic goals. The Board and the Committee believe that diversity is a wider topic than simply gender and, in order to achieve the Group's future growth aspirations, Alfa should remain committed to building a pipeline of diverse talent and regularly reviewing HR processes, including recruitment and performance management frameworks.

The Committee will take into account a variety of factors before recommending any new appointments to the Board, including relevant skills to perform the role, experience, knowledge and diversity. Alfa endeavours to achieve appropriate diversity, including gender diversity, throughout the Company.

The Committee embraces the importance of inclusion and diversity and supports the recommendations of the Hampton Alexander Review on gender and the Parker Review on ethnic diversity. However, we acknowledge that currently our Board does not comply with the recommendations and recognises that there is always more we can do, and will continue to work to build a more inclusive workplace at all levels of the Company. It is part of the Committee's remit when making new Board appointments to consider the importance of diversity on the Board, including gender and ethnicity. This is considered in conjunction with experience and qualifications in relation to the balance of the Board and its Committees.

Board succession

The Committee keeps under review the leadership needs of the organisation, both the Executive and Non-Executive Directors, with a view to ensuring the continued ability of the organisation to compete effectively in the marketplace. In addition, the Committee reviews the succession plans for the Company Leadership Team and the senior management structure, and employees identified by management as having the potential to develop in the longer term into future leaders of the business, taking into account future challenges and opportunities.

Independence

During 2020, the Committee reviewed the balance of skills, experience and independence of the Board. For Non-Executive Directors independence in thought and judgement is vital to facilitating constructive and challenging debate in the boardroom and is essential to the operational effectiveness of the Alfa Board and its Committees.

The Committee is satisfied that the external commitments of the Board's Chairman and members do not conflict with their duties as Directors of the Company. After the year end, the Committee also considered the Directors proposed for re-election by shareholders at the AGM. Following discussion of the skills and contribution of each Director, and in conjunction with the Board performance evaluation, the Committee supports the proposed re-election of all Directors standing for re-election at the AGM in 2021.

Induction and ongoing professional development

To ensure that each Director receives appropriate support on joining the Board, there is a comprehensive and tailored induction programme, including the provision of background material on the Company and briefings with relevant CLT members. The induction programme will continue to be reviewed and updated on a regular basis.

For professional ongoing development, the Board receives presentations relevant to the Company's business and updates on any changes to markets, or regulations, which may affect the Company's operations. The Company Secretary supplies all Directors with information on relevant corporate governance and best practice. As part of their annual performance evaluation, Directors are given the opportunity to discuss training and development needs. The Committee is confident that Board members have the knowledge, ability and experience to perform the functions required of a director of a listed company.

External directorships

The Board believes, in principle, in the benefit of Executive Directors accepting non-executive directorships of other companies in order to widen their skills and knowledge for the benefit of the Company. All such appointments require the prior approval of the Board and the number of public company appointments is limited to one. There were no external appointments in relation to the Executive Directors during 2020.

Conflicts of interest

The Board operates a policy to identify and, where appropriate, manage any potential conflicts of interest that Directors may have. It is the role of the Committee to monitor and determine actions to address any potential, or actual, conflicts that may arise. The Committee reviews all potential conflicts of interest on an annual basis and when new Directors are formally appointed. No conflicts of interest were noted in the year and to the date of this Annual Report.

Reappointment of Directors

The reappointment of Directors is subject to their continuing commitment to Board activities and satisfactory performance. All Directors will stand for re-election annually in accordance with the provision of the 2018 Code. The Committee has confirmed to the Board that the contributions made by the Directors offering themselves for re-election at the 2021 AGM continue to benefit the Board and the members are invited to support their re-election.

Non-Executive Directors are appointed initially for three years and Non-Executive Directors may, subject to Board approval, remain in office for a period of up to six years, or two terms in office, with discretion for the Board to extend the term for one further three-year term, to a maximum of nine years.

Annual evaluation

The performance of the Committee has been assessed by way of an internal process whereby the Chair and Company Secretary carried out a Committee evaluation through an electronic questionnaire. The results of this report were subsequently discussed and areas identified to develop the effectiveness of the Committee further.

Focus for 2021

Board membership and succession will continue to be high on the agenda moving into 2021. The Committee will also monitor the effectiveness of recent appointments to the Board and take an active interest in the succession planning and future leader identification processes for those immediately below Board level, sitting on the CLT, as well as monitoring progress on diversity to ensure that any succession plans incorporate an appropriate balance of diversity, skills and experience.

Chris Sullivan

Chair, Nomination Committee

22 March 2021

REPORT OF THE AUDIT AND RISK COMMITTEE

“The refreshed Audit and Risk Committee has overseen a significant strengthening of Alfa’s financial management and wider governance capabilities.”

Steve Breach

Chair of the Audit and Risk Committee

Dear shareholders,

I am pleased to present our Audit and Risk Committee Report for the year ended 31 December 2020. The Report explains the work of the Committee during the year, as well as setting out expected key areas of focus for 2021.

The Committee has an annual work plan linked to the Company’s financial reporting cycle, which ensures that it considers all matters delegated to it by the Board. In addition, as announced on 22 July 2020, following a competitive tender process, RSM Audit UK LLP (‘RSM’) was appointed to fill a casual vacancy to replace Deloitte LLP (‘Deloitte’) which resigned as auditor during the year. The Committee has recommended to the Board that a resolution be put to shareholders to confirm the appointment of the new auditor at the Annual General Meeting.

We have continued to review and challenge the assumptions and judgements made by management in the preparation of published financial information and to oversee the internal control environment, including oversight of the external and internal audit processes. Throughout the year, the Committee’s primary focus has been to maintain the integrity and transparency of the Company’s internal and external financial reporting. We have spent significant time assessing the application of IFRS 15 ‘Revenue from Contracts with Customers’, alongside careful consideration of the Company’s risk management framework, internal controls and management information systems.

It has been pleasing to see that the Company has made significant progress during the year improving the timeliness and accuracy of reporting and forecasts. Importantly, these improvements have been delivered during a period of remote working which has existed since the date of the last report.

Committee members’ skills and experience are set out on pages 66 to 67. The Board is satisfied that the Committee meets the requirement to have recent and relevant financial experience and that, as a whole, its members have experience of the asset finance and enterprise software sector and corporate governance.

This year the Board undertook an internally facilitated review of the effectiveness of the Board and Board Committees, including this Committee, in accordance with the requirements under the 2018 Code and you can read more about this on page 77. As a result of its work during the year, the Committee has concluded that it has acted in accordance with its Terms of Reference.

Steve Breach
Chair of the Audit
and Risk Committee

Principal activities in 2020

- Reviewed the 2019 year-end financial statements and Annual Report.
- Reviewed the progress on the financial management improvement programme and agreed that it should move into business as usual.
- Reviewed proposals from potential audit firms and selected RSM to replace Deloitte as the Company’s external auditor.
- Worked with and monitored the plan to transition to RSM.
- Reviewed the half-year financial results and trading updates.
- Approved the Company’s risk management framework, risk appetite and risk register.
- Reviewed key findings from 2020 internal audits and approval of the 2021 internal audit plan.
- Considered key accounting matters and new accounting standards.

Areas of focus for 2021

- Continue to monitor legislative and regulatory changes that may impact the work of the Committee.
- Consider the impact of proposed audit industry changes.
- Consider a wider range of topics for Committee training.

Attendance at Audit and Risk Committee meetings

	Meetings attended
Steve Breach (Chair)	5/5
Adrian Chamberlain ¹	4/4
Charlotte de Metz ¹	4/4
Chris Sullivan	5/5

1. Adrian Chamberlain and Charlotte de Metz were appointed on 24 April 2020 as members of the Audit and Risk Committee.

The Committee’s members are all Independent Non-Executive Directors.

Key responsibilities of the Committee

The Board has delegated to the Committee responsibility for overseeing financial reporting, the review and assessment of the effectiveness of the internal control and risk management systems and maintaining an appropriate relationship with the external auditor. The Committee has adopted Terms of Reference, which are available to view at investors.alfasystems.com. The Terms of Reference provided the framework for the Committee's work in the year and key responsibilities of the Committee are summarised as follows:

- Overseeing the relationship with the Company's external auditor, monitoring its effectiveness and independence and making recommendations to the Board in respect of its remuneration, appointment and removal. The Committee also reviews the findings from the external auditor, including discussion of significant accounting and audit judgements, levels of errors identified and overall effectiveness of the audit process.
- Reviewing the financial statements of the Company, including its annual and half-yearly reports and, if applicable, any other formal announcements relating to its financial performance. The Committee will also consider significant financial reporting issues, accounting policies and key areas of judgement or estimation. This review also includes consideration of the clarity and completeness of disclosures on the information presented in the financial statements.
- Overseeing the accounting principles, policies and practices adopted by the Company.
- Monitoring and reviewing internal audit activities, reports and findings.
- Reviewing the effectiveness of the Company's system of internal financial controls and internal control systems.
- Advising the Board on the Company's risk strategy, risk policies and current and emerging risk exposures, including the oversight of the overall risk management framework and systems.
- Assessing the adequacy and security of the Company's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters and to ensure proportionate and independent investigation of such matters.
- Making recommendations to the Board as it deems appropriate on any area within its remit where action or improvement is required.

Meetings

During the year, the Committee met five times and met privately with the external auditor twice. The Committee operates to a forward agenda linked to the financial calendar which ensures that the responsibilities and duties of the Committee are discharged in accordance with the Terms of Reference and the requirements of the UK Corporate Governance Code.

In addition to the Committee members, by invitation, the meetings of the Committee may be attended by the CFO. The Chairman of the Board, CEO and COO may also attend meetings. The Company's external auditor and the internal audit services provider are also present at all Committee meetings, to ensure full communication of matters as they relate to their respective responsibilities. At the end of each Committee meeting, Committee members have the opportunity to meet with the external auditor (and, where appropriate, the internal auditor) for a private discussion regarding the audit process and relationship with management.

The Chair of the Committee holds regular meetings with the external auditor, which has an opportunity to discuss matters with the Committee without management being present and also with the CFO (who has responsibility and custody of the internal audit function).

Meetings of the Committee are scheduled close to the end of the half and full year, as well as before the publication of the associated half-year and full-year financial reports, so as to ensure the Committee is informed fully, on a timely basis, on areas of significant risks and judgement. The Board has confirmed that it is satisfied that Committee members possess an appropriate level of independence and depth of financial and commercial expertise. For the year ended 31 December 2020, Steve Breach, the Chair of the Committee, was determined by the Board as having recent and relevant financial experience.

The Committee is satisfied that it receives sufficient information and has access to relevant and timely management personnel to allow the Committee members to engage in an informed debate during Committee meetings and to fulfil its responsibilities.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

Significant financial reporting judgements

As part of its monitoring of the integrity of the financial statements, the Committee reviews whether suitable accounting policies have been adopted and whether management has made appropriate estimates and judgements and seeks support from the external auditor to assess them. The Committee

considered the following significant judgements and other areas of audit focus in respect of the financial statements for the year ended 31 December 2020. These areas have been identified as being significant by virtue of their materiality or being accounting items which are new for the current financial year or the level of judgement and/or estimation involved. In order to ensure the approaches taken

were appropriate, the Committee considered reports from both management and the external auditor. The Committee challenged judgements and sought clarification where necessary. The Committee received a report from the external auditor on the work it had performed to arrive at its conclusions and discussed in detail all material findings contained within the report.

Area of focus

Assessment

Revenue recognition

The Group's operations include complex software implementation programmes and service activities.

The delivery of these contracts typically extends over more than one reporting period, and often the original project plans are amended as the implementation programme progresses. In addition, from time to time, the Company is entitled to one-off licence income uplifts or changes to maintenance income entitlements.

In recognising revenue, management must apply a number of judgements to allocate the overall transaction price across the multiple performance obligations that have been identified within these projects.

Development costs

The Group continues to invest in the development of the Alfa Systems product. The majority of development effort is undertaken in partnership with customers and therefore is specific to that implementation or customer's process.

Judgement is required to assess whether any development is substantially new in either design or functionality, and whether it would be commercially viable in the open market. Therefore, management assesses the likelihood of capitalisation of such costs prior to initiation of the investment project and also performs bi-annual assessments of the development work that has been undertaken to determine if it meets the criteria set out in IAS 38 for capitalisation.

Alternative performance measures ('APMs') and presentations not specifically defined by IFRS

Alfa has used APMs which are not specifically defined by IFRS, being Adjusted EBIT and Adjusted EBIT margin, to show the impact on earnings before the capitalisation (and related amortisation) of development costs, in order to present clearly the underlying costs and results of the Group.

Additionally, Alfa has used Constant currency revenue growth to show the underlying growth of revenues excluding the effects of currency fluctuations, and Operating free cash flow conversion to show the conversion of Adjusted EBIT to cash.

Going concern and viability statement

The Directors must satisfy themselves regarding the Group's long-term viability and confirm that they have a reasonable expectation that the Group will continue to operate and meet its liabilities as they fall due for the foreseeable future.

Review of the Committee

In advance of the half year and full year the Committee received reports from management that outlined the key judgements that were likely to be required to be included in the results. These reports were reviewed and the key points within them were discussed, with the external auditor commenting where relevant.

As part of the process of approving the issuing of the half-year and full-year results these reports were updated and issued by management to the Committee with management's final positions documented. These were considered carefully by the Committee in conjunction with input from the external auditor.

The Company entered into a five-year extension for an existing client in October 2020. This was a large contract with the key judgements being how much of the contract value should be split between licence and maintenance revenues, and how this should be recognised over the five years. There were initial discussions in the December 2020 meeting, and the Company produced a detailed paper outlining the approach taken and the judgements made for the March 2021 meeting, which were reviewed carefully by the Committee with input from the auditor, and the position adopted in the accounts agreed.

The Committee reviewed reports from management detailing the costs that had been identified as appropriate for capitalisation.

The Committee reviewed the use of these APMs and agreed with management that over time the usefulness of the Adjusted EBIT and Adjusted EBIT margin had declined and so the use of these measures should be discontinued.

The Committee also reviewed the calculation of the Operating free cash flow conversion and amended this to reflect the discontinuation of Adjusted EBIT as an APM. In addition, the Committee noted that total lease payments were previously included in Operating free cash flow; in order to make the cash flow measure consistent with the profit measure Alfa changed Operating free cash flow to only include the principal element of lease payments.

The Committee reviewed management's budget and forecasts, including an overview of the assumptions made in the preparation of the base case supporting the going concern and viability statement. This included the Group's 2021 budget and also plans for 2022 and 2023.

The Committee discussed and challenged the budget and forecasts before agreeing with the reasonableness of the three-year period. The Committee assessed this in light of the principal risks and uncertainties, including the impact of Covid-19, as disclosed on pages 44 to 49 in the Strategic report.

The Committee discussed and challenged the downside scenarios modelled as part of the viability statement as disclosed on pages 50 to 51 in the Strategic report, the funding headroom available, the feasibility of mitigating actions and the speed of implementation of any cost-saving measures following future management decision-making.

The Committee noted the 2018 Code requirement for the Directors to state whether they consider it appropriate to adopt the going concern basis of accounting for a period of at least 12 months from the date of approval of the 2020 financial statements.

Conclusion/Action taken

The Committee agreed with the revenue judgements adopted by management in preparing the results.

The Committee noted that the amounts being capitalised remained relatively modest compared with the total expenditure on the product during the period. The Committee concurred with management's approach on the amounts to be capitalised.

The Committee agreed with management that the continued use of Constant currency revenue growth and Operating free cash flow conversion % was appropriate.

Following this evaluation and analysis, the Committee was satisfied with the judgements made and that the continued use of the going concern basis was appropriate, and the viability statement was prepared appropriately.

Fair, balanced and understandable

The Committee has undertaken a careful review to ensure that the Annual Report is 'fair, balanced and understandable' and provides the necessary information for shareholders to assess the Company's consolidated position, performance, business model and strategy, in line with the requirements of the 2018 Code. The Committee members were consulted at various stages during the drafting process and provided input at the planning stage, as well as having the opportunity to review the Annual Report as a whole and discuss, prior to the March 2021 Committee meeting, any areas requiring additional clarity or better balance in the messaging. In forming its opinion and recommendation to the Board in respect of the above matters, the Committee assessed the following:

- A qualitative review of disclosures and a review of internal consistency throughout the Annual Report and Accounts;
- A review by the Committee of all material matters, as reported elsewhere in this Annual Report and Accounts;
- A risk-comparison review, which assesses the consistency of the presentation of risks, and significant judgements throughout the main areas of risk disclosure in this Annual Report and Accounts;
- A review of the balance of good and bad news; and
- Ensuring it correctly reflects:
 - the Company's position and performance as described on pages 120 to 153;
 - the Company's business model, as described on pages 18 to 19; and
 - the Company's strategy, as described on pages 1 to 63.

On the basis of this work, together with the views expressed by the external auditor, the Committee recommended, and in turn the Board confirmed, that it could make the required statement that the Annual Report is 'fair, balanced and understandable'.

Risk management

The Board has overall responsibility for determining the nature and extent of its principal and emerging risks and the extent of Alfa's risk appetite, and for monitoring and reviewing the effectiveness of the Company's systems of risk management and internal control. Further details of the risk management objectives and process are on pages 42 to 43. The principal risks and uncertainties facing the Company are addressed in the Strategic report in the

table on pages 44 to 49. The Board has delegated to the Committee the responsibility for monitoring the effectiveness of the systems of risk management.

Internal control

The Board determines the objectives and broad policies of the Company and meets regularly, when a set schedule of matters which are required to be brought to it for decision is discussed. Overall management of the Company's risk appetite, its tolerance to risk and discussion of key aspects of execution of the Company's strategy remain the responsibility of the Board. The Board has delegated to the Audit and Risk Committee the responsibility for overseeing the system of internal controls to ensure these are appropriate to the business environments in which the Company operates.

Key elements of this system include the following:

- A clearly defined organisation structure for monitoring the conduct and operations of the business.
- Clear delegation of authority throughout the Company, starting with the matters reserved for the Board.
- A formal process for ensuring that key risks affecting operations across the Company are identified and assessed on a regular basis, together with the controls in place to mitigate those risks. Risk consideration is embedded in decision-making processes at all levels and the most significant risks are periodically reviewed by the Board. The risk process is reviewed by the Audit and Risk Committee.
- The preparation and review of the annual budget.
- The monthly reporting of actual results and their review against the budget, forecasts and the previous year, with explanations obtained for all significant variances.
- The Finance Manual which outlines key control procedures and policies to apply throughout the Company. This includes clearly defined policies and escalating authorisation levels for all procurement activity including capital expenditure and investment.

In the 2019 Annual Report and Accounts the Committee highlighted that whilst the majority of Alfa's controls operated as intended there were some areas of weakness. The areas highlighted were the timeliness of reporting and the implementation of IFRS 15, along with the inherent difficulty of accurate forecasting which is particularly dependent on the timing of new contract sign-offs and project milestones, changes to which may be beyond the control of Alfa.

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

Throughout 2020 progress has been made on all the areas that were highlighted with the timeliness of reporting, including the impact of IFRS 15, significantly improving through the year and embedded into a new monthly management report, along with more detailed and robust forecasting and budget processes. There are some additional improvements being targeted for 2021, but these areas are not now considered ongoing areas of weakness, and no new areas of weakness were identified during 2020.

Internal audit

The Audit and Risk Committee supports the Board in fulfilling its responsibilities to review the activities, resources, organisational structure and operational effectiveness of the internal audit activities. Following discussion with the Committee Chair and the CFO, BDO LLP presents its internal audit plan for approval to the Committee before the start of each new financial year and will provide an update and further plans at the mid-year stage.

The Committee monitored and reviewed the scope, extent and effectiveness of the internal audit plan in line with the Company's key risks and strategy. Internal audit is a standing agenda item at each Committee meeting and BDO LLP presents an update on audit activities, the progress of the audit plans and the outcomes of all audits with action plans to address any issues. Activities of internal audit during 2020 included the following areas of focus:

- Risk management processes
- Contract management and commercial contracts
- Business continuity planning and IT disaster recovery
- Financial systems and controls
- Recruitment and retention; and
- Brexit preparations.

As part of the annual review referenced above, and considering management's opinion, the Committee was satisfied that the internal audit function remains effective and fit for purpose.

External Audit

The Committee oversees the Company's relationship with, and the performance of, the external auditor. This includes responsibility for monitoring its independence, objectivity and compliance with ethical and regulatory requirements. The Committee is the primary contact with the external auditor. The Committee also has responsibility for approving the nature of non-audit services which the external auditor may or may not be allowed to provide to the Company and the fees paid for these services (subject to de minimis levels).

External audit tender and appointment

As announced on 22 July 2020, following a comprehensive tender process, the Audit and Risk Committee recommended, and the Board agreed to recommend to shareholders, that RSM be appointed to succeed Deloitte as the Company's auditor. A resolution to appoint RSM for the year ending 31 December 2021 is being proposed to shareholders at the Company's AGM to be held on Monday 10 May 2021. You can read more about this in the Notice of AGM, which will be available on the website in due course. The Company has complied with the provision of the Competition and Markets Authority's order for year-end 2020 in respect of audit tendering and the provision of non-audit services.

When considering the future strategy of the Company, the Committee considered partnering to be a key component of future growth plans. To ensure that the Company can work with the widest range of partners possible, Deloitte, which is one of the leading service providers to the global asset and automotive finance market, was not considered as part of the tender process for the audit.

Independence and performance of the external auditor

The Committee is responsible for reviewing the independence of the Company's external auditor, RSM, agreeing the terms of engagement and the scope of its audit. RSM has a policy of partner rotation, which complies with regulatory standards, and RSM operates a peer review process for its engagements, to ensure that its independence is maintained. The Committee reviewed a report from the external auditor describing its arrangements to identify, report and manage any conflicts of interest.

Maintaining an independent relationship with the Company's external auditor is a critical part of assessing the effectiveness of the audit process. The Board has approved a policy which is intended to maintain the independence and objectivity of the external auditor. The policy governs the provision of audit, audit-related services and non-audit services provided by the auditor. Committee approval is required for any service with an expected cost in excess of £10,000. During 2020, the external auditor confirmed to the Committee that it did not provide any non-audit or additional services other than for the half-year review that could lead to its objectivity and independence being compromised on behalf of the Company. Details of audit, audit-related fees and non-audit fees are included in note 9 to the consolidated financial statements.

The Committee notes that audit partner rotation every five years facilitates independence and objectivity within the external audit team. The current External Audit Engagement Partner is Graham Ricketts, who was appointed to lead the audit in July 2020. The Committee is satisfied with the performance and effectiveness of RSM as external auditor, taking into account the Committee's own assessment and feedback. The Committee has concluded that RSM displays the necessary attributes of independence and objectivity.

Assessment of the audit process

The scope of the external audit is formally documented by the auditor. It discusses the draft plan with management before it is referred to the Committee, which reviews its suitability and holds further discussions with management and the auditor before final approval. The Committee has reviewed the quality of the audit plan and related reports for the 2020 audit and is satisfied with the quality of these documents.

The Committee discussed the quality of the half-year review and audit work since RSM's appointment and considered the performance of the external auditor, taking into account feedback from various stakeholders across the business and the Committee's own assessment. The evaluation focused on: robustness of the audit process; quality of delivery; reporting; and people and services. The Committee reviewed the independence of the external auditor and concluded that it complies with UK regulatory and professional requirements and that its objectivity is not compromised.

The Committee does not intend to put the external audit out to tender in the coming financial year as the appointment of RSM occurred in 2020 and therefore the Company has complied with the Competitions and Markets Authority requirement in relation to audit tenders every 10 years. The Committee will continue to keep this under review as part of its review of effectiveness of the external auditor.

Going concern and viability statements

The Committee reviewed the updated wording of the Company's longer-term viability statement, set out on pages 50 to 51. To do this, the Committee ensured that the financial model used was consistent with the approved three-year plan and that scenario and sensitivity testing aligned clearly with the principal risks of the Company. Committee members challenged the underlying assumptions used and reviewed the results of the detailed work performed. The Committee was satisfied that the analysis supporting the viability statement had been prepared on an appropriate basis. The Committee also reviewed the going concern statement, set out on page 41 and confirmed its satisfaction with the testing methodology.

Assessment of the effectiveness of the Committee

The Committee's effectiveness in respect of 2020 was evaluated as part of the internal review described on page 77. The key issues that were identified in the Committee evaluation were discussed by the Committee to ensure these were adequately addressed and the Chair provided an update where appropriate.

Focus for 2021

In 2021, as well as the regular cycle of matters that the Committee schedules for consideration each year, the Committee will continue to monitor legislation and regulatory changes, including those that affect the audit market that may impact the work of the Committee.

Steve Breach

Chair, Audit and Risk Committee

22 March 2021

DIRECTORS' REMUNERATION REPORT 2020

“The Committee has had an active year, ensuring that remuneration decisions taken during the year appropriately reflected the impact on all stakeholders during the Covid-19 pandemic.”

Adrian Chamberlain

Chair of the Remuneration Committee

Dear shareholders,

I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2020, including both a new Directors' Remuneration Policy and the Annual Report on Remuneration for approval at the 2021 AGM. This is my first report since I took over as Chair of the Committee in April 2020 and I would like to thank Chris Sullivan for his work on the Committee as Chair, and to Steve Breach and Charlotte de Metz for their contribution to the Committee's work during 2020.

Obviously, 2020 has been an unusual year due to the Covid-19 pandemic. The Committee has had to consider carefully the impact that this should have on setting short-term and long-term targets, as well as its decision-making on remuneration outcomes for the year. The 2020 bonus targets were set in advance of the pandemic and these remained unchanged. The 2020 LTIP targets were set after the pandemic had hit and a couple of months into lockdown at a point at which the share price had increased by more than 40% from its low point and back to the level of September 2019. This informed the Committee's decision not to scale back award opportunities for 2020, nor adjust the basis of the TSR targets attaching to

50% of the awards. Similarly the EPS targets were set by looking at growth rates based off the 2019 results which were unaffected by the pandemic. Having considered the incentives carefully we believed then and continue to believe now that the remuneration structure is fit for purpose even given the evolving circumstances. Like many Remuneration Committees we relied on internal and external guidance in light of the effects the pandemic had in every area of our lives. As is our duty to all Alfa stakeholders, we want to ensure that the overall remuneration structure remains fit for purpose in light of evolving circumstances, but also aligned with the interests of other key stakeholder groups, notably our employees.

The Committee engaged with shareholders as part of our review of our proposed Directors' Remuneration Policy as well as assessing its effectiveness with the input of our external remuneration advisor. The Committee also spent time ensuring that our approach to remuneration continues to remain in line with market changes and corporate governance developments. The Committee continued to carry out its usual role in ensuring remuneration outcomes and decisions are appropriate in the wider business context.

Company performance in 2020

The Company saw a strong financial and operational performance in 2020. In spite of the economic uncertainties brought about by the pandemic, revenues were up 22% on prior year at £78.9m (2019: £64.5m) and operating profit increased by £10.2m to £23.9m (2019: £13.7m). For a comprehensive overview, I would direct readers to the Strategic report on pages 1 to 63.

During the pandemic, the Company did not furlough any employees or access any Government support. We also redirected time and resources to develop a programme of wellbeing resources, activities and events to support our employees through a difficult period.

In September 2020, we were delighted to announce the declaration of a special dividend, our first as a listed Company. This returned £44.2m to shareholders and was positively received.

Performance outturns for 2020

Reflecting the strong financial and operational performance, and taking into account the broader stakeholder experience in 2020. The Committee approved the 2020 bonus outcomes for the Executive Directors. Operating profit and revenue performance both significantly exceeded the performance ranges set, warranting 100% payout under each element respectively. The Committee similarly reviewed the outcome in respect of the free cash flow element, and considered that, although the Company had maintained a good operating free cash flow of 114%, the stretching threshold was not achieved and no payment would be made in respect of this element.

The Committee also assessed the performance of each of the Executive Directors against their personal objectives, and concluded that payouts of between target and maximum were warranted for each of the CFO and COO.

This led to an overall outcome of 82% of maximum (pro-rated for time served) for the CFO and 80% of maximum for the COO. More information on how the annual bonus for 2020 was determined is provided on page 101.

The Executive Chairman and the CEO have separately advised the Committee that, due to their significant shareholding in the Company, they wish to waive their eligibility for a bonus in respect of the performance year 2020 and for any Long-Term Incentive Plan (LTIP) award for the performance period beginning January 2021. Shareholders will be aware that the Executive Chairman and CEO also waived any entitlement for the performance years 2017, 2018 and 2019. The Committee places on record its thanks to the Executive Chairman and the CEO for waiving their bonus and LTIP entitlements, which helps the Committee broaden share ownership to selected Company employees.

More broadly, the Committee is satisfied with Alfa's response to the Covid-19 pandemic and the impact this had on the experience of all key Alfa stakeholders during the year – including shareholders, employees and customers. The Committee has therefore not exercised any discretion in relation to the outcome of the variable pay schemes, or to overall remuneration levels.

The first LTIP awards for Executive Directors and members of the Company Leadership Team were awarded in June 2020 and the performance against the targets for both relative total shareholder return ('TSR') and earnings per share ('EPS') growth over the three years to December 2022 will be reviewed regularly.

2021 Policy and implementation

As required by the reporting regulations with which Alfa must adhere, the Remuneration Policy is being submitted to a binding vote at the 2021 AGM, this being the third anniversary of its adoption. In the year, the Committee debated the existing remuneration arrangements but on balance we decided that the current approach remained well suited to our strategic intentions. The Policy being put to shareholders at the 2021 AGM therefore remains largely unchanged.

The Committee has also worked to incorporate updates to the UK Corporate Governance Code into our new Policy. This has involved the development of a new post-cessation shareholding policy, and reinforcement of existing processes to ensure the Committee reflects on wider workforce conditions when setting pay. From 2021, Executive Directors will have to retain their full 200% of salary shareholding requirement for one year after leaving the Group, and 100% of salary (50% of the requirement) for a second year. This is to ensure Executive Directors are aligned with the shareholder experience beyond directorship, encouraging risk-conscious stewardship.

Finally, the Committee reviewed the claw back policy to ensure it allows value to be recouped from not only the Executive Directors but also all participants of our LTIPs in a sufficiently wide range of circumstances. We concluded that the malus and clawback triggers currently in place provide us with sufficient flexibility to recover payments should such circumstances arise, though we will keep this under review as practice evolves.

Further details on our new Remuneration Policy are described on pages 92 to 98.

Principal activities in 2020

- Approved the remuneration for Duncan Magrath, prior to his appointment to the Board;
- Engaged with stakeholders on the 2021 Directors' Remuneration Policy;
- Approved a revised remuneration structure for senior management below Board level;
- Set the annual bonus targets for the Executive Directors for the financial year 2020 and measured performance against them (following the year end);
- Approved LTIP awards to employees under the LTIP, and the targets attached to these;
- Incorporated the revised UK Corporate Governance Code into the Committee's policies and procedures; and
- Reviewed and recommended for approval the revised Terms of Reference of the Committee.

Areas of focus for 2021

- Approval of bonus performance measures and targets for 2021;
- Approval of performance conditions and awards under the Company's LTIP for 2021;
- Review of any issues raised by shareholders in relation to remuneration and the Remuneration Policy; and
- Assessment of the ongoing appropriateness of the remuneration arrangements in light of remuneration trends and market best practice.

Attendance at Remuneration Committee meetings

	Meetings attended
Adrian Chamberlain (Chair) ¹	2/2
Chris Sullivan ²	3/3
Steve Breach	3/3
Charlotte de Metz	2/2

1. Adrian was appointed as Chair of the Remuneration Committee on 24 April 2020.
2. Chris resigned as Chair of the Remuneration Committee on 24 April 2020.

The Committee's members are all Independent Non-Executive Directors.

DIRECTORS' REMUNERATION REPORT 2020 CONTINUED

For the upcoming year, salaries will remain unchanged for the Chairman, CEO, CFO and COO, though they will be reviewed annually to assess their continued suitability.

The opportunities available under the annual bonus will remain at 100% of salary for the CEO and COO and 125% for the CFO. As the business moves towards targeting more subscription revenues, the Committee have taken the opportunity to review the performance measures for the 2021 annual bonus. We are of the view that our existing measures of revenue, operating profit and personal objectives continue to be appropriate for 2021. We have reviewed the cash measure and consider this should be a modifier rather than an absolute incentive in its own right, as the Committee believes this will better match the strategy of the business. It will incentivise management to continue to maintain a strong cash focus, but without dis-incentivising them for pursuing more recurring revenues. Further information is provided on pages 106 and 107.

We understand from our engagement with shareholders that quantifiable non-financial objectives are of real importance and, as such, the Committee will continue to strive to meet these expectations. As in previous years, precise financial and non-financial targets are commercially sensitive and will be disclosed at the end of the performance year, per our current practice.

The opportunities available under the LTIP have been set at 150% for the CFO and 100% of salary for the COO. Over the year the Committee gave careful thought to the measures in the LTIP. We believe that, for now, EPS and TSR continue to provide the most appropriate means of testing long-term performance and therefore no changes have been made for the 2021 awards, though we will continue to review the suitability of the measures prior to making new awards, as we do currently.

UK Corporate Governance Code

To ensure the Committee continues to be mindful of wider workforce conditions, we have worked to improve the flow of feedback and workforce information which is provided to the Committee and the Board on a regular basis.

Committee evaluation

The Committee's performance was evaluated internally by the Company Secretary. Further information on the process is summarised on page 77. The evaluation concluded that the Committee was operating effectively. All Committee members were found to robustly challenge data, proposals, and remuneration and variable incentives. It was agreed that, given the evolving regulatory framework, there would be additional focus on training for the Committee in 2021.

2020 AGM

We were naturally disappointed that we were unable to allow shareholders to attend our 2020 AGM on 11 June 2020. Our primary concern during this time was the health and safety of our employees and all stakeholders under the guidance of the UK government.

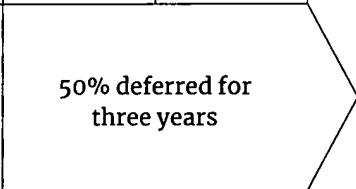
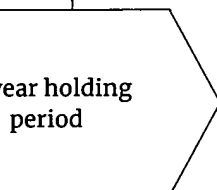
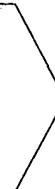
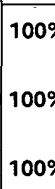
We had hoped to welcome shareholders in person to the 2021 AGM. Due to continuing restrictions on public gatherings and travel, we look forward to welcoming shareholders virtually through an online meeting platform.

I hope you will support both the binding vote on the Directors' Remuneration Policy, where we have taken into consideration your feedback, and the advisory vote on the Directors' Remuneration Report at our upcoming AGM, and that you find this report accessible and informative in aiding that decision.

Adrian Chamberlain
Chair of the Remuneration
Committee

EXECUTIVE REMUNERATION POLICY OVERVIEW

Directors' Remuneration Policy and implementation for 2021

		Y1	Y2	Y3	Y4	Y5	Policy change
Salary & benefits	CEO	£337,175					
	CFO	£284,947					
	COO	£229,863					
Pension	CEO	Waived					
	CFO	6%					
	COO	6%					
							Maximum contribution reduced from 10% to align with workforce rate
Annual bonus (Policy max 150%)	CEO	100%					
	CFO	125%					
	COO	100%					
							Increase deferred element from 25% to 50% in line with DBSP operation
LTIP (Policy max 150%)	CEO	2021 grant 100%					
	CFO						
	COO						
							Unchanged
Safeguards	CEO						
	CFO						
	COO						
							Unchanged
Shareholding requirements 200% of salary	CEO						
	CFO						
	COO						
							Unchanged
		Post employment Y1	Post employment Y2				
Post-employment shareholding	CEO		100%				
	CFO		100%				
	COO		100%				
							Under the new Policy, a two-year post-employment shareholding requirement will apply

ALFA FINANCIAL SOFTWARE HOLDINGS PLC 2021 DIRECTORS' REMUNERATION POLICY

Shareholders approved the Remuneration Policy at the AGM in 2018. As such, the Company is required to seek approval for the new Policy at the AGM to be held on 10 May 2021, from which date the updated Policy (subject to being approved) will apply for a period of up to three years. The Committee

reviewed the remuneration framework during the year to ensure that it remains fit for purpose and is designed to support and drive the business strategy.

The Policy is designed to attract, retain and motivate our leadership within a framework designed to promote the

long-term success of Alfa and align with our shareholders' interests. The Policy remains largely unchanged from the Remuneration Policy approved by shareholders in 2018.

Fixed elements of remuneration for Executive Directors

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance
Salary	To attract, retain and motivate Executive Directors of the calibre required to deliver the Company's strategy and drive business performance.	Base salaries will be reviewed at least annually, and assessed, taking into account the scope and requirements of the role, experience of the incumbent and the total remuneration package. Any increases will typically be effective from 1 January. Account will also be taken of the performance of the business, the salary increases awarded to the wider employee population, and remuneration arrangements in other listed companies of comparable scale and sector.	There is no overall maximum for, or increase to, salary levels. In awarding any increase, the Committee will be mindful of the general increase for the broader employee population. In appropriate circumstances the Committee may award increases outside this range. These may include: • A change in role and/or responsibilities; • Performance and/or development in the role of the Executive Director; • A significant change in the Company's size, composition and/or complexity. In addition, where an Executive Director has been appointed to the Board at a starting salary which is lower than typical market rate, larger increases may be awarded as their experience develops, if the Committee considers such increases to be appropriate.	Personal performance will be taken into consideration when determining any salary increases.
Benefits	To provide market-competitive benefits which drive Executive Directors to deliver the Company's strategy.	The Committee's policy is to provide Executive Directors with competitive levels of benefits, taking into consideration the benefits provided to Alfa's employees and those offered by its peers. Benefits are in line with those for the broader workforce and currently include (but are not limited to) a car or cash allowance; private medical insurance (individual and family, if applicable); and death in service life assurance. The Company may award additional benefits where the Committee considers it appropriate (e.g. travel, accommodation and subsistence allowances). These may include national and international relocation benefits such as (but not limited to) accommodation, family relocation support and travel in line with our policy for other employees in similar situations.	Given that the cost of benefits depends on the Executive Director's individual circumstances, there is no prescribed maximum monetary value. The cost of the benefits provision will be reviewed by the Committee on a periodic basis to ensure it remains appropriate. Other payments such as legal fees or outplacement costs may be paid if it is considered appropriate.	There are no performance conditions.
Pension	To encourage and assist with responsible, secure retirement provisions, thereby facilitating the recruitment of high-calibre Executive Directors to deliver the Company's strategy.	May be provided by way of contribution into a Company pension scheme or receive a cash supplement in lieu of pension contributions into this scheme (or such other arrangement the Committee determines has the same economic effect).	The maximum Company contribution for Executive Directors will not exceed the contribution (as a percentage of salary) available to the broader employee population. The current contribution level for Executive Directors is 6% of salary, which is aligned to the contribution for the broader employee population.	There are no performance conditions.

Variable Elements of remuneration for Executive Directors

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance
Annual bonus and Deferred Bonus Share Plan (DBSP)	Incentivises and rewards the achievement of annual financial and non-financial objectives integral to the Company's strategy. The part-deferral of earned bonus into shares provides alignment with shareholders' long-term interests.	The Committee will set the performance measures and their weighting, and targets annually to reflect the key financial, strategic and personal priorities for the business in the relevant year. Annual bonus outcomes will be determined by the Committee, and the Committee may use its discretion at the end of the performance period to adjust the final bonus outcome if it considers that the outcome does not reflect the underlying performance of the business during the year, or if it considers the payment is not appropriate in the context of unforeseen, unexpected or exceptional circumstances. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant Annual Report. Not less than 50% of any bonus will normally be deferred into an award of shares under the DBSP. Deferred shares will be subject to a three-year holding period from the date of the award, but no further performance conditions will apply. Directors may sell sufficient shares to satisfy the respective tax liability but must retain the net number of shares until the end of this three-year period. Malus and clawback provisions will apply (see explanatory notes).	The maximum bonus opportunity may be up to 150% of salary for the Executive Directors for each financial year. Annual awards made each year to Executive Directors will be set out in the Annual Report on Remuneration in respect of the relevant year.	Performance measures will comprise a combination of financial and non-financial objectives and the measures may vary from year to year. At least half of the annual bonus will be based on financial measures. The non-financial performance measures may include a combination of strategic and/or personal objectives. Further details on, and the rationale for, the measures used in the annual bonus will be disclosed in the relevant Annual Report (and the targets set will normally be disclosed retrospectively, subject to these being considered not to be commercially sensitive).
Long Term Incentive Plan (LTIP)	Incentivises and rewards the achievement of the Company's long-term strategic objectives for the business, through the use of share-based awards. To encourage long-term shareholding to retain Executive Directors and provide greater alignment with shareholders' interests.	Awards granted under the LTIP vest subject to the achievement of applicable performance conditions measured over at least a three-year period. LTIPs may be made as conditional share awards or in other forms (e.g. nil cost options) if it is considered appropriate. The Committee may use its discretion at the end of the performance period to adjust the final vesting outcomes if it considers that the outcome does not reflect the underlying performance of the business or participants during the performance period, or if it considers the payment is not appropriate in the context of unforeseen, unexpected or exceptional circumstances. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant Annual Report. Awards that vest are subject to a further two-year holding period after the vesting date. Directors may sell sufficient shares to satisfy the respective tax liability but must retain the net number of shares until the end of this two-year period. The Committee retains the discretion to allow dividends to accrue over the vesting period in respect of the awards that vest. (see explanatory notes).	The maximum value of shares (at grant) which can be made under an award to an individual in respect of a financial year is 150% of salary. Any awards made in the same year under the Company Share Option Plan will be taken into account when applying these limits. In exceptional circumstances awards totalling 200% of salary may be made in a year.	Performance measures will be determined by the Committee at the time of making each award to ensure alignment with the long-term success of the business. The performance conditions may include, but are not limited to, market measures, financial measures, and strategic long-term objectives. For performance between threshold and maximum, awards vest on a straight-line basis.

ALFA FINANCIAL SOFTWARE HOLDINGS PLC 2021 DIRECTORS' REMUNERATION POLICY CONTINUED

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Performance
Company Share Option Plan (CSOP)	Incentivises and rewards the achievement of long-term targets aligned to encourage long-term shareholding to retain Directors, and provide greater alignment with shareholders' interests. The CSOP also provides flexibility in the retention and recruitment of Executive Directors.	Awards granted under the CSOP become exercisable subject to such timings and performance conditions as may be set by the Committee. Options are granted at market value or the nominal share price if higher. The Committee may use its discretion at the end of the performance period to adjust the final vesting outcomes if it considers that the outcome does not reflect the underlying performance of the business or participants during the relevant period, or if it considers the payment is not appropriate in the context of unforeseen, unexpected or exceptional circumstances. Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the subsequent Annual Report.	Maximum value of £30,000 at the time of grant, including any existing awards under the CSOP. Overall maximum of 200% of salary in any one year including any awards under the LTIP rules.	Awards vest subject to predetermined performance conditions assessed over a minimum period of three years.
All-employee share plans	All-employee plans are designed to encourage share ownership within the wider workforce.	Executive Directors are eligible to participate in any all-employee share plan in place, on identical terms to other participants. In the case of UK tax qualifying plans, these will be operated in line with HMRC guidance.	Participation in any approved all-employee share plans will be subject to the same limits as for other eligible employees and, in the case of any UK tax qualifying plan, will be subject to the maximum limits permitted by the relevant tax legislation.	The Committee may apply conditions to participation in all-employee share schemes, which will apply to all employees.
Shareholding Requirement	To drive long-term, sustainable decision-making for the benefit of the Company and our shareholders.	The Executive Directors are required to build up a shareholding equivalent to align with the long-term interests of shareholders. Until the requirement is met, 50% of any share awards vesting (after any sales to cover tax liabilities) should be retained.	Executive Directors are required to hold shares equivalent to 200% in value of their salary. Directors are required to continue to hold their shareholding requirement, or, if their level of shareholding is below the requirement, their actual holdings, for a period of two years after leaving the Company.	There are no performance conditions.

Non-Executive Director Remuneration

Element of remuneration	Purpose and link to strategy	Operation	Maximum opportunity	Other items
Fees paid to the Non-Executive Directors	Fees are set at a level to reflect the amount of time and level of involvement required in order to carry out their duties as members of the Board and its committees, and to attract and retain Non-Executive Directors of the highest calibre with relevant commercial and other experience.	Fees for Non-Executive Directors will be determined by the Chairman and the Executive Directors. Additional fees are payable for acting as Senior Independent Director, Committee chairs, or for undertaking other duties. Fee levels will be reviewed (though not necessarily increased) annually and set with reference to the time commitment and responsibility of the position as well as taking into consideration market data for roles in other companies of a similar size and complexity.	Details of the current fee of levels for the Non-Executive Directors are set out in the Annual Report on Remuneration. There is no prescribed maximum annual increase. Total fees will not exceed the maximum amount provided in the Company's Articles of Association.	Benefits appropriate to the role may be provided. The Non-Executive Directors will have the benefit of a qualifying third party indemnity from the Company and appropriate Directors' and Officers' liability insurance. Travel and reasonable expenses incurred (including any tax gross-up) in the course of performing their duties may be paid by the Company or reimbursed.

NOTES TO THE POLICY TABLE

Prior arrangements

The Committee reserves the right to make any remuneration payments and/or payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out above where the terms of the payment were agreed:

- (i) Before the Policy set out above came into effect (provided, in the case of any payment agreed on or after 24 April 2018, it is in line with the Policy approved by shareholders on that date); or
- (ii) At a time when the relevant individual (or other person to whom this Policy applies) was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration and, in relation to an award over shares, the terms of the payment are 'agreed' at the time the award is granted.

Selection of performance conditions

For the annual bonus, the Committee believes that a mix of financial and non-financial targets is most appropriate for the Company. Strategic and personal objectives may be included where appropriate to ensure delivery of key business milestones. The Committee will determine the measures and weightings each year, based on the key financial and strategic priorities for the Company.

Performance under the LTIP will typically be based on a combination of market and non-market measures. This is so that the Committee can assess the Company's performance with reference to a mix of underlying financial and stock market performance and encourages a focus on long-term financial growth as well as returns to shareholders. The Committee will keep the measures and weightings under review prior to the start of each cycle to ensure that these remain effective in driving the Executive Directors to deliver long-term success.

Explanatory notes

Awards under any of the Company's share plans referred to in this report may:

- a) Be granted as conditional share awards or nil cost options or in such other form that the Committee determines has the same economic effect;
- b) Have any performance conditions applicable to them amended or substituted by the Committee if an event occurs which causes the Committee to determine an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy;
- c) Incorporate the right to receive an amount (in cash or additional shares) equal to the value of dividends which would have been paid on the shares under an award that vests up to the time of vesting (or where the award is subject to a holding period, release). This amount may be calculated assuming that the dividends have been reinvested in the Company's shares on a cumulative basis;
- d) Be settled in cash at the Committee's discretion – although the Committee has no intention to cash settle any Executive Directors' awards and would do so only in exceptional circumstances (such as where there was a regulatory restriction on the delivery of shares) or to settle tax liabilities arising in connection with the acquisition of shares; and
- e) Be adjusted in the event of any variation of the Company's share capital or any demerger, delisting, special dividend or other event that may affect the Company's share price.

Discretion, malus and clawback

Variable pay awards may be made subject to adjustment events. At the discretion of the Committee, an award may be adjusted before delivery (malus) or reclaimed after delivery (clawback) if an adjustment event occurs.

Our long-term incentive plans provide the Committee with discretion in respect of vesting outcomes that affect the actual level of reward payable to individuals. Such discretion would only be used in exceptional circumstances and, if exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant Annual Report.

Malus will apply to awards under the DBSP and LTIP. Clawback will apply to all vested awards under the DBSP and LTIP and the part of the annual bonus which is paid in cash. These provisions may be invoked at the Committee's discretion at any time within three years of the payment of cash bonuses and six years of the grant of DBSP and LTIP awards.

The Committee has the discretion to invoke these provisions in the following circumstances:

- Where there is a material misstatement of any Company financial results;
- Where an error in assessing performance conditions is discovered;
- Misconduct on the part of the individual; and
- Where a material failure of risk management by the Company is identified, or in the event of serious reputational damage to the Company.

Shareholding requirement

The Executive Directors are required to build up a shareholding equal to at least 200% of salary, to align with the long-term interests of shareholders. Until the requirement is met, 50% of any share awards vesting (after any sales to cover tax liabilities) should be retained. In order to generate alignment with shareholders beyond departure and to drive risk-conscious stewardship, a post-cessation shareholding requirement will be placed on Executive Directors. The post-cessation requirement relates to those awards awarded through incentive schemes by the Company. Executive Directors will typically be required to maintain a shareholding equal to the lower of their in-post guideline and their actual holding, for one year, and 50% of that level for the second year.

NOTES TO THE POLICY TABLE CONTINUED

Illustrations of potential remuneration outcomes

The following charts illustrate the remuneration that could be received by each of the Executive Directors for varying levels of performance in respect of the first year in which the Policy is effective. The charts are based on the following assumptions:

Pay scenario Purpose and link to strategy

Fixed	Fixed pay only, consisting of the salaries for 2021, benefits received in 2020 and the current pension policy (6% of salary for the CFO and COO) applied to 2021 salary
Target	Fixed pay, plus the potential value of the annual bonus at target (50% of the maximum) and the long-term incentive at threshold (25% of the maximum)
Maximum	Fixed pay, plus the maximum potential value of the annual bonus and the long-term incentive

Approach to recruitment remuneration

The Committee will seek to align a new Executive Director's remuneration package with the Policy as set out in the Policy Table.

When determining a remuneration package for a new appointment, the Committee will take into consideration the size and scope of the role, the skills and expertise of the candidate, the external market rate for a candidate of that experience, as well as the importance of securing the preferred candidate. Benefits will be limited to those outlined in the Policy, with relocation assistance provided where appropriate. Awards under the LTIP and/or CSOP that may be awarded to a new Executive Director will not exceed 200% of salary and the bonus opportunity will not exceed 150% of salary.

Special consideration may be given in the event that incentives accrued at a previous employer are due to be forfeited on the candidate's leaving that company, in which case the Committee retains the discretion to grant awards with vesting on a comparable basis to the likely vesting of the previous employer's award; any such award is excluded from the maximum value of incentives referred to above. For internal candidates, long-term incentive awards granted in respect of the prior role would be allowed to vest according to their original terms.

For the appointment of a new Chairman or Non-Executive Director, the fee would be set in accordance with the approved Policy in force at that time. The length of service and notice periods would be set at the discretion of the Board, taking into account market practice, corporate governance considerations and the skills and experience of the particular candidate at that time.

Service contracts and appointment letters

The service contracts of the Chairman and the Executive Directors do not have a specific duration but can be terminated by not less than six months' notice in the case of the Chairman and the COO and by not less than 12 months' notice for the CEO and CFO by either party.

Under the service contracts the Executive Directors are entitled to a salary (reviewed annually), pension contribution and benefits, in addition to reimbursement of reasonable expenses incurred by them in the performance of their duties.

The service contracts for Executive Directors make no provision for termination payments, other than for payment in lieu of salary.

The Non-Executive Directors' appointments are for a fixed term of three years and are subject to annual re-election by shareholders. Under their letters of appointment, their appointment is terminable by either party on three months' written notice except where the Non-Executive Director is not reappointed by shareholders, in which case termination is with immediate effect. The Non-Executive Directors are entitled to the reimbursement of reasonable business expenses.

Termination of office

If the employment of an Executive Director is terminated, any compensation payable will be determined by reference to the terms of the service contract in force at the time. As variable pay awards are not contractual, treatment of these awards are determined by the relevant rules. The Committee may structure any compensation payments beyond the contractual notice provisions in the contract in such a way as it deems appropriate.

The Company may at its discretion make termination payments in lieu of notice and contractual benefits. The service agreements for the CEO, CFO and COO allow for garden leave during their notice period.

The appointment letters for the Non-Executive Directors provide that no compensation is payable on termination.

The Committee has a policy framework for payments for loss of office by an Executive Director, both in relation to the service contract and incentive pay, which is summarised below.

	Category A Voluntary resignation and termination for cause	Category B Agreed terms	Category C Death or cessation by reason of ill-health, disability, injury, redundancy or change of control
Fixed pay	Paid only until employment ceases.	Paid for the notice period.	Paid only until employment ceases or for notice period depending on the reason for cessation.
Annual bonus	There is no contractual entitlement to payments under the annual bonus. Bonuses delivered in shares represent the bonus the Executive Director has already earned and carry no further performance conditions. Awards will normally be released in accordance to the usual schedule, unless the Committee determines that awards should be released at the time the individual ceases employment. Awards will normally be released in full unless the Committee determines otherwise.	Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure.	Cessation during the financial year or after the financial year end, but before payment date, may result in bonus being payable (pro-rated for the proportion of the financial year worked unless the Committee determines otherwise). Such bonuses may be settled wholly in cash. Bonuses delivered in shares represent the bonus the Executive Director has already earned and carry no further performance conditions. Awards will normally be released in accordance to the usual schedule, unless the Committee determines that awards should be released at the time the individual ceases employment. Awards will normally be released in full unless the Committee determines otherwise. If the participant dies, awards will normally be released at the time of their death on the same basis as for other good leavers.
LTIP awards	Unvested awards will lapse on cessation of employment. Vested awards subject to a holding period will also lapse if the Executive Director's employment is terminated for cause.	Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure.	Awards will normally vest and be released at the usual time. However, the Committee may determine that awards should vest at the time the individual ceases employment and be released at that time or should be released at some other time after cessation and before the ordinary release date – such as following the end of the performance period in the case of an award to which a holding period would otherwise apply. The extent of vesting will take into account the extent to which the relevant performance conditions have been met. Awards are usually scaled back pro-rata to take account of the proportion of the original performance period that has elapsed when the individual leaves (but with the Committee having discretion not to scale back or to reduce the scaleback). If the participant dies, awards will normally vest at the time of their death on the same basis as for other good leavers. Vested awards subject to a holding period will be released from that holding period at the usual time, unless the Committee determines the holding period should end when the individual leaves employment.

NOTES TO THE POLICY TABLE CONTINUED

	Category A Voluntary resignation and termination for cause	Category B Agreed terms	Category C Death or cessation by reason of ill-health, disability, injury, redundancy or change of control
CSOP	Unvested options will lapse on cessation of employment. Vested options may be exercised at any time in the six months after the date of cessation, after which they will lapse. Vested options not exercised will also lapse if the Executive Director's employment is terminated for cause.	Treatment will normally fall between A and C, subject to the discretion of the Committee, the terms of any termination agreement and the reasons for the Executive Director's departure.	Options will normally vest and be released at the usual time. However, the Committee may determine that the options should vest at the time the individual ceases employment and be released at that time or should be released at some other time after cessation and before the ordinary release date – such as following the end of the performance period. The extent of vesting will take into account the extent to which the relevant performance conditions have been met. Options are usually scaled back pro rata to take account of the proportion of the original performance period that has elapsed when the individual leaves (but with the Committee having discretion not to scale back or to reduce the scaleback). If the participant dies, options will normally vest at the time of their death on the same basis as for other good leavers.
Other payment	None.	Possible disbursements such as legal costs and outplacement services.	Possible disbursements such as legal costs and outplacement services.

Change of control policy

In the event of a change of control of the Company, LTIP and CSOP awards will vest to the extent determined by the Committee taking into account the extent that the Committee determines that the performance conditions have been satisfied, and, unless the Committee determines otherwise, the proportion of the performance period that has elapsed. DBSP awards will normally be released in full, unless the Committee determines otherwise. Alternatively, the Committee may permit an Executive Director to exchange their awards for equivalent awards over shares in a different Company. If the change of control is an internal reorganisation of the Company, Executive Directors will ordinarily be required to exchange their awards (rather than awards vesting), and the Committee may also require the exchange of awards in other circumstances, as it considers appropriate. If other corporate events occur such as a winding-up of the Company, demerger, delisting, special dividend or other event which, in the opinion of the Committee, may materially affect the current or future value of the Company's shares, the Committee may determine that awards will vest on the same basis as set out above for a change of control.

Consideration of shareholder views

The Committee consulted and met with the Company's largest shareholders prior to finalising this proposed Policy. The Committee will continue to monitor shareholder views when setting future executive remuneration strategy and will consult with shareholders prior to any significant changes to the Policy. The Committee takes full account of the guidelines of investor bodies and shareholder views in determining the remuneration arrangements in operation within the Company.

Consideration of employment conditions elsewhere in the Company

The Committee takes into account the pay and employment conditions of the wider employee population across the Company when setting Executive Director remuneration, and considered this as context when reviewing the Policy. While the Committee has not consulted employees directly on the Remuneration Policy for Executive Directors, the Committee is made aware of information such as workforce demographics, diversity initiatives, training programmes, engagement levels and cultural initiatives, as well as the remuneration principles and policies that apply to the wider workforce. It is expected that future salary increases for Executive Directors will be in line with the general employee population, except in exceptional circumstances.

Members of the Company Leadership Team are invited to participate in the LTIP, in order for there to be alignment between the objectives of the Executive Directors and senior management. We also continue to encourage employees to become investors in the Company by retaining legacy share awards and through its all-employee share schemes.

External Appointments

Executive Directors may hold external directorships if the Board determines that such appointments do not cause any conflict of interest. Where such appointments are approved and held, it is a matter for the Board to agree whether fees paid in respect of the appointment are retained by the individual or paid to the Company.

Alignment of Remuneration Policy with the 2018 UK Corporate Governance Code

Governance in practice

The Remuneration Committee is committed to good corporate governance and as such takes into account a broad range of factors when determining its Directors' Remuneration Policy. The Committee considered both legal and regulatory requirements, associated guidance and the views of shareholders and their representative bodies. Below is an outline of how the Committee works to ensure the principles of Provision 40 of the 2018 UK Corporate Governance Code are met.

Clarity

Remuneration arrangements should be transparent and promote effective engagement with shareholders and the workforce.

Alfa is committed to clear and transparent reporting and communication with its stakeholders. The Committee actively engages with our shareholders on key decisions and Policy matters, when required.

In December 2020 the Committee engaged with some of its larger shareholders to gain feedback on its proposals for the new Directors' Remuneration Policy, for which there was broad support.

The Alfa Remuneration Policy is aligned with longer-term shareholder interests and structured to promote the Group's financial and strategic priorities.

Simplicity

Remuneration structures should avoid complexity and their rationale and operation should be easy to understand.

Alfa's approach to its remuneration framework focuses on simplicity. The framework comprises of three core elements to remuneration:

Fixed pay. This element comprises base pay, taxable benefits and pension.

Short-term incentives. This element relates to an annual performance-related bonus which incentivises delivery against both financial and non-financial measures. In total, 50% of any bonus earned is paid in cash with 50% deferred into shares.

Long-term incentives. This element relates to longer-term value creation through the LTIP.

In reviewing the 2021 Remuneration Policy, the preservation of simplicity was one of the key factors that influenced the Committee not to make fundamental changes to the Policy.

Risk

Remuneration arrangements should ensure that reputational and other risks from excessive rewards, and behavioural risks that can arise from target-based incentives plans are identified and mitigated.

The remuneration arrangements are split between short-term and long-term rewards coupled with holding periods, deferred elements and malus and clawback provisions to drive the right behaviours to incentivise the Executive Directors to deliver long-term sustainability of the business and shareholder returns.

As a wider control, malus and clawback provisions apply to all participants of our long-term incentive plans. The Remuneration Committee retains discretion to override formulaic outcomes where these are not considered reflective of underlying performance.

Predictability

The range of possible values of rewards to individual Directors and any other limits or discretions should be identified and explained at the time of approving the Policy.

The Remuneration Policy sets out scenario charts illustrating base pay, short-term incentives and longer-term incentive outcomes under threshold, target and maximum performance scenarios.

Proportionality

The link between individual awards, the delivery of strategy and the long-term performance of the Company should be clear. Outcomes should not reward poor performance.

The Committee assesses performance against a range of financial and non-financial measures linked to our business strategy.

The Committee has the ability to override formulaic calculations and apply discretion.

The Committee regularly reviews pay policies for the wider workforce and is mindful of this when setting remuneration for Executive Directors.

Alignment to culture

Incentive schemes should drive behaviours consistent with Company purpose, values and strategy.

These should include consideration of performance metrics, governance requirements and engagement with stakeholders.

ANNUAL REPORT ON REMUNERATION 2020

This section of the Directors' Remuneration Report sets out the remuneration paid in 2020 and the proposed remuneration for 2021. This section will be put to an advisory shareholder vote at the 2021 AGM. During the year, the Remuneration Policy operated as intended. Sections which are subject to audit are indicated as such.

Context to remuneration decisions

The Committee's decision-making this year has taken into account a range of internal and external factors, including Alfa's response to Covid-19 and the experience of our stakeholders during this period. As previously outlined, Alfa took decisive action at the outset of the pandemic to ensure the business was sustainable and our employee and stakeholder wellbeing was prioritised. The business acted in line with the s172 governance guidelines while continuing to deliver exceptional results for shareholders. In particular, the Committee was mindful that:

- Alfa requested no Government support from the Job Retention Scheme
- No employee received a pay cut and bonus payments were maintained
- Shareholder guidance was maintained throughout the period, with the final results for the year, exceeding the profit forecast.
- A special dividend in the amount of £44.2 was paid to shareholders

Single total figure of remuneration (audited)

The following tables set out the total remuneration received by Executive Directors and Non-Executive Directors in 2020 and 2019.

£'000s		Salary and fees	Benefits ¹	Pension ²	Total fixed remuneration	Annual bonus ³	Long-term incentives ⁴	Total variable pay	Total figure remuneration
Executive Directors									
Andrew Page	2020	374	13	–	387	–	–	–	387
	2019	374	14	–	388	–	–	–	388
Andrew Denton	2020	322	15	–	337	–	–	–	337
	2019	322	16	–	338	–	–	–	338
Duncan Magrath	2020	214	7	12	233	217 ⁶	–	217	450
(appointed 23 March 2020)	2019	–	–	–	–	–	–	–	–
Matthew White	2020	220	10	13	243	176	–	176	419
(appointed 9 October 2019)	2019	50	2	3	55	–	–	–	55
Non-Executive Directors									
Chris Sullivan	2020	65	–	–	65	–	–	–	65
(appointed 18 July 2019)	2019	30	–	–	30	–	–	–	30
Steve Breach ⁵	2020	70	–	–	70	–	–	–	70
(appointed 9 August 2019)	2019	45	–	–	45	–	–	–	45
Adrian Chamberlain	2020	45	–	–	45	–	–	–	45
(appointed 24 March 2020)	2019	–	–	–	–	–	–	–	–
Charlotte de Metz	2020	38	–	–	38	–	–	–	38
(appointed 24 March 2020)	2019	–	–	–	–	–	–	–	–

1. Benefits corresponds to the taxable value of benefits receivable during the relevant financial year and principally include company car (or cash equivalent), life assurance, travel insurance and private medical insurance.

2. Pension – corresponds to the amount contributed to defined contribution pension plans or a cash payment in lieu of a pension contribution. Andrew Page and Andrew Denton have opted out of the pension scheme.

3. Annual bonus – corresponds to the amount earned in respect of the relevant financial year. Details of 2020 targets are set out on page 101. The Executive Chairman and the CEO waived any eligibility for a bonus in both 2020 and 2019. The COO was included in a separate Company-wide bonus arrangement before his appointment to the Board and any award under this scheme, prior to his appointment to the Board, has been excluded from the table above.

4. Long-term incentives – corresponds to the amount vesting to the Executive Directors in respect of a performance period ending at the conclusion of the relevant financial year. The first awards under the LTIP were granted in 2020, and vest subject to performance to 31 December 2022 (and will accordingly be captured, to the extent these vest, in the 2022 Annual Report).

5. In 2019, Steve Breach's fees include £19,578 of additional fees for specific additional advice provided during October to December 2019. A payment of £5,085 was paid in January 2020 to cover work completed on the finance remediation plan.

6. Duncan Magrath's annual bonus was pro-rated from his start date of 23 March 2020.

Base salary

The Executive Directors' salaries were reviewed in 2020. It was determined that no increase would be awarded for the period from 1 January 2020 to 31 December 2020.

2020 annual bonus

The 2020 annual bonus performance measures were selected to reflect the Company's annual and long-term objectives and its financial and strategic priorities, as appropriate. Performance targets are set to be stretching, taking into account a range of reference points, including the Company's budget and third party analyst forecasts, as well as the Group's strategic priorities.

In respect of the annual bonus, the following measures were approved by the Committee for 2020:

- Revenue for the year;
- Operating profit, being operating profit excluding certain non-recurring and non-cash exceptional items as a ratio of revenue;
- Operating free cash flow conversion being cash flow generated from operations after deducting the settlement of derivative financial instruments and margin calls and capital expenditures as a percentage of EBIT, as defined above; and
- Personal performance based on the qualitative assessment of the individuals performance. Further details on performance outcomes for the non-financial measures are shown in the second table.

The Executive Chairman and CEO have waived their entitlement to a bonus for the 2020 performance year.

The table below shows the bonus outturn relating to each measure:

Measure	Weighting	Target	Threshold	Maximum	Actual	2020 bonus pay-out
Revenue	30%	£65.9m	95%	105%	£78.9m	100%
EBIT	30%	£8.8m	85%	120%	£23.9m	100%
Operating free cash flow conversion	15%	170%	80%	120%	114%	0%
Personal performance	25%		0%	25%	CFO: 22% COO: 20%	88% 80%
Total (as a percentage of opportunity)						CFO: 82% COO: 80%

Straight-line vesting occurs between threshold and maximum.

Further commentary on non-financial measures

The personal measures described above are assessed with reference to the following objectives:

	Objective	Commentary on performance achieved	Achievement
Duncan Magrath	Development of Finance team	Core team in place, bolstered with new permanent employees	88%
	Internal tax capability	Tax Specialist recruited and Corporate tax issues resolved	
	Investor Relations strategy	More proactive communication to the market during the year	
	Governance & Risk Management	New External Audit partner appointed	
	Management Information	New management pack created and balanced scorecard. Significant improvement in timeliness of information.	
Matthew White	People	Built, developed and retained a smart, diverse team	80%
	Implementation	Delivered successful implementation projects	
	Operations	Enabled partner delivery and simplified Alfa Start implementation methodology	
	Technology	Delivered high quality software to our customer and secure technical infrastructure for Alfa	
	Maintenance & Hosting	High quality and highly profitable maintenance and hosting provided to our customers	

Based on the achievements listed above, the Committee agreed that the final vesting under the 2020 bonus would be 82% of the maximum for Duncan Magrath and 80% of maximum for Matthew White. In confirming this outcome, the Committee took into consideration the broader financial and operational performance of Alfa during the year, and the strong and effective leadership demonstrated by the Executive Directors it was determined that no adjustments were required to the formulaic outcome.

The bonus payment for Duncan Magrath as incoming CFO would be pro-rated to reflect his period in role.

In accordance with the Remuneration Policy, 50% of these bonus amounts have been paid in cash, with the remaining 50% to be converted to Alfa shares and deferred for three years.

ANNUAL REPORT ON REMUNERATION 2020 CONTINUED

Executive	Base salary	Maximum opportunity (% salary)	Performance outcome (% of maximum)	Bonus outcome £	...of which cash £	...of which shares
Duncan Magrath	£275,000	125%	82%	£217,044	£nil	£217,044 ¹
Matthew White	£220,000	100%	80%	£176,000	£88,000	£88,000

1. Duncan Magrath opted for all of his 2020 annual bonus to be deferred into shares, following satisfaction of the respective tax liability.

Long-Term Incentive Plan – awards granted in the year

Share awards were made to the Executive Directors under the LTIP on 3 June 2020 equivalent to 200% of salary for the CFO and 100% of salary for the COO. The maximum LTIP opportunity under the proposed Policy in normal circumstances is 150% of salary. The Committee approved an LTIP share award for Duncan Magrath of 200% of salary in his first year to secure his employment, in accordance with the Policy.

The Executive Chairman and CEO have waived their entitlement to participate in the 2020 LTIP.

	Date of award	Face value (% of salary)	Number of shares granted	Average share price at grant (£) ¹	Threshold vesting (% of face value)	Performance period
Duncan Magrath	3 June 2020	200% ²	740,242	0.74	100%	1 January 2020 – 31 December 2022
Matthew White	3 June 2020	100%	296,097	0.74	100%	1 January 2020 – 31 December 2022

1. The share price used to calculate the number of performance shares was £0.74, the closing share price on the day preceding the date of the award (2 June 2020).

2. Duncan Magrath was awarded an LTIP of 200% of salary in his first year of employment.

The LTIP awards are subject to two equally weighted performance metrics: relative total shareholder return and earnings per share:

Measure	Description	Weighting	Threshold/target	Maximum target
Total shareholder return (TSR)	Measured with reference to the FTSE smallcap excluding investment trusts and the Company	50%	Median	Upper quartile
Earnings per share (EPS)	Measured with reference to EPS performance in the year ending 31 December 2022	50%	2.3p	2.8p

Straight-line vesting occurs between threshold and maximum for both TSR and EPS elements of the award.

The three-year period over which performance will be measured began on 1 January 2020 and will end on 31 December 2022. Any awards vesting for performance will be subject to an additional two-year holding period, during which malus and clawback provisions will continue to apply.

Long-Term Incentive Plan – awards vesting in the year

There were no LTIP awards due to vest in 2020.

Pension entitlements (audited)

The only element of remuneration that is pensionable is basic annual salary. During 2020, employer's pension contributions, or a cash payment in lieu of pension contributions, were payable to the CFO and COO, at a rate of 6% of salary as aligned with the broader workforce, and defined in the 2021 Remuneration Policy.

External appointments (audited)

Executive Directors are allowed to accept one appointment outside the Company, with the prior approval of the Board. Any fees may be retained by the Director, although this is at the discretion of the Board. During 2020 and up to the date of this report, none of the Executive Directors who held office during the year under review held external appointments for which they received a fee.

Payments for loss of office (audited)

There were no payments for loss of office during the year.

Payments to past directors (audited)

There were no payments to past Directors for loss of office during the year.

Statement of Directors' shareholdings and scheme interests (audited)

Executive Directors are expected to build and hold Alfa shares of at least 200% of their annual salary to align with the long-term interests of shareholders, with a requirement to retain 50% of any share awards vesting until the 200% requirement is met. Under the new Policy, a post-employment shareholding requirement will apply whereby 100% of the shareholding requirement must be held for the first year following departure from Alfa and 50% for the second year. Shareholding requirements and the number of shares held by Directors during the year and as at 31 December 2020 are set out in the table below:

	Shares owned outright at 31 December 2020	Interests in share incentive schemes without performance conditions	Interests in share incentive schemes with performance conditions	Shares owned outright at 31 December 2019	Shareholding requirement (% of requirement achieved) ¹
Andrew Page	181,764,821	–	–	181,224,631	achieved
Andrew Denton	15,891,327	–	–	16,421,018	achieved
Matthew White	552,368	276,183	296,097	276,184	achieved
Duncan Magrath	100,000	–	740,242	–	24%
Chris Sullivan	–	–	–	–	n/a
Steve Breach	43,983	–	–	6,009	n/a
Adrian Chamberlain	–	–	–	–	n/a
Charlotte de Metz	–	–	–	–	n/a

1. Calculated using the share price of £1.32 (as at 31 December 2020)

No LTIPs were exercised during the year and there were no unexercised vested shares held at 31 December 2020.

The Executive Chairman and Chief Executive Officer have significant direct or indirect shareholdings in the Company.

Dilution

Awards under Alfa incentive plans may be satisfied by treasury shares or the issue of new shares or the purchase of shares in the market. Under Investment Association guidelines, the issue of new shares or reissue of treasury shares under a plan, when aggregated with awards under all of a company's other schemes, must not exceed 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10-year period. As at 31 December 2020 this limit had not been exceeded.

Fees for the Non-Executive Directors

The fees were agreed on appointment and have remained unchanged since that time. A summary of current fees is shown below:

£'000s	Basic fees	Audit and Risk Chair	Remuneration Chair	Senior Independent Director
Chris Sullivan	–	–	–	65
Steve Breach	55	10	–	–
Adrian Chamberlain	55	–	10	–
Charlotte de Metz	55	–	–	–

There is no additional fee payable to the Chair of the Nomination Committee.

All the Non-Executive Directors have letters of appointment, with the Company, for an initial three year term, subject to annual reappointment at the AGM. The appointment letters for the Non-Executive Directors provide that no compensation is payable upon termination. Letters of appointment are available for inspection at the Company's registered office. Details of the appointment terms of the Non-Executive Directors are as follows:

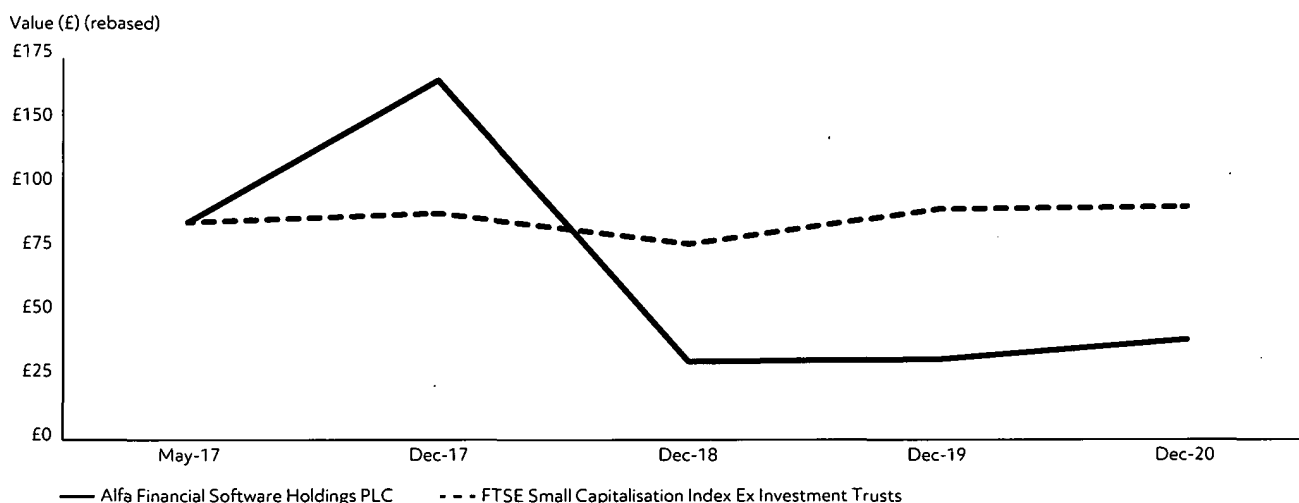
	Start of current term	Expiry of initial term
Chris Sullivan	18 July 2019	17 July 2022
Steve Breach	9 August 2019	8 August 2022
Adrian Chamberlain	24 March 2020	23 March 2023
Charlotte de Metz	24 March 2020	23 March 2023

ANNUAL REPORT ON REMUNERATION 2020 CONTINUED

Total shareholder return performance

The graph below shows Alfa's TSR performance from Admission in May 2017 to 31 December 2020 against the TSR performance of the FTSE small cap index (excluding investment trusts). The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income. As Alfa is a constituent member of the FTSE small cap, the Committee considers that it is the appropriate index for comparative purposes. This graph has been calculated in accordance with the Directors' Remuneration Reporting Regulations and shows total shareholder return from the date of listing to 31 December 2020.

Total Shareholder Return (for the period from 25 May 2017 to 31 December 2020)



CEO single figure of remuneration and variable pay outcome

Year	CEO single figure of remuneration	Annual bonus pay-out (as a % of maximum opportunity) ¹	LTIP vesting (as a % of maximum opportunity) ²
2020	£337,174	n/a	n/a
2019	£338,129	n/a	n/a
2018	£337,944	n/a	n/a
2017	£349,478	n/a	n/a

1. The CEO waived any eligibility for a bonus in 2020, 2019, 2018 and 2017.

2. The CEO waived any eligibility to participate in the long-term incentive awards in respect of the 2020, 2019, 2018 and 2017 performance years.

Percentage change in CEO remuneration compared with employees

The table below shows the average increase in each component between the CEO and the average employee in the Company from Admission to 2020:

	% change in base salary	% change in bonus earned	% change in benefits
CEO	2020: 0% 2019: 0% 2018: 0% 2017: 0%	2020: 0% 2019: 0% 2018: 0% 2017: 0%	2020: (6%) 2019: 0% 2018: (42%) 2017: 87%
Alfa employees	2020: 9% 2019: (3%) 2018: 1% 2017: 2%	2020: (1%) 2019: (13%) 2018: (37%) 2017: (33%)	2020: 13% 2019: (42%) 2018: 22% 2017: (11%)

Percentage change in Executive and Non-Executive Director remuneration

The table below shows the percentage increase/decrease in each Director's salary/fees, taxable benefits and annual incentive plan between 2019 and 2020 compares with the average percentage increase in each of those components of pay for the UK-based employees of the Group as a whole.

Disclosure for all Directors in addition to the CEO has been added this year in line with the new requirements under the EU Shareholder Rights Directive II and over time a 5-year comparison will be built up. Alfa Financial Software Holdings PLC employs only the Non-Executive Directors and therefore a subset of the Group's employees has been used.

% change for the end of the comparative period to the end of the reporting period	Base salary/ fees	Benefits	Annual bonus
Andrew Page (Chairman)	0%	7%	n/a
Andrew Denton (CEO)	0%	(6%)	n/a
Duncan Magrath (CFO)	n/a	n/a	n/a
Matthew White (COO)	0%	n/a	n/a
Steve Breach (NED)	0%	n/a	n/a
Adrian Chamberlain (NED)	n/a	n/a	n/a
Charlotte de Metz (NED)	n/a	n/a	n/a
Chris Sullivan (NED)	0%	n/a	n/a
Colleague pay	9%	13%	(1%)

CEO pay ratio

The table below sets out the pay ratios for the CEO in relation to the equivalent pay for the lower quartile, median and upper quartile employees (calculated on a full-time equivalent basis). The ratios have been calculated in accordance with the Companies (Miscellaneous Reporting) Requirements 2018. The CEO pay ratio data will be built upon annually until a rolling 10-year dataset is produced.

The methodology adopted for calculating the ratio was 'Option A' which entailed calculating the total full-time equivalent (FTE) pay and benefits for all UK employees on the December 2020 payroll. Employees were then ranked based on their FTE remuneration from low to high in order to identify those whose remuneration placed them at the 25th, 50th (median) and 75th percentile points. The CEO's single total figure of remuneration (STFR) was then measured against these percentiles, to produce the three pay ratios.

Option A was chosen because it was deemed to be the most statistically accurate method for this reporting purpose. Having reviewed the analysis, the Company believes the median pay ratio to be consistent with the Company's general employee pay, reward and progression policies. The Company carries out bi-annual salary reviews and annual reviews of benefits packages. Salary awards are made with reference to the outputs of annual industry benchmarking exercises. The Company did not omit any components of pay and benefits from the calculations.

Year	Method	25th percentile (lower quartile)	Pay ratio 50th percentile (median)	75th percentile (upper quartile)
2020	A	5:7:1	4:3:1	3:2:1
2019	A	5:7:1	4:4:1	3:2:1

	£'000s	25th percentile	50th percentile	75th percentile
2020	Total remuneration	59.5	78.5	106.7
	Salary only	55.1	73.2	98.1
2019	Total remuneration	59.0	76.2	106.3
	Salary	57.1	71.2	95.7

This is the second financial year in which the Company reported information on ratios between CEO and average staff pay under the amendments to the Companies (Miscellaneous Reporting) Regulations in 2018.

There has been a reduction in the ratio reported at the 50th percentile and figures indicate that there have been increases in total remuneration at all percentiles across the Company compared to 2019. Despite the impact of the pandemic, the Company proceeded with the annual pay-rise and promotion cycle and continues to review and remunerate executive pay in line with the remuneration of the overall employee population.

The Committee is mindful, when setting pay for the CEO, of the remuneration context of the wider workforce. The CEO's remuneration comprises both fixed and variable elements, with a higher proportion of his pay linked to performance in line with shareholder expectations. Given both the nature of the role and his ability to influence Alfa's performance, it is felt that this is an appropriate approach and as such the Committee believes the median pay ratio is appropriate in the context of wider workforce pay conditions. It is expected as multi-year performance share plans vest, pay ratios will move and flex.

ANNUAL REPORT ON REMUNERATION 2020 CONTINUED

Rewarding our people and wider workforce engagement

Alfa's approach to all-employee reward is focused on providing a competitive package to attract, retain and incentivise our employees to deliver for our customers, business and shareholders. The Committee regularly reviews details of the arrangements for the broader workforce and this informs decisions on remuneration for the Executive Directors and senior management. Alfa continues to review salaries Group-wide to ensure that we remain a competitive employer within the local market. Salaries for Executive Directors, senior managers and the rest of the workforce are all determined with reference to the same factors such as technical expertise, experience and performance, and increases across these populations are reviewed to ensure they are broadly aligned. The Committee also took an active role in determining rewards for the Company Leadership Team. Further information on key initiatives for our people and what makes Alfa unique can be found on pages 57 to 59. In addition to a competitive salary, all employees receive the opportunity to earn a performance-related bonus, private medical care, matched contribution pension and death in service life assurance. The Company Leadership Team and certain employees are eligible to participate in long-term incentive schemes.

During the review of the Directors' Remuneration Policy, the Committee sought input from the Executive Directors, ensuring that any conflict of interest was suitably mitigated. It was concluded that the existing model of base salary; annual bonus; and a three-year LTIP with two year holding period was well understood by the business, supported Alfa's culture and continued to be appropriate to drive business performance going forward.

Relative importance of spend on pay

The following table illustrates Alfa's revenue and operating profit in relation to spend on pay for all employees for all employees for the period and last financial year.

£'000s	2020	2019	Change
Total personnel costs (note 7 to the consolidated financial statements)	41,729	36,985	13%
Average number of employees (note to the consolidated financial statements)	341	313	9%
Revenue (consolidated income statement)	78,870	64,480	22%
Operating profit (see note 4.2 to the consolidated financial statements)	23,946	13,709	75%

A special dividend of £44.2m was paid to the shareholders in 2020. For more information on the special dividend and expenditure on remuneration of all employees, see pages 152 and 141 respectively.

Implementation of the Remuneration Policy in 2021

2021 Executive Directors' base salaries

The Committee carried out a review of the Executive Directors' remuneration packages in late 2020 and was comfortable that the salary, bonus and LTIP opportunity remained appropriate. No changes will be introduced for the Executive Directors for 2021.

The table below shows the salaries for the Executive Directors as at 1 January 2021 in comparison to base salary at 1 January 2020:

£'000s	1 January 2021	1 January 2020	% change
Andrew Page	374	374	0
Andrew Denton	322	322	0
Duncan Magrath	275	275 ¹	0
Matthew White	220	220	0

1. From appointment as Chief Financial Officer on 23 March 2020.

Pension and benefits

For 2021, the CFO and COO will receive a pension contribution of 6% of salary (in line with that available to the wider workforce) or an equivalent cash allowance. No changes are proposed to the benefits provided.

2021 annual bonus

The Chairman, CEO and COO will be entitled to a maximum annual bonus equal to 100% of salary for 2021 with the CFO entitled to a maximum annual bonus of 125% of salary. The following measures have been selected for the 2021 annual bonus performance year:

Measure	Weighting
Operating profit	37.5%
Revenue	37.5%
Operating free cash flow conversion	Modifier
Personal performance	25%

As the business moves towards targeting more subscription revenues, the Committee have taken the opportunity to review the performance measures for the 2021 annual bonus. We are of the view that our existing measures of revenue, operating profit and personal objectives continue to be appropriate for the business. We have reviewed the cash measure and consider this should be a modifier rather than an absolute incentive in its own right, as the Committee believe this will better match the strategy of the business. This along with the already strong cash collection performance means that targeting individual cash targets as a separate measure becomes less relevant. Maintaining the cash element of the bonus remains extremely important, and it is essential that the current strong cash performance does not deteriorate. This means that the incentive pay-out based on revenue and operating profit can be improved or reduced depending on whether the free cash flow conversion is above or below 100%, with a cap of 25% in either direction. However the modifier cannot increase the revenue and operating profit measure above its maximum, it can only improve a shortfall, or reduce a pay-out.

Each bonus measure has a target, failure to meet a minimum percentage of the target will result in no bonus being awarded for that element. Achieving a maximum percentage of target will result in the maximum bonus being awarded under the formula (subject to the minimum operating profit target being achieved), although as described earlier, the final determination is made by the Committee taking all available factors into account. The detailed bonus targets for the coming year are considered to be commercially sensitive. However, the Committee will provide an appropriate explanation of the bonus outcomes in the 2021 Directors' Remuneration Report.

In accordance with the Policy, 50% of any bonus earned will be deferred into shares for a three-year holding period.

2021 Long-Term Incentive Plan

The normal maximum LTIP opportunity under the Policy is 150% of salary. For 2021, the award opportunity will remain at 100% of salary for the CEO and COO, and 150% of salary for the CFO. Following vesting, awards will be subject to a subsequent holding period of two years, with the entirety of any award vesting released after two years.

The Committee has agreed the following measures for the LTIP, with an equal weighting applied to each measure:

- TSR; and
- EPS.

The comparator group for the TSR is the constituents of the FTSE Small Cap, excluding investment trusts. Median performance over the three-year performance period will result in 25% vesting, with 100% vesting if upper quartile performance is achieved. The EPS performance conditions are being finalised and details will be included in the RNS announcing the awards.

2021 Non-Executive Director remuneration

Non-Executive Directors do not participate in any of the Company's share incentive arrangements, nor do they receive any benefits. Fees for Non-Executive Directors are reviewed annually, and are set by the Chairman and the Executive Directors. Following the annual review of Non-Executive Director fees, no changes are proposed for the 2021 fees. It was determined that the fees will remain at the following level:

Base fee	£55,000
Additional fee for chairing Audit and Risk Committee or Remuneration Committee (subject to maximum fees £65,000)	£10,000
Fee for the Senior Independent Director (including chairing Committees)	£65,000

Appointment of external advisors

During the year, the Remuneration Committee and the Company retained independent external advisors to assist on various aspects of the Company's remuneration and shares schemes. Mercer Kepler have acted as external advisers to the Committee for the Executive remuneration incentives and provided updates on market trends. Tapestry Global Compliance LLP (Tapestry) have acted as external advisors to the Committee, to provide support and information on our all-employee share schemes. None of the advisers has any other connection with the Company or its Executive Directors. Mercer Kepler's fees for 2020 amounted to £8,262; Tapestry Global Compliance LLP fees were £41,957. The Committee is satisfied that Mercer Kepler (who is a member of the Remuneration Consultants Group and abides by its Code of Conduct) and Tapestry continued to maintain independence and objectivity.

Statement of shareholding voting

The 2019 Directors' Remuneration Report was approved by shareholders at the 2020 AGM. The Directors' Remuneration Policy was approved at the 2018 AGM. The votes cast were as follows:

£'000s	For	Against	Votes withheld
Directors' Remuneration Report (2020 AGM)	99.99%	0.01%	0
Directors' Remuneration Policy (2018 AGM)	99.78%	0.22%	16,744,191

For and on behalf of the Board

Adrian Chamberlain

Chair, Remuneration Committee

22 March 2021

STATEMENT OF DIRECTORS' RESPONSIBILITIES

The Directors are responsible for preparing the Strategic Report and the Directors' Report, the Directors' Remuneration Report, the Separate Corporate Governance Statement and the financial statements in accordance with applicable law and regulations.

Company law requires the directors to prepare Group and Company financial statements for each financial year.

The directors have elected under company law to prepare group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and are additionally required under the Listing Rules of the Financial Conduct Authority to prepare the group financial statements in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The directors have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

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 group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. for the group financial statements, state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;

d. for the company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

e. prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and the company will continue in business.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Directors' statement pursuant to the Disclosure and Transparency Rules

Each of the directors, whose names and functions are listed on pages 66 to 67 confirm that, to the best of each person's knowledge:

a. the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the company and the undertakings included in the consolidation taken as a whole; and

b. the Strategic report contained in the Annual Report includes a fair review of the development and performance of the business and the position of the company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Alfa Financial Software Holdings PLC website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

This responsibility statement was approved by the Board of Directors on 22 March 2021 and is signed on its behalf by:



Andrew Denton
Chief Executive Officer
22 March 2021

DIRECTORS' REPORT

Statutory information

The Directors of Alfa present their report and the audited financial statements for the year ended 31 December 2020. This Report includes information required by the Companies Act 2006 and the Listing Rules 9.8.4R of the UK Financial Conduct Authority's Listing Rules and forms part of the management report as required by the Disclosure and Transparency (DTR) Rule 4.

Additional information which is incorporated by reference into this Directors' report can be located by reference the tables below.

As permitted by the Companies Act 2006, the Directors' Report includes the disclosures in the Strategic Report on:

	Location in annual report (page)
Performance and future development in the business	1 to 63
Important events affecting the Group since the financial year	152
Greenhouse gas emissions and energy consumption	63
Key Financial Performance indicators	36 to 37
Principal risks facing the Group	44 to 49
Long-term viability statement	50 to 51
Employment of disabled people	109
Employee involvement	57 to 59

The Group is required to disclose certain information under Listing Rule 9.8.4R in the Directors' Report or advise where such relevant information is contained. This information can be found in the following sections of the Annual Report and Accounts:

Listing rule requirement	Location in annual report
Details of any long-term incentive schemes	151
Directors' Remuneration Report	88 to 107
Details of any arrangements under which a Director has waived emoluments	101 to 102
Details of any contract of significance in which a Director is or was materially interested	See section below headed 'Relationship Agreement with controlling shareholder'
Board statement in respect of Relationship Agreement with the controlling shareholder	See section below headed 'Relationship Agreement with controlling shareholder'

Principal activities

The principal activity of the Alfa Group is the provision of software and software-related services to the asset finance industry. Alfa is a public company limited by shares and is incorporated and domiciled in England. Its shares are listed on the London Stock Exchange. The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. Alfa's registration no. is 10713517. The principal activity of the Company is that of a holding company.

The Company's registrar is Equiniti Limited situated at Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA.

Financial risk management

The financial risk management objectives and policies of the company and the exposure of the company to price risk, credit risk, liquidity risk and cash flow risk are disclosed in Note 3 to the financial statements.

Subsidiaries and branches outside of the UK

The Group has subsidiaries in the United States of America, Germany, Australia and New Zealand and a subsidiary of the Company is registered as a branch of an overseas company in South Africa. Further details of these can be found in note 31.2 to the accounts on page 152.

Contracts of significance

We have no contracts deemed significant other than the Relationship Agreement between the Company and the Controlling Shareholder, as detailed on page 111.

Research and development

The Group continued to invest in product research and development throughout the year. The Strategic report, specifically the Financial review on pages 38 to 41, sets out the research and product development expensed and £0.65m was capitalised as internally generated intangible assets

during the year ended 31 December 2020, as disclosed in note 15 to the consolidated financial statements.

Employee involvement

We place considerable value on the involvement of our employees, viewing and treating them as valued team members and an integral part of our business and our success. We continue to keep them informed on matters affecting them through both formal and informal meetings and the Group intranet, including CEO updates. Teams are consulted regularly on a wide range of matters affecting their current and future interests. We have established share ownership schemes for use throughout the Company and intend to use them to broaden share ownership across the Company.

Further information on team engagement, as monitored by our internal employee surveys, is included in the ESG report on pages 56 to 63.

Employee diversity and inclusion

Our policy for the Alfa team and all applicants for employment is to match the capabilities and talents of each individual to the appropriate job. We are committed to ensuring equality of opportunity in all employee relations. We aim to ensure that no employee, potential employee, customer, visitor or supplier will receive less favourable treatment on the grounds of sex, pregnancy, disability, religious beliefs, marital status, race, ethnic origin, nationality, age, sexual orientation or colour.

Disability

With regard to existing team members and those who may become disabled, Alfa's policy is to examine ways and means to provide continuing employment under the existing terms and conditions and to provide training and career development, including promotion, where appropriate.

Directors

The names of the persons who, at any time during the financial year and up to the date of this report, were Directors of the Company are:

	Date of appointment
Steve Breach	9 August 2019
Adrian Chamberlain	24 April 2020
Charlotte de Metz	24 April 2020
Andrew Denton	6 April 2017
Duncan Magrath	24 April 2020
Andrew Page	4 May 2017
Chris Sullivan	18 July 2019
Matthew White	9 October 2019

DIRECTORS' REPORT CONTINUED

Appointment and removal of a director

The rules governing the appointment and removal of a director are set out in the Articles of Association of the Company. The Articles of Association may be amended by a special resolution of the shareholders. Specific details relating to the Principal Shareholder, CHP Software and Consulting Limited and its right to appoint directors are set out in the Directors' report on page 111.

All Directors will stand for re-election on an annual basis, in line with the recommendations of the 2018 Code.

The Articles of Association are available on the corporate governance page of our investor relations website investors.alfasystems.com/corporate-governance.

Powers of the Directors

Specific powers relating to the allotment and issuance of ordinary shares and the ability of the Company to purchase its own securities are also included within the Articles and such authorities are submitted for approval by the shareholders at the AGM each year.

Since listing, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company.

Directors' interests

The Directors' interests in and options over ordinary shares in the Company are shown in the Annual Report on Remuneration on page 103. Since the end of the financial year and to the date of this report, there have been no changes to such interests.

In line with the requirements of the Companies Act, each Director has notified the Company of any situation in which he or she has, or could have, a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company (a situational conflict). These were considered and approved by the Board in accordance with the Articles and each Director informed of the authorisation and any terms on which it was given. All Directors are aware of the need to consult with the Company Secretary should any possible situational conflict arise, so that prior consideration can be given by the Board as to whether or not such conflict will be approved.

Directors' indemnities

Each Director of the Company has the benefit of a qualifying indemnity, as defined by section 236 of the Companies Act, and as permitted by the Articles, as well as Directors' and Officers' liability insurance.

No amount was paid under any of these indemnities or insurances during the year other than the applicable insurance premiums.

Share capital

The Company's ordinary shares are listed on the London Stock Exchange. The authorised share capital of the Company as at 31 December 2020 and 22 March 2021, being the latest practicable date prior to the date of this Annual Report, comprises 300,000,000 ordinary shares of 0.1 pence each. Further information regarding the Company's issued share capital can be found in note 26 of the Company financial statements.

There have been no movements in the Company's issued share capital since 31 December 2020 through to the date of this Report.

Shareholders' voting rights

All members who hold ordinary shares are entitled to attend and vote at the AGM. On a show of hands at a general meeting, every member present in person shall have one vote and on a poll, every member present in person or by proxy shall have one vote for every ordinary share held. No shareholder holds ordinary shares carrying special rights relating to the control of the Company and the Directors are not aware of any agreements between holders of the Company's shares that may result in restrictions on voting rights.

Restrictions on transfer of ordinary shares

The Articles do not contain any restrictions on the transfer of ordinary shares in the Company other than the usual restrictions applicable where any amount is unpaid on a share. All issued share capital of the Company at the date of this Annual Report is fully paid. Certain restrictions are also imposed by laws and regulations (such as insider trading and market abuse requirements relating to close periods) and requirements of the Listing Rules whereby Directors and certain employees of the Company require Board approval to deal in the Company's securities.

Each of the Executive Directors, and the senior executives (each, a 'Restricted Shareholder') at the time of listing agreed, for a period of one year following Admission on the terms and subject to the conditions of the Underwriting Agreement, are not to dispose of any of the ordinary shares they held in the Company (the 'Initial Lock-Up Period'). This Initial Lock-Up Period expired on 1 June 2018 and, for most of the Restricted Shareholders, was and is followed by three further lock-up periods of 365 days, 720 and 1,095 days. Each of these further lock-up periods commences on the termination of the Initial Lock-Up Period and cover in each occasion a further 25% of the relevant Restricted Shareholder's holding of ordinary shares. The final lock-up period expires on 1 June 2021.

All of the above arrangements are subject to certain customary exceptions.

Authority to purchase own shares

Subject to authorisation by shareholder resolution, the Company may purchase its own shares in accordance with the Companies Act 2006. Any shares bought back may be held as treasury shares or cancelled immediately on completion of the purchase.

At the 2020 AGM, the Company was generally and unconditionally authorised by its shareholders to purchase in the market up to 10% of the ordinary shares of the Company (30,000,000 ordinary shares).

As at 31 December 2020, and at the date of this report, the full extent of this authority remained in force and unused. This authority is renewable annually, and a special resolution will be proposed at the 2021 AGM to request shareholders to renew it. The Directors will only purchase the Company's shares in the market if they believe it is in the best interests of shareholders in general.

Amendment of the Articles

The Articles may only be amended by a special resolution of the Company's shareholders in a general meeting, in accordance with the Companies Act.

Transactions with related parties

The only subsisting material transactions which the Company has entered into with related parties are:

a. Relationship agreement and the controlling shareholder

The Relationship Agreement was entered into on 26 May 2017 and regulates the relationship between CHP Software and Consulting Limited (the 'Controlling Shareholder') and the Company following listing. Subject to a certain minimum shareholding, the Relationship Agreement details the rights the Controlling Shareholder has to representation on the Board and Nomination Committee and to appoint observers to the Nomination Committee (if not represented on the Committee). The Controlling Shareholder also undertakes not to operate, establish, own or acquire a competing business during the terms of the agreement. Any transactions between Alfa and the Controlling Shareholder will be at arm's length and on normal commercial terms.

The Relationship Agreement complies with the requirements of the LRs, including Listing Rules 9.2.2AR(2)(a), and Listing Rules 6.1.4DR.

In accordance with the requirements of Listing Rules 9.8.4(14), the Board confirms that the Company has complied with its obligations under the Relationship Agreement, including in respect of the independence provisions and, so far as the Controlling Shareholder is aware, the Controlling Shareholder has complied with the provisions of the Relationship Agreement (including the independence and non-compete provisions set out therein), at all times since the Agreement was entered into.

Other related party transactions are detailed in note 31.3 to the consolidated financial statements.

Profits and dividends

The consolidated profit after tax for the year ended 31 December 2020 was £20.4m (FY19: £10.2m). The results are discussed in greater detail in the Financial review on pages 38 to 41.

The Directors declared an interim special dividend of 15 pence per share in the 2020 financial year amounting to £44m (2019: nil). The special dividend was paid on 6 November 2020. During the year, the trustee of the employee benefit trust which operate in connection with the Company's share plans waived their rights to receive dividends on any shares held by them. Details of the trust can be found in note 12 of this report.

Subject to approval at the Annual General Meeting on 10 May 2021, a 2020 dividend of 1.0 pence per share will be paid on 2 July 2021 to holders on the register on 11 June 2021. The ordinary shares will be quoted ex-dividend on 10 June 2021.

Significant Shareholdings at 31 December 2020 and 12 March 2021 (being the latest practicable date of this report)

At the relevant dates, the Company has been notified pursuant to DTR5 or is otherwise aware of the following interests representing 3% or more of the issued ordinary share capital of the Company:

Name of shareholder	No. of ordinary shares at 31 December 2020	% of issued share capital at 31 December 2020	No. of ordinary shares at 12 March 2021	% of issued share capital at 12 March 2021	Nature of holding
CHP Software and Consulting Limited	197,645,649	65.88	197,645,649	65.88	Direct
Aberforth Partners	12,382,758	4.13	10,657,258	3.55	Indirect
Aberdeen Standard Investments (Standard Life)	11,902,870	3.97	11,903,115	3.97	Indirect

Profit forecasts

During the year a number of regulatory announcements were made to update the market on expected trading performance and prospects for the year. The following are extracts from announcements made during the year which included a profit forecast:

25 August 2020 – "Consensus market expectations are currently for revenue of £60m and EBIT of £4m. We now expect revenues to exceed this by about 5% with the vast majority of this improvement also falling through to EBIT."

29 September 2020 – "Both our work with existing clients and our late stage pipeline continues to develop and we are confident in the outlook for full year 2020, with revenues expected to be about 5% ahead of expectations, flowing through to an increase in EBIT."

29 October 2020 – "As a consequence of the continuing strong trading performance, the greater revenue visibility as a result of strong contract win momentum, and the five year subscription extension referred to above, the Board now expects EBIT for the year ending 31 December 2020 to comfortably exceed FY19 actuals."

17 December 2020 – "As a consequence of the continuing strong trading performance, the greater revenue visibility as a result of strong contract win momentum, and the five year subscription extension referred to above, the Board now expects EBIT for the year ending 31 December 2020 to comfortably exceed FY19 actuals."

The final results for the year of revenue of £78.9m and EBIT of £23.9m, exceeded all of these forecasts, due to the gradually improving revenue projections as work became contracted as the immediate risks of the impacts from the pandemic receded, along with some reduced costs from continuing reductions in travel during lockdown, and due to the finalisation of revenue recognition on a five year contract extension.

DIRECTORS' REPORT CONTINUED

Compensation for loss of office and change of control

There are no agreements between the Company and its Directors or Alfa team members providing for additional compensation for loss of office or employment (whether through resignation, redundancy or otherwise) that occurs because of a takeover bid.

The only significant agreement, to which the Company is a party to that take effect, alter or terminate upon a change of control of the Company following a takeover bid, and the effect thereof, is the Relationship Agreement.

The Relationship Agreement with the Controlling Shareholder contains a provision under which it will terminate upon the earlier of: (i) the Controlling Shareholder and its associates ceasing to have the entitlement to exercise or control the exercise of 10% or more of the voting rights in the Company; or (ii) the Company's ordinary shares ceasing to be admitted to the listing on the Official List of the FCA.

Political donations

The Group made no political donations and incurred no political expenditure during the year (FY19: £nil). It remains the Company's policy not to make political donations or to incur political expenditure.

At the 2020 AGM, the Directors were generally and unconditionally authorised by the Company's shareholders to make limited political donations up to £50,000, in order to protect against any inadvertent breaches of the relevant provisions of the Companies Act 2006 which are very broad in nature. The Board has no intention of using this authority.

Interest capitalised in the period

No interest has been capitalised by Alfa in the year ended 31 December 2020.

Going concern

The Group continues to be cash generative and the Directors believe that the Group has a resilient business model. In making their assessment of going concern, the Directors have considered the current financial projections and facilities available to the Group as well as the principal risks and uncertainties, including the impact of Covid-19 as set out on page 15.

The going concern assessment also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is considerable uncertainty regarding the future impacts of Covid-19, the Directors are satisfied that the Group remains well placed to manage its business risks successfully and therefore they have a reasonable expectation that the Group has adequate resources to continue in operational existence for a period of 12 months from the date of approval of the financial statements. Accordingly, the financial statements continue to be prepared on a going concern basis.

Viability statement

The viability statement containing a broader assessment by the Board of the Company's ongoing viability, which also includes consideration of the impact of Covid-19, is set out in the Strategic report on pages 50 to 51.

Corporate governance statement

The Company's statement on corporate governance can be found on page 69 of the Corporate governance report. The report forms part of this Directors' report and is incorporated by cross reference.

Annual General Meeting

The Company's Annual General Meeting will be held at 3:00pm on Monday, 10 May 2021 at Alfa's head office at Moor Place, 1 Fore Street, London, EC2Y 9DT.

The Notice of Meeting setting out the resolutions to be proposed at the 2021 AGM, together with explanatory notes, will be sent to shareholders as a separate document and made available on the Company's website www.investors.alfasystems.com.

Disclosure of information to the auditor

Each of the Directors of the Company at the date the Directors' report is approved confirms that:

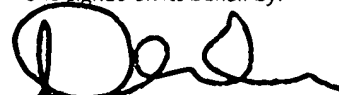
- So far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- He or she has taken all the steps that he or she ought to have taken as a Director in order to make himself or herself aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s.418 of the Companies Act 2006.

RSM UK Audit LLP, the Group's auditor, has indicated its willingness to continue in office and, on the recommendation of the Audit and Risk Committee and in accordance with section 489 of the Companies Act of 2006, a resolution to reappoint it will be put to the 2021 AGM.

Board approval of the Annual Report

The Strategic report, Corporate governance statement and the Corporate governance report were approved by the Board on 22 March 2021 and signed on its behalf by:



Andrew Denton
Chief Executive Officer
22 March 2021

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC

Opinion

We have audited the financial statements of Alfa Financial Software Holdings plc (the 'parent company') and its subsidiaries (the 'group') for the year ended 31 December 2020 which comprise the Consolidated statement of profit or loss and comprehensive income, Consolidated statement of financial position, Consolidated statement of changes in equity, Consolidated statement of cash flows, Company statement of financial position, Company statement of changes in equity and notes to the financial statements, including significant accounting policies. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards FRS 102 "The Financial Reporting Standard applicable in the UK and Republic of Ireland" (United Kingdom Generally Accepted Accounting Practice).

In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2020 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS regulations.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those 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 group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities 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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting included reviewing and evaluating management's three-year cash flow forecasts and the results of scenario analysis. Disclosure of the group's prospects and viability is disclosed in the Viability statement in the Strategic Report and based on the results of the audit procedures outlined above, we have no observations to report.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's or the parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

We have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

Summary of our audit approach

Key audit matters	Group • Revenue recognition Parent Company • None
Materiality	Group • Overall materiality: £893,000 • Performance materiality: £670,000 Parent Company • Overall materiality: £882,000 • Performance materiality: £662,000
Scope	Our audit procedures covered 100% of revenue, 98% of total assets and 94% of profit before tax.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the group and parent company financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition

Key audit matter description	The 2020 group financial statements disclose the following types of revenue: • Software implementation: £27.3m (2019: £26.1m) • Ongoing development and services ("ODS"): £32.4m (2019: £23.4m) • Maintenance: £19.2m (2019: £14.9m) The Group's operations include complex software implementation programmes and service activities. The delivery of these contracts typically extends over more than one reporting period, and often the original project plans are amended, as the implementation progresses. As such, in recognising revenue, management has to apply a number of judgements to allocate the overall transaction price across the multiple performance obligations that have been identified within these projects. In addition, due to the structure of the Group's licence and maintenance contractual arrangements, the Group also receives one-off licence uplifts or maintenance / right to use termination payments which need to be accounted for in accordance with IFRS 15 "Revenue from contracts with customers". We consider revenue recognition to be a key audit matter due to: • The level of judgement involved in the identification of distinct performance obligations and subsequent measurement of revenue and timing of recognition • The potential risk of fraud in revenue recognition • The allocation of audit resources and effort. Further details on revenue recognition are included in note 1.5 "Accounting policies – Revenue recognition", note 2 "Critical accounting judgements, estimates and assumptions" and note 5 "Revenue from contracts with customers".
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How the matter was addressed in the audit

In response to this key audit matter, the audit procedures we performed included:

- Obtaining an understanding of the processes and controls around revenue recognition.
- Reviewing the group's revenue recognition policy, including supporting accounting papers, to assess whether performance obligations have been appropriately identified and revenue recognised in line with IFRS 15.

For software implementation revenue we:

- Assessed management's analysis of the performance obligations within individual contracts and of how the 5 steps in IFRS 15 should be applied.
- Audited the revenue recognition calculations for a sample of the most significant contracts to assess whether the methodology applied was consistent with the group's revenue recognition policy. This included testing inputs in the calculations.
- Verified the explanations and data provided by management by holding discussions with project managers regarding the key assumptions and judgements made, in particular around the estimates of the projected costs to complete and the completeness of any contract arrangements, including any unusual terms and contract modifications.
- Tested the completeness and accuracy of timesheet data as some performance obligations are recognised based on days worked.
- Challenged management on the appropriateness of estimates made in the IFRS 15 calculations. This included assessing the results of management's sensitivity analysis over critical accounting estimates and performing further analysis to assess the degree of sensitivity of estimates applied.
- Assessed the accounting for services scoped out of the implementation revenue calculations and treated as part of ODS revenue and whether these are appropriately considered to be separate and distinct performance obligations.
- Audited the disclosures in the financial statements and evaluated whether the policy for revenue recognition is appropriately explained and critical judgements and key sources of estimation uncertainty are appropriately disclosed.

We also performed substantive testing over a sample of revenue and maintenance revenue. This testing included assessing whether contract modifications had been appropriately accounted for.

Specifically in respect of the "new one-off five-year contract with a customer" referred to in note 2, we:

- Assessed management's analysis of the performance obligations and stand-alone selling-prices used in determining the allocation of the contract consideration and subsequent recognition of revenue.
- Challenged management on the appropriateness of the key judgements and estimates made.
- Corroborated management's calculations of stand alone selling prices and checked the accuracy of the revenue recognition calculations.
- Involved a financial reporting specialist in our audit work on this area.

Key observations

Disclosure of the impact of the key judgements and estimates applied in respect of revenue recognition are disclosed in note 2 to the financial statements. Based on the results of the audit procedures outlined above, we have no observations to report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

Our application of materiality

When establishing our overall audit strategy, we set certain thresholds which help us to determine the nature, timing and extent of our audit procedures. When evaluating whether the effects of misstatements, both individually and on the financial statements as a whole, could reasonably influence the economic decisions of the users we take into account the qualitative nature and the size of the misstatements. Based on our professional judgement, we determined materiality as follows:

	Group	Parent company
Overall materiality	£893,000	£882,000
Basis for determining overall materiality	5% of profit before tax (adjusted to exclude one-off licence revenue associated with a five-year contract extension)	1% of net assets (capped at 99% of group overall materiality)
Rationale for benchmark applied	As a listed entity, profit before taxation is considered the most appropriate benchmark for users of the financial statements.	Net assets is considered to be the most appropriate benchmark for the parent company as it is primarily a holding company.
Performance materiality	£670,000	£662,000
Basis for determining performance materiality	75% of overall materiality	75% of overall materiality
Reporting of misstatements to the Audit Committee	Misstatements in excess of £45,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £44,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.

An overview of the scope of our audit

The group consists of 9 components, located in the following countries;

- United Kingdom
- United States of America
- Germany
- France
- Australia
- New Zealand

Full scope audits were performed for 4 components, specific audit procedures for 3 components and analytical procedures at group level for the remaining 2 components.

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	4	73%	92%	64%
Specific audit procedures	3	27%	6%	30%
Total	7	100%	98%	94%

Specific audit procedures were performed on components which are not financially significant by size but include a significant risk. The specific audit procedures included testing of revenue and the associated balance sheet amounts as described in the key audit matter section above.

All audit work was completed by the group audit team and no component auditors were used in our audit.

Other information

The other information comprises the information included in the annual report other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 course of the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements and those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority (the FCA Rules), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the company's corporate governance code and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and their environment obtained in the course of the audit, we have not identified material misstatements in:

- the Strategic Report or the Directors' Report; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the directors' remuneration report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit; or
- a corporate governance statement has not been prepared by the parent company.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

Corporate governance statement

The Listing Rules require us to review the directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the parent company's compliance with the provisions of the UK Corporate Governance Statement specified for our review.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified as set out in the Viability Statement on pages 50 to 51;
- Directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why this period is appropriate as set out in the Viability Statement on pages 50 to 51;
- Directors' statement on fair, balanced and understandable as set out in the Audit Committee report on page 85;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks as set out in the Principal risks and uncertainties section in the Strategic Report on pages 44 to 49;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems as set out in the Audit Committee report on pages 85 to 86; and
- The section describing the work of the audit committee as set out in the Audit Committee report on pages 82 to 87.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 108, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors 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 group's and the parent 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 group or the parent company or to cease operations, or have 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 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.

The extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities are instances of non-compliance with laws and regulations. In relation to laws and regulations, the objectives of our audit are to obtain sufficient appropriate audit evidence regarding compliance with laws and regulations that have a direct effect on the determination of material amounts and disclosures in the financial statements, to perform audit procedures to help identify instances of non-compliance with other laws and regulations that may have a material effect on the financial statements, and to respond appropriately to identified or suspected non-compliance with laws and regulations identified during the audit.

In relation to fraud, the objectives of our audit are to identify and assess the risk of material misstatement of the financial statements due to fraud, to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud through designing and implementing appropriate responses and to respond appropriately to fraud or suspected fraud identified during the audit.

However, it is the primary responsibility of management, with the oversight of those charged with governance, to ensure that the entity's operations are conducted in accordance with the provisions of laws and regulations and for the prevention and detection of fraud.

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud, the group audit engagement team:

- obtained an understanding of the nature of the industry and sector, including the legal and regulatory frameworks that the group and parent company operate in and how the group and parent company are complying with the legal and regulatory frameworks;
- inquired of management, and those charged with governance, about their own identification and assessment of the risks of irregularities, including any known actual, suspected or alleged instances of fraud; and
- discussed matters about non-compliance with laws and regulations and how fraud might occur including assessment of how and where the financial statements may be susceptible to fraud.

The most significant laws and regulations were determined as follows:

Legislation / Regulation	Additional audit procedures performed by the audit engagement team included:
International Accounting Standards in conformity with the Companies Act, FRS 102 and Companies Act 2006	• Review of the financial statement disclosures and testing to supporting documentation; • Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	• Inspection of advice received from internal / external tax advisors • Involvement of a tax specialist in the audit of tax • Consideration of whether any matter identified during the audit required reporting to an appropriate authority outside the entity.

The areas that we identified as being susceptible to material misstatement due to fraud were:

Risk	Audit procedures performed by the audit engagement team:
Revenue recognition	The audit procedures performed in relation to revenue recognition are documented in the key audit matter section of our audit report.
Management override of controls	• Testing the appropriateness of journal entries and other adjustments • Assessing whether the judgements made in making accounting estimates are indicative of a potential bias • Evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/auditorsresponsibilities>. This description forms part of our auditor's report.

Other matters which we are required to address

We were appointed by management in July 2020 to audit the financial statements of the Company for the period ending 31 December 2020. Following the recommendation of the Audit and Risk Committee, a resolution to appoint us for subsequent years will be proposed to shareholders at the Company's AGM to be held on 10 May 2021.

The period of total uninterrupted consecutive appointment is 1 year, covering the year ended 31 December 2020 to date.

The non-audit services prohibited by the FRC's Ethical Standard were not provided to the group or the parent company and we remain independent of the group and the parent company in conducting our audit.

Our audit opinion is consistent with the additional report to the audit committee.

Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Graham Ricketts

(Senior Statutory Auditor)

For and on behalf of RSM UK Audit LLP, Statutory Auditor
Chartered Accountants
25 Farringdon Street
London, UK
22 March 2021

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

£'000s	Note	2020	2019
Continuing operations			
Revenue	5	78,870	64,480
Implementation and support expenses	6	(15,302)	(16,894)
Research and product development expenses	6	(18,901)	(15,662)
Sales, general and administrative expenses	6	(21,249)	(18,792)
Other operating income		528	577
Operating profit		23,946	13,709
Share of net loss of joint ventures	19	(15)	–
Profit before net finance costs and tax		23,931	13,709
Finance income	10	109	143
Finance expense	10	(800)	(852)
Profit before taxation		23,240	13,000
Taxation	11	(2,871)	(2,818)
Profit for the financial year		20,369	10,182
Other comprehensive income:			
Exchange differences on translation of foreign operations	27	65	(350)
Other comprehensive income net of tax		65	(350)
Total comprehensive income for the year		20,434	9,832
Earnings per share (in pence) for profit attributable to the ordinary equity holders of the Company			
Basic	12	6.93	3.50
Diluted	12	6.79	3.41
Weighted average no. of shares (m) – basic	12	293.8	290.6
Weighted average no. of shares (m) – diluted	12	300.1	298.8

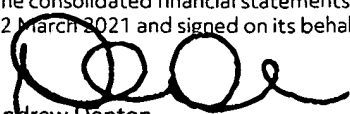
The above consolidated statement of profit or loss and comprehensive income should be read in conjunction with the accompanying notes.

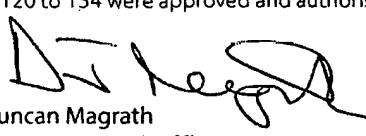
CONSOLIDATED STATEMENT OF FINANCIAL POSITION

£'000s	Note	2020	2019
Assets			
Non-current assets			
Goodwill	14	24,737	24,737
Other intangible assets	15	2,153	2,255
Property, plant and equipment	16	885	1,166
Right-of-use assets	17	14,841	16,402
Deferred tax assets	18	1,794	596
Interests in joint ventures	19	394	-
Total non-current assets		44,804	45,156
Current assets			
Trade receivables	20	5,812	4,050
Accrued income	21	4,992	7,214
Prepayments	21	2,065	1,613
Other receivables	21	799	1,020
Cash and cash equivalents	22	37,020	58,839
Total current assets		50,688	72,736
Total assets		95,492	117,892
Liabilities and equity			
Current liabilities			
Trade and other payables	23	8,120	5,884
Corporation tax	23	1,266	1,355
Lease liabilities	24	1,701	1,672
Contract liabilities – software implementation	23/32	1,947	4,581
Contract liabilities – deferred maintenance	23/32	5,047	4,060
Total current liabilities		18,081	17,552
Non-current liabilities			
Lease liabilities	24	15,790	17,330
Provisions for other liabilities	25	1,392	667
Total non-current liabilities		17,182	17,997
Total liabilities		35,263	35,549
Capital and reserves			
Share capital	26	300	300
Translation reserve	27	91	26
Retained earnings		59,838	82,017
Total equity		60,229	82,343
Total liabilities and equity		95,492	117,892

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 120 to 154 were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf.


Andrew Denton
Chief Executive Officer


Duncan Magrath
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£'000s	Note	Share capital	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2019		300	376	72,239	72,915
Effect of initial application of IFRS 16		–	–	(1,459)	(1,459)
Deferred tax impact of initial application of IFRS 16		–	–	419	419
Adjusted balance at 1 January 2019		300	376	71,199	71,875
Profit for the financial year		–	–	10,182	10,182
Other comprehensive expense		–	(350)	–	(350)
Total comprehensive (expense)/income for the year		–	(350)	10,182	9,832
Equity-settled share-based payment schemes	28	–	–	636	636
Balance as at 31 December 2019		300	26	82,017	82,343
Profit for the financial year		–	–	20,369	20,369
Other comprehensive income		–	65	–	65
Total comprehensive income for the year		–	65	20,369	20,434
Equity-settled share-based payment schemes	28	–	–	1,321	1,321
Equity-settled share-based payment schemes – deferred tax impact	18	–	–	369	369
Dividends	30	–	–	(44,238)	(44,238)
Balance as at 31 December 2020		300	91	59,838	60,229

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

£'000s	Note	2020	2019
Cash flows from operating activities			
Profit before tax		23,240	13,000
Net finance costs		691	709
Share of net loss from joint venture		15	–
Operating profit		23,946	13,709
Adjustments:			
Depreciation	6/16/17	2,253	2,388
Amortisation	6/15	842	428
Share-based payment charge	28	1,515	724
Loss on disposal of assets		61	–
Movement in provisions	25	532	515
Movement in contract liabilities	23	(1,945)	3,110
Movement in working capital:			
Movement in trade and other receivables	20	646	2,532
Movement in trade and other payables (excluding contract liabilities)	23	2,249	(858)
Cash generated from operations		30,099	22,548
Interest element on lease payments	10/24	(787)	(852)
Other interest paid	19	(13)	–
Income taxes paid	11	(3,757)	(4,074)
Net cash generated from operating activities		25,542	17,622
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(240)	(376)
Purchases of computer software	15	(117)	(565)
Payments for internally developed software	15	(650)	(1,135)
Investment in joint venture	19	(336)	–
Loan to joint venture	19	(64)	–
Interest received	10	109	143
Net cash used in investing activities		(1,298)	(1,933)
Cash flows from financing activities			
Dividends paid to Company shareholders		(44,238)	–
Principal element on lease payments	24	(1,700)	(1,610)
Cash used in financing activities		(45,938)	(1,610)
Net (decrease)/increase in cash		(21,694)	14,079
Cash and cash equivalents at the beginning of the year	22	58,839	44,922
Effect of foreign exchange rate changes on cash and cash equivalents		(125)	(162)
Cash and cash equivalents at the end of the year	22	37,020	58,839

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Summary of significant accounting policies

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group, consisting of Alfa Financial Software Holdings PLC (Alfa or the company), its subsidiaries and joint operation and are presented to the nearest thousand.

The principal activity of the Group is to provide software solutions and consultancy services to the asset finance industry in the United Kingdom, United States of America, Europe and Australasia.

1.1 Basis of preparation

Compliance with IFRS

The consolidated financial statements of the Group have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and international financial reporting standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Historical cost convention

The consolidated financial statements have been prepared under the historical cost convention, other than the revaluation of financial assets and financial liabilities recorded at fair value through profit or loss.

Going concern

The financial statements are prepared on the going concern basis. The Group continues to be cash-generative and the Directors believe that the Group has a resilient business model. The Group meets its day-to-day working capital requirements through its cash reserves generated from operating activities. The Group's forecasts and projections, taking account of reasonably possible changes in trading performance including the possible impacts of Covid-19, show that the Group has sufficient cash reserves to continue to operate for a period of not less than 12 months from the date of these financial statements.

The going concern assessment also includes downside stress testing in line with FRC guidance which demonstrates that even in the most extreme downside conditions considered reasonably possible, given the existing level of cash held, the Group would continue to be able to meet its obligations as they fall due, without the need for substantive mitigating actions.

On this basis, whilst it is acknowledged that there is continued uncertainty surrounding the future impacts of Covid-19, the Directors consider it appropriate to continue to adopt the going concern basis of accounting in preparing the financial statements.

New and amended standards adopted by the Group

Effective for periods commencing on or after 1 January 2020:

- Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform (issued on 26 September 2019)
- Amendments to IAS 1 and IAS 8: Definition of Material (issued on 31 October 2018)
- Amendments to References to the Conceptual Framework in IFRS Standards (issued on 29 March 2018)
- Amendments to IFRS 3 Business Combinations (issued on 22 October 2018)

The above standards have been endorsed by both the EU and the UK (from 1 January 2021). EU-IFRS at 31 December 2020 were adopted for use within the UK by Regulation 4 of Statutory Instrument 2019/685. The adoption of the above standards had no material impact.

New standards, amendments and interpretations not yet adopted

Effective for periods commencing on or after 1 June 2020:

- Amendments to IFRS 16 Leases: Covid 19-Related Rent Concessions

EU-IFRS at 31 December 2020 were adopted for use within the UK by Regulation 4 of Statutory Instrument 2019/685. The adoption of this standard is not expected to have a material impact.

1.2 Group structure

Basis of consolidation

Subsidiaries are all 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.

Unless otherwise stated, subsidiaries have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also each subsidiary's principal place of business.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation. All subsidiaries have a 31 December year end.

Joint arrangements

A joint arrangement is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control; that is, when the relevant activities that significantly affect the investee's returns require the unanimous consent of the parties sharing control.

Joint control is the contractually agreed sharing of control of an arrangement, and exists only when decisions about the activities that significantly affect the arrangement's returns require the unanimous consent of the parties sharing control. Judgement is required in determining this classification through an evaluation of the facts and circumstances arising from each individual arrangement. Joint arrangements are classified as either joint operations or joint ventures based on the rights and obligations of the parties to the arrangement. In joint operations, the parties have rights to the assets and obligations for the liabilities relating to the arrangement, whereas in joint ventures, the parties have rights to the net assets of the arrangement.

Alfa only has one joint venture, namely Alfa iQ, which was formed in May 2020. The investment in the joint venture is accounted for using the equity method. The Group's share of the joint venture's net profit/ (loss) is based on its most recent financial statement drawn up to the Group's balance sheet date. The total carrying value of investment in joint venture represents the cost of the investment, including loans which form part of the net investment in the joint venture, plus the share of post-acquisition retained earnings and any other movements in reserves less any impairment in the value of the investment.

The carrying values of joint ventures are reviewed on a regular basis and if there is objective evidence that an impairment in value has occurred as a result of one or more events during the period, the investment is impaired. The Group's share of the joint venture's losses in excess of its interest in that joint venture is not recognised to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture. Unrealised gains arising from transactions with joint ventures are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way, but only to the extent that there is no evidence of impairment.

Loans to the joint venture are measured at fair value on initial recognition, and subsequently carried at amortised cost. Any surplus between the nominal and fair value of the loan is recognised as an investment in the joint venture.

1.3 Segment reporting

Operating and reporting segments are reported in a manner consistent with the internal reporting provided to the Chief Operating Decision Maker (CODM). The Group's Chief Executive Officer (CEO), who is responsible for allocating resources and assessing performance, has been identified as the CODM.

The CODM regularly reviews the Group's operating results in order to assess performance and to allocate resources. The CODM considers the business from a product perspective and, therefore, recognises one operating and reporting segment, being the sale of software and related services. The Group is choosing to present revenue segmentation by type of project and a consolidated Operating Profit measure, as presented to the CODM, along with the required entity wide disclosure.

The Group discloses revenue split by type of project being Software implementation, Ongoing development and services (ODS) and Maintenance.

- a. Software implementation project revenue – An implementation process contains three types of billing streams, being licence fee, fees in relation to implementation tasks and fees for additional development. Software implementation projects can take from a few months to several years depending on the complexity of the implementation and the size of customer.

The licence element is generally invoiced and collected at the beginning of the project and the licence amount is banded by the number of geographies, modules taken by the customer and the number of contracts or agreements to be written and managed on Alfa Systems.

Implementation and development fees are invoiced monthly in arrears based on a daily rate basis.

- b. ODS revenue represents the ongoing development and services efforts which are either ad hoc projects with existing customers or relate to development or services delivered after a new implementation. The services can be: pre-implementation work; support following an implementation; further development for customer specific functionality; or change management assistance. Such services are generally provided on a shorter contractual term.
- c. Maintenance revenue is primarily invoiced periodically in advance. Maintenance amounts are linked to the volumes of contracts or agreements being written through Alfa Systems and therefore increase if the customer's portfolio increases. Certain of the Group's customers have maintenance invoiced on a monthly basis. Maintenance revenue also includes any revenue generated from the Group's Cloud Hosting activities which are invoiced on a monthly basis.

See note 1.5 for details of our revenue recognition accounting policy and note 2 for the critical accounting judgements and estimates in relation to revenue recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

1. Summary of significant accounting policies continued

1.4 Foreign currency translation

Functional currency

Items included in the consolidated financial statements of each of the Group's subsidiaries are measured using their functional currency. The functional currency of the parent and each subsidiary is the currency of the primary economic environment in which the entity operates. See applicable exchange rates used in 2020 below:

	2020		2019	
	Closing	Average	Closing	Average
USD	1.37	1.28	1.32	1.28
EUR	1.11	1.13	1.18	1.14
NZD	1.89	1.98	1.96	1.94
AUD	1.77	1.86	1.88	1.84

Presentation currency

The consolidated financial statements are presented in pounds sterling. Alfa's functional and presentation currency is pounds sterling.

Group companies

The results and financial position of foreign operations (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate at the date of that consolidated statement of financial position;
- Income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates (unless this 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 dates of the transactions); and
- All resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are recognised in other comprehensive income. When a foreign operation is sold the associated exchange differences are reclassified to profit or loss, as part of the gain or loss on sale.

Foreign currency transactions

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. See applicable exchange rates used by the Group above.

1.5 Revenue recognition

The Group derives revenue from the following sources:

- Software implementation revenue which includes software licences, software development and other software implementation services;
- Ongoing development and support services; and
- Software maintenance (help desk and other support services) and Cloud Hosting services.

The Group provides the right to use, software development services, core implementation services and ongoing support of its product, Alfa Systems. The Group's contractual arrangements contain multiple deliverables or services, such as the development or customisation of the software to the customer's requirements, implementation services such as migration of data and testing and certain project management services.

Alfa assesses whether there are distinct performance obligations at the start of each contract and throughout the performance of the implementation, development and services projects and maintenance period. These performance obligations are laid out below. Any one contract may include a single performance obligation or a combination of those listed below:

a. Software implementation services

Where implementation services are considered to be distinct, i.e. when relatively straightforward, do not require additional development services and could be performed by an external third party, the implementation services are accounted for as a separate performance obligation from any development services. The transaction price is allocated to each performance obligation based on the stand-alone selling prices, derived from day rates and is recognised over time based on the effort incurred, limited to the amount to which Alfa has a right to payment.

b. Development services

The second performance obligation is the granting of a right to use Alfa Systems, which includes the delivery of the related software licence and any development efforts which change the underlying code. The total revenue attributable to this performance obligation is estimated at the outset of the relevant software implementation project and recognised as the effort is expended, on a percentage of completion basis, limited to the amount to which Alfa has the right to payment. A percentage-of-completion basis has been used because customers obtain the ability to benefit from the product from the start of the implementation project, the development or customisation of the asset has no alternative use to the Group; and the customer is entitled to the benefits of the efforts as at the date the efforts are delivered, so recognition over time is appropriate.

Development services are valued using the residual value method as there are no stand-alone selling prices which are observable as each project is customised.

c. Option over the right to use Alfa Systems

In the event that customers have to pay periodic maintenance fees in order to keep using Alfa Systems, a component of these future maintenance fees is attributable to the right to use the software. In these circumstances the licence granted by Alfa is considered to renew in future periods. There may be a material right in respect of discounts in future periods. In order to ascribe a value to this option management initially determine the periodic value of the development services during the software implementation period and estimate the remaining expected customer life.

The value of this option is built up from the start of the implementation project in line with the percentage of completion of development efforts described in 1.5(b) above. Following the completion of the implementation project, the value of this option is recognised evenly over the expected remaining customer life.

d. Periodic right to use Alfa Systems

This represents the proportion of the annual maintenance fee which relates to the periodic option to renew the right to use Alfa Systems. If there is the right of clawback of the annual right to use, such amounts are recognised throughout the annual period. If there is no right of clawback, then the annual right to use amount is recognised in full when there is a right of collection.

e. Periodic maintenance amounts

This represents the stand-alone selling price of the ongoing support or maintenance of Alfa Systems which is recognised throughout the period over which the services are delivered.

f. Subscription amounts

Certain of the Group's implementation and service contracts include a subscription payment mechanism. This represents a monthly fee charged to the customer covering the following performance obligations; the provision of monthly hosting services; the monthly periodic right to use Alfa Systems and the provision of monthly maintenance services (when this becomes applicable to the customer). The monthly payments are recognised as revenue in the period to which they relate. This reflects the underlying performance obligations of the Group and termination rights of the customer.

g. One-off revenue amounts

From time to time, the Group is entitled to receive one-off licence revenue from its customers as they increase the number of contracts on their version of Alfa Systems. Additionally, there are times when catch-up periodic maintenance amounts are entitled to be received by the Group, also as a result of the increased number of contracts. Generally this revenue is recognised at the point in time it is invoiced, or becomes contractually payable, reflecting the fact that the Group has no remaining performance obligations to satisfy.

Variable consideration

Certain of the Group's licence fees are receivable at the point where the number of contracts held on Alfa Systems exceeds a certain contract band. If these licence revenues relate to customers who already have a live instance of the software, they are recognised at the point in time in which the licence becomes receivable. When these software licences are associated with an implementation project and the customisation of the software, management applies judgement as to when to include these amounts within the associated percentage of completion calculation. In line with IFRS 15, these amounts are recognised as revenue at the point in time that it is highly probable that the amounts would not be reversed.

Capitalised sales incentive costs

The Group incentivises its sales force for securing sales. In line with IFRS 15, these costs are capitalised and are amortised in line with the percentage of completion of the software implementation project.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

1. Summary of significant accounting policies continued

1.6 Operating expenses

Operating expenses include items such as personnel costs (including training and recruitment), cost of software not capitalised, research and development costs and other infrastructure expenses. These items have been grouped into the following categories for disclosure purposes:

- Implementation and support expenses – Such expenses relate to the remuneration of personnel assigned to software implementation support, in addition to project-related travel and accommodation expenses and an appropriate portion of relevant overheads.
- Research and product development expenses – The Group invests a substantial part of its time in research and product development work in relation to the enhancement of its product platform and capabilities. Research and product development work is charged to the customer where it is linked to specific customer projects, such as initial software implementations or customisation of the software to the customer's requirements. The Group's research and product development costs include remuneration costs and an appropriate portion of relevant overheads.

Internally generated research and product development costs only qualify for capitalisation if the Group can demonstrate all of the criteria explained in note 1.14, where capitalised development costs are disclosed as internally generated intangible assets. If the criteria are not met, such expenditure is recognised as an expense in the period in which it is incurred. The Group continues to assess the eligibility of development costs for capitalisation on a project by project basis.

- Sales, general and administrative expenses include all the residual operating costs.

1.7 Income tax

Taxation expense for the year comprises current and deferred tax recognised in the reporting period. Tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. Current or deferred taxation assets and liabilities are not discounted.

Current tax

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 and its subsidiaries 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 tax

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 consolidated 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 profits will be available against which the temporary differences can be utilised. 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.

1.8 Leases

Alfa enters into lease contracts in respect of various properties and motor vehicles. These rental contracts are typically made for fixed periods of two to 10 years, and sometimes have extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In accordance with IFRS 16, leases are recognised as a right-of-use asset with a corresponding liability, at the date at which the leased asset is available for use by Alfa. These assets and liabilities are initially measured on a present value basis (as set out in more detail below), with each subsequent lease payment allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

Alfa assesses whether a contract is, or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability, with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months, or fewer) and leases of low-value assets. For these leases, the Group recognises the lease payments as an expense on a straight-line basis over the term of the lease, unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in substance fixed payments), less any lease incentives;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- The amount expected to be payable by the lessee under residual value guarantees;
- The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- Penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented in separate lines, split between current and non-current liabilities, in the consolidated statement of financial position. It is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group re-measures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed, or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate;
- The lease payments change due to changes in an index, or rate, or a change in expected payment under a guaranteed residual value. In these cases, the lease liability is re-measured by discounting the revised lease payments, using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used); and
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is re-measured by discounting the revised lease payments using a revised discount rate.

Right-of-use assets

The right-of-use assets comprise:

- The initial measurement of the corresponding lease liability;
- Lease payments made at, or before, the commencement day;
- Any initial direct costs; and
- Restoration cost.

The right-of-use assets are presented as a separate line in the consolidated statement of financial position.

The right-of-use assets are subsequently measured at cost less accumulated depreciation and impairment losses (if applicable). They are depreciated from the commencement date of the lease and over the shorter period of the lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset, or the cost of the right-of-use asset reflects an expectation that the Group will exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. Currently, the Group does not have any leases that include a purchase option, or transfer ownership of the underlying asset.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located, or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37.

Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated). The assessment is reviewed if a significant event or a significant change in circumstances occurs which affects this assessment and that is within the control of the lessee. During the current financial period, there have been no changes in such assessments.

Variable rents that do not depend on an index, or rate, are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognised as an expense in the period in which the event or condition that triggers those payments occurs and are included as an expense in the consolidated statement of profit or loss and comprehensive income.

1.9 Impairment of assets

Goodwill is tested annually for impairment. The carrying amount is allocated to the cash-generating unit (CGU) that is expected to benefit from investment and which 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

1. Summary of significant accounting policies continued

Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount might not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

1.10 Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand as well as short-term deposits with original maturities of three months or less.

1.11 Financial assets

Recognition and de-recognition

Financial assets are recognised in the statement of financial position when the Group becomes party to the contractual provision of the instrument.

Financial assets are derecognised when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and substantially all the risks and rewards are transferred.

Classification and initial measurement of financial assets

Except for those trade receivables that do not contain a significant financing component and are measured at the transaction price in accordance with IFRS 15, all financial assets are initially measured at fair value adjusted for transaction costs (where applicable). Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories:

- Amortised cost;
- Fair value through profit or loss (FVTPL); and
- Fair value through other comprehensive income (FVOCI).

In the periods presented, the Group does not have any financial assets categorised as FVTPL or FVOCI. The classification is determined by both:

- The entity's business model for managing the financial asset; and
- The contractual cash flow characteristics of the financial asset.

All income and expenses relating to financial assets that are recognised in profit or loss are presented within finance costs, finance income or other financial items, except for impairment of trade receivables which is presented within sales, general and administrative expenses.

Subsequent measurement of financial assets

Financial assets at amortised cost

Financial assets are measured at amortised cost if the assets meet the following conditions (and are not designated as FVTPL):

- They are held within a business model whose objective is to hold the financial assets and collect their contractual cash flows; and
- The contractual terms of the financial assets give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial recognition, these are measured at amortised cost using the effective interest method. Discounting is omitted where the effect of discounting is immaterial. The Group's trade and most other receivables (notes 20 and 21) and cash and cash equivalents (note 22) fall into this category of financial instruments.

Impairment of financial assets

Under IFRS 9 the requirements are to use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'. The Group considers a broad range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

In applying this forward-looking approach, a distinction is made between:

- Financial instruments that have not deteriorated significantly in credit quality since initial recognition or that have low credit risk ('Stage 1'); and
- Financial instruments that have deteriorated significantly in credit quality since initial recognition and whose credit risk is not low ('Stage 2').
- 'Stage 3' would cover financial assets that have objective evidence of impairment at the reporting date.

'12-month expected credit losses' are recognised for the first category while 'lifetime expected credit losses' are recognised for the second and third categories.

1.12 Trade receivables

Trade receivables are amounts due from customers for licences sold or services performed in the ordinary course of business. They are generally due for settlement within 30 days of the invoice date and are therefore all classified as current. 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. The Group considers information developed internally or obtained from external sources that indicates that a debtor is unlikely to pay its creditors, including the Group, in full (without taking into account any collateral held by the Group) as an indication that a financial asset is not recoverable.

The Group has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue. The expected impairment loss is recognised in the consolidated statement of profit or loss and comprehensive income within other expenses and subsequent recoveries are credited to the same account previously used to recognise the impairment charge. During the current and prior period the result of the above was immaterial and no impairment loss has been recognised.

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivable mentioned above. The credit qualities 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.

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 the contractual amount or the fair value initially recognised.

1.13 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:

Fixtures and fittings: 3-10 years

IT equipment: 2-5 years

Motor vehicles: 10 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 the consolidated statement of profit or loss and comprehensive income as incurred. Any gains or losses on disposals are recognised within 'Sales, general and administrative expenses' in the consolidated statement of profit or loss and comprehensive income unless otherwise specified.

Property, plant and equipment 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.

1.14 Goodwill and other intangible assets

Goodwill

Goodwill arose on the acquisition of subsidiaries in 2012 as part of a group reorganisation and represents the excess of the consideration transferred and the amount of any non-controlling interest in the investment over the fair value of the identifiable assets acquired and liabilities and contingent liabilities assumed.

The Group assesses whether goodwill has suffered any impairment on an annual basis in accordance with the accounting policy stated in note 1.9 above. There is one CGU, being the Group, as its geographical operations do not have separate or distinct cash inflows. The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections from financial budgets and forecasts.

Budgeted cash flow projections are based on the expectation of signing new customers in the Group's sales pipeline as well as ongoing implementation projects or ODS projects with existing customers. Budgeted gross margin is based on historical evidence and the 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 CGU. The discount rate used reflects the Group's pre-tax weighted average cost of capital (WACC), as adjusted for region specific risks and other factors as required by IFRS.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

1. Summary of significant accounting policies continued

Intangible assets

Internally generated product development costs only qualify for capitalisation if the Group can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete the intangible asset and use or sell it;
- Its ability to use or sell the intangible asset; including how the intangible asset will generate probable future economic benefits;
- The existence of a market or, if it is to be used internally, the usefulness of the intangible asset;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during development.

Generally, commercial viability of new products, modules or capabilities is not proven until all high-risk development issues have been resolved through testing of the specific development. Development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria, where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense. See note 15 for disclosure of development costs which have met the criteria of IAS 38. The Group continues to assess the eligibility of development costs for capitalisation on a project-by-project basis.

Externally acquired intangible assets are initially recorded at historical cost. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

The Group amortises intangible assets with a limited useful life, using the straight-line method over the following periods:

Computer software: licence period or 10 years as applicable

Internally generated software: 3-5 years

Research and development which does not meet the criteria set out above is recognised as an expense as incurred. Development costs previously recognised as an expense are not recognised as an asset in subsequent periods.

1.15 Trade and other payables

Trade payables are obligations to pay for goods or services which have been acquired in the ordinary course of business from suppliers. Trade payables are recognised initially at fair value and subsequently measured at amortised costs using the effective interest rate method. As the total carrying amount is due within the next 12 months from the reporting date, the impact of applying the effective interest method is not significant and, therefore, the carrying amount equals the contractual amount or the fair value initially recognised.

The Group's financial liabilities include trade and other payables and lease liabilities. Financial liabilities are initially measured at fair value, and, where applicable, adjusted for transaction costs unless the Group designated a financial liability at fair value through profit or loss. Subsequently, financial liabilities are measured at amortised cost using the effective interest method. All interest-related charges and, if applicable, changes in an instrument's fair value that are reported in profit or loss are included within finance costs or finance income. The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or expired.

Trade and other payables and lease liabilities are classified as current liabilities if payment is due within one year or less. If not, they are presented as non-current liabilities.

1.16 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. When the effect of the discounting is material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

1.17 Employee benefits

The Group provides a range of benefits to employees, including paid holiday arrangements and defined contribution pension plans.

Short-term benefits

Short-term benefits, including health cover and other similar non-monetary benefits, are recognised as an expense in the period in which the service is received.

Post-employment benefits

The Group operates various defined contribution plans for its employees. A defined contribution plan is a pension plan where the Group pays fixed contributions into a separate independent entity. The Group has no legal or constructive obligation 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.

Employee share scheme expense

The Group makes equity-settled share-based payments to certain employees, which are measured at fair value at the date of grant and expensed on a straight-line basis over the vesting period, based on the Group's estimate of shares that will eventually vest. For those share schemes with market-related vesting conditions, the fair value is determined using the Monte Carlo model at the grant date. For share options issued with EPS (non-market) performance vesting conditions, the fair value of the underlying vehicle is equal to the grant date share price discounted by the expected dividend yield to reflect the lack of dividend accrual over the vesting period. For all other share awards, those with pure employment conditions attached, the fair value is determined by reference to the market value of the shares at the grant date. For all share schemes with non-market vesting conditions, the likelihood of vesting has been taken into account when determining the relevant charge. Vesting assumptions are reviewed during each reporting period to ensure they reflect current expectations.

1.18 Equity

Ordinary shares

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

Cumulative translation reserve

Exchange differences arising on translation of the foreign controlled entities are recognised in Other Comprehensive Income and accumulated in a separate reserve within equity. The cumulative amount would be reclassified to profit or loss if the entity was disposed of.

1.19 Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

Diluted earnings per share

Diluted earnings per share includes the ordinary shares which are held in an employee trust on behalf of employees. These shares are treated as having a potentially dilutive effect as these shares have service and performance conditions attaching to them. Should the service conditions not be met, the shares will be forfeited. The shares have no right to voting or to dividends while held in trust.

2. Critical accounting judgements, estimates and assumptions

The preparation of financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management also needs to exercise judgement in applying the Group's accounting policies.

This note provides an overview of the areas that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted in future periods due to estimates and assumptions turning out to be wrong. Detailed information about each of these estimates and judgements is included in other notes, together with information about the basis of calculation for each affected line item in the financial statements.

2.1 Critical judgements in applying the Group's accounting policies

Revenue recognition – Assessing performance obligations

The Group is required to make an assessment as to whether the implementation process, which includes licence, implementation and development revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. In addition, the Group is also required to make an assessment as to whether each contract contains an expectation to deliver multiple separate instances of the customised licence which may form separate groups of distinct performance obligations. In doing the above, the Group assesses each software implementation contract as to whether the underlying software requires significant modification or customisation by the Group in order to meet the customer's requirements before Alfa Systems can be utilised by the customer. Therefore judgement is required in determining which efforts relate to the implementation process and which efforts could be determined to be development services which change or enhance the underlying code. In making this judgement, the Group assesses the contractual terms and the original project plan for the implementation but also uses historical evidence of what constitutes core implementation work.

Revenue recognition – One-off revenue contract

During the year the Group entered into a new one-off five-year contract with a customer to renew its software licence and maintenance agreements. The Group has identified that this one-off contract contained two distinct separate performance obligations, being the right for the customer to use the software and the ongoing maintenance and support. Both of these performance obligations relate to the five-year period the contract covers. The key judgements applied by management are in the allocation of the five-year contract value to each of the two performance obligations outlined above. A detailed assessment of the expected costs and margin of the support and maintenance over the five-year period was carried out along with an assessment of a typical right to use licence payment. Management then assessed the difference between the total contract value and fair value of the two performance obligations as a premium. The premium has been allocated between the two performance obligations based on their relative proportion of the stand-alone selling prices. As a result of the process outlined above, £5.6m was recognised upfront as the licence component, reflecting the non-cancellable nature of the contract, with the balance of the contract for maintenance recognised over the life of the contract.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

2. Critical accounting judgements, estimates and assumptions continued

Internally generated software development – Assessing whether a project meets criteria of IAS 38

The Group is required to make an assessment of 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, the likelihood of success, the availability of technical and financial resources to complete the development phase and management's ability to measure reliably the expenditure attributable to the project. Research and product development expenditure incurred on minor or major upgrades, or other changes in software functionality, does not satisfy the criteria where it is considered that the product is not substantially new in its design or functional characteristics. Such expenditure is therefore recognised as an expense.

2.2 Key sources of estimation uncertainty

Revenue recognition – Assigning a stand-alone selling price for implementation services day rates

The Group assesses the value of the implementation services delivered by assessing the effective day rate for an implementation contract, taking into account all revenue streams from implementation contracts against day rates of similar projects in the same geographies. If the stand-alone selling price in relation to the implementation day rate increased by 5%, this would result in a cumulative increase to revenue of £0.8m in 2020. As this increase in the implementation day rate estimate will not impact the overall transaction price of the individual implementation contracts, it is expected that this increase of £0.8m would reverse in future periods as the implementation contracts ongoing as at 31 December 2020 complete.

2.3 Other sources of estimation uncertainty

Revenue recognition – Percentage of completion estimate

The Group estimates the number of days required to complete the relevant software customisation effort at the outset of each project and on an ongoing basis including at each consolidated statement of financial position date. Estimates of total project days required for a relevant project are based on historical evidence of past implementations, knowledge of the customer's systems being replaced and scope of customisation being requested. The Group applies the percentage-of-completion method when calculating development services revenue and updates estimates at each quarter end accordingly. At 31 December 2020, if the Group's estimates of development days to complete increased by 20% in relation to ongoing software implementation projects, this would result in development services revenue decreasing by £0.1m in 2020.

3. Financial risk management

In common with all other businesses, the Group is exposed to risks that arise from its use of financial instruments. This note describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

Area	Exposure arising from	Measurement	Management
Market risk – foreign exchange	Contracted revenue and costs denominated in a currency other than the entity's functional currency; and Monetary assets and liabilities denominated in a currency other than the entity's functional currency.	Cash flow forecasting	Natural hedging from localised cost base and prompt conversion of foreign currency cash balances into pound sterling
Credit risk – cash balances	Cash and cash equivalents	Credit ratings	Diversification of bank deposits
Credit risk – customer receivables	Trade receivables and accrued income	Ageing analysis Credit ratings	Credit checks and contractual payment terms
Liquidity	Cash and cash equivalents	Cash flow forecasting	Collection of up-front licence fees, ageing analysis of customer receivables

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 has used financial instruments to hedge certain risk exposures in the past. Risk management is carried out by the finance function under policies approved by the Chief Financial Officer. The finance function identifies, evaluates and mitigates financial risks when deemed necessary.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and maintain an optimal capital structure.

3.1 Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risks arising from various currencies, primarily with respect to those described below. Revenue is predominantly denominated in pounds sterling and US dollars. Operating costs are influenced by the currencies of the countries where the Group's subsidiaries are based and pounds sterling and the US dollars are the currencies in which most operating costs are denominated.

The split by currency in relation to trade receivables is set out in note 20.

The Group's exposure to foreign currency risk in relation to revenue is set out in note 5.

The Group has not entered into or utilised any form of hedging against foreign currency exposure during the current or prior period, nor does the Group have any outstanding commercial foreign exchange contracts at 31 December 2020 or 31 December 2019.

A 10% movement in the USD GBP exchange rate in the year ended 31 December 2020 would have impacted revenue and operating profit (excluding share-based payments) by 4% and 9% respectively.

3.2 Credit risk

a. Credit risk related to transactions with financial institutions

Credit risk with financial institutions is managed by the Group's finance function in accordance with a Board approved policy. Management is not aware of any significant risks associated with financial institutions as a result of cash and cash equivalents deposits (including short-term investments) and financial derivative transactions.

b. Credit risks related to customer trade receivables

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 a trade receivable could be impaired. Given the complexity, the size and the length of certain software implementation of related projects, a delay in the settlement of an open trade receivable does not necessarily constitute objective evidence that the trade receivable is impaired.

The Group's customer base predominantly consists of large financial institutions that are financially sound. The responsibility for customer credit risk management rests with management of the Group. Payment terms are set in accordance with practices in the different geographies and end-markets served, typically being 30 days from the date of the invoice. Trade receivables are actively monitored and managed. Collection risk is mitigated through the use of upfront payments of licences and maintenance. Historically, there has been a de minimis level of customer default as a result of the long history of dealing with the Group's customer base and an active credit monitoring function. Where applicable, credit limits may be established based on internal or external rating criteria, which take into account such factors as the financial condition of the customers, their credit history and the risk associated with their industry segment.

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables and accrued income. To measure the expected credit losses, trade receivables and accrued income have been grouped based on shared credit risk characteristics and the days past due. The accrued income relates to unbilled work in progress and has substantially the same risk characteristics as the trade receivables for the same types of contracts, other than where the Group has collected upfront payments in the form of licence fees at the start of a software implementation contract. The Group has therefore concluded that the expected loss rates for trade receivables are less than the loss rates for the accrued income.

The expected loss rates of trade receivables are based on the payment profiles of customer invoices over a period of 36 months before 31 December 2020 or 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates would then be adjusted to reflect current or forward-looking information in relation to any macroeconomic factors affecting the ability of the customers to settle the receivables.

The Group has not identified any current factors or forward-looking information which would be relevant to the historical loss rates as all trade receivables have been collected in the past 24 months. Therefore on this basis, the loss allowance as at 31 December 2020 and 31 December 2019 was immaterial for both trade receivables and accrued income.

See note 20 – Trade receivables for the ageing of trade receivables and significant customer credit risk exposure.

3.3 Liquidity risk

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 capital structure of the Group consists of cash and cash equivalents (note 22) and equity attributable to equity holders of the parent.

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

3. Financial risk management continued

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 an adequate level of liquidity to meet its liabilities expected to be settled in the short or near term, under both normal and stressed conditions.

The following table details the remaining contractual maturity of the Group's financial liabilities. The amounts disclosed in the table are the contractual undiscounted cash flows.

£'000s	31 December 2020					
	Carrying value	Less than 6 months	Between 6 to 12 months	Between 1 to 2 years	Between 2 to 5 years	More than 5 years
Trade and other payables	5,576	5,576	–	–	–	–
Lease liabilities – future lease payments	21,081	1,228	1,191	2,364	6,889	9,409

£'000s	31 December 2019					
	Carrying value	Less than 6 months	Between 6 to 12 months	Between 1 to 2 years	Between 2 to 5 years	More than 5 years
Trade and other payables	4,087	4,087	–	–	–	–
Lease liabilities – future lease payments	23,369	1,236	1,221	2,358	6,867	11,687

4. Segments and principal activities

4.1 Revenue by type

The Group assesses revenue by type of project, being Software implementation, ODS and Maintenance, as summarised below:

£'000s	2020	2019
Software implementation	27,328	26,128
ODS	32,363	23,460
Maintenance	19,179	14,892
Total revenue	78,870	64,480

4.2 Operating profit

The following tables reconciles profit for the period attributable to equity holders to Operating Profit for the periods presented:

£'000s	2020	2019
Profit for the year	20,369	10,182
Adjusted for:		
Net income from joint venture	15	–
Taxation	2,871	2,818
Finance income	(109)	(143)
Finance expense	800	852
Operating profit	23,946	13,709

4.3 Non-current assets geographical information

Non-current assets attributable to each geographical market:

£'000s	2020	2019
UK	43,960	44,276
USA	661	220
Rest of World	183	64
Total non-current assets	44,804	44,560

Revenue by geographical market is contained within note 5.3.

5. Revenue from contracts with customers

5.1 Customer concentration

Customers with revenue accounting for more than 10% of total revenue in the current year are as follows:

£'000s	2020	2019
Customer A	12%	20%
Customer B	10%	9%
Customer C	10%	5%

See note 20 for outstanding trade receivables from those customers with revenue accounting for more than 10% of total revenue.

5.2 Timing of revenue

The Group derives revenue from the transfer of goods and services over time and at a point in time as follows:

2020 £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	24,450	–	24,450
At a point in time – fixed price	420	5,688	617	6,725
Over time – time and materials	26,770	–	–	26,770
Over time – fixed price	138	2,225	18,562	20,925
Total revenue	27,328	32,363	19,179	78,870

2019 £'000s	Software implementation	ODS	Maintenance	Total revenue
At a point in time – time and materials	–	17,926	–	17,926
At a point in time – fixed price	–	5,534	–	5,534
Over time – time and materials	26,033	–	–	26,033
Over time – fixed price	95	–	14,892	14,987
Total revenue	26,128	23,460	14,892	64,480

All goods and services are sold directly to the customers.

5.3 Revenue geographical information

Revenue attributable to each geographical market based on where the licence is sold or the service provided is as follows:

£'000s	2020	2019
USA	29,176	28,087
UK	25,780	18,618
Rest of EMEA	21,308	16,043
Rest of World	2,606	1,732
Total revenue	78,870	64,480

Following an evaluation of the Group's geographical markets, and to reflect the way in which these are managed internally, the Rest of Europe (excluding UK) segment has been updated to Rest of EMEA (excluding UK). As such, £3m of revenues generated from South Africa have been reallocated from Rest of World to Rest of EMEA (excluding UK) for 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

5. Revenue from contracts with customers continued

5.4 Revenue by currency

Revenue by contractual currency is as follows:

£'000s	2020	2019
GBP	33,405	21,644
USD	30,222	29,398
Euro	12,636	9,429
Other	2,607	4,009
Total revenue	78,870	64,480

5.5 Liabilities from contracts with customers

£'000s	2020	2019
Contract liabilities – software implementation	1,947	4,581
Contract liabilities – deferred maintenance	5,047	4,060
Total contract liabilities	6,994	8,641

Contract liabilities – software implementation

The majority of the Group's software implementation customers are invoiced an upfront perpetual software licence at the commencement of the implementation project. Customers generally require additional development efforts over the life of the implementation project in order to customise the underlying code within Alfa Systems. Together these two elements form the Group's development services performance obligation. The fair value of this performance obligation is determined using the residual method as set out in note 1.5b and this fair value is recognised as the development effort is expended, on a percentage of completion basis.

As such the software implementation contract liability balance as at 31 December 2020 represents any amounts received in advance for the development service performance obligation being satisfied (including any unrecognised software licence amounts that were received upfront). Additionally, where an option over the right to use Alfa Systems in the future exists, the value of this is also included within the software implementation contract liability. This material right value is increased over the life of the implementation project in line with the percentage of completion of the development efforts and then released on a straight line basis over the expected remaining customer life post completion of the implementation project.

The software implementation contract liability balance will increase during the year as a result of:

- any new upfront software licence payments;
- any write back in previously recognised revenue as a result of project extensions or re-plans; and
- any additional material right balances that are added during the year.

The software implementation contract liability balance will decrease during the year as a result of:

- increasing percentage of completion of development efforts; and
- any release of material right balances following the completion of the implementation project.

Contract liabilities – deferred maintenance

The majority of the Group's customers are invoiced annually in advance for the maintenance and support service provided by the Group. As such, the deferred maintenance contract liability balance will increase during the year as a result of billing and invoices becoming due, and will decrease as the Group satisfies its associated performance obligations. The deferred maintenance contract liability balance as at 31 December 2020 therefore represents the Group's unsatisfied period maintenance performance obligation for which the revenue has been invoiced in advance.

5.6 Unsatisfied Performance Obligations

As outlined in section 2.1, during the current year, the Group entered into a new one-off five-year contract with a customer to renew its software licence and maintenance agreements. The total amount of the contract price from this non-cancellable contract that relates to the performance obligations that are unsatisfied at 31 December 2020 is £10.6m (2019: £ nil). We expect to recognise £2.2m in each of the next four financial years and then the remaining £1.8m in the final financial year of the contract, being 2025.

In addition, the Group has unsatisfied or partially satisfied performance obligations at 31 December 2020 that relate to the licence customisation for those customers that have ongoing implementation projects, or implementation projects that commenced in early 2021 and for which contracts were agreed prior to 31 December 2020. This performance obligation includes the delivery of the related software licence and any development efforts which will change the underlying code. Linked to certain of these ongoing and future projects, and also to certain implementation projects completed during 2020, the Group also has unsatisfied or partially satisfied performance obligations at 31 December 2020 that relate to the option over the right to use Alfa Systems, and in particular any material right in respect of discounts to be received by customer in future periods.

The above includes certain amounts recognised as contract liabilities or accrued income. The transaction price allocated to these unsatisfied or partially satisfied performance obligations as at 31 December 2020 is £9.0m (2019: £10.0m). This amount is expected to be recognised over the remaining life of the implementation projects, in respect of the licence and development efforts, and over the expected customer life (following the completion of the implementation project) in respect of the option over the right to use Alfa Systems.

These unsatisfied or partially satisfied performance obligations are based on management's best judgement and maybe impacted in the future by a number of factors including:

- any possible contract modifications,
- currency fluctuations;
- external market factors; and
- changes to the overall forecast project plan including the overall life of the implementation project and any required development efforts.

It should be noted that these remaining performance obligations are not fully contracted as at 31 December 2020.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclosure information about the unsatisfied performance obligations that have original expected durations of one year or less. This includes those performance obligations linked to our ODS and maintenance revenue.

The Group also applies the practical expedient in paragraph B16 of IFRS 15 and does not disclose the amount of the transaction price allocated to the unsatisfied contract performance obligations where consideration will be received directly corresponding to the value of the performance obligation in the future and this consideration aligns to the value received to date for the corresponding performance obligation. This includes those performance obligations linked to our software implementation services.

6. Operating profit

The following items have been included in arriving at operating profit:

£'000s	2020	2019
Personnel costs	38,202	33,246
Partner costs	1,820	355
Training and recruitment	659	1,027
Other personnel-related expenses	1,547	2,075
Advertising, sponsorship and marketing expenses	578	569
Depreciation and amortisation (note 15, 16, 17)	3,095	2,816
Property costs	1,457	1,449
Travel costs	573	2,349
IT expenses	2,320	1,594
Professional advisor costs	3,601	4,082
Insurance	304	232
Foreign currency differences	(514)	269
Employee share schemes (note 28)	1,321	636
Other	489	649

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

6. Operating profit continued

A further split by nature is set out below:

£'000s	2020	2019
Personnel costs	11,144	12,033
Partner costs	1,820	355
Training and recruitment	200	365
Other personnel-related expenses	469	738
Travel costs	573	2,349
IT expenses	654	522
Overhead allocation including property costs	442	532
Implementation and support expenses	15,302	16,894
£'000s	2020	2019
Personnel costs	16,233	13,104
Training and recruitment	302	433
Other personnel-related expenses	710	875
IT expenses	990	619
Overhead allocation including property costs	666	631
Research and product development expenses	18,901	15,662
£'000s	2020	2019
Personnel costs	10,825	8,109
Training and recruitment	157	229
Other personnel-related expenses	368	462
Advertising, sponsorship and marketing expenses	578	569
Professional advisor costs	3,601	4,082
Insurance	304	232
Depreciation	2,253	2,388
Amortisation	842	428
Foreign currency differences	(514)	269
Employee share schemes	1,321	636
Other office costs	453	587
IT expenses	676	453
Overhead allocation including property costs	385	348
Sales, general and administrative expense	21,249	18,792

To better reflect the nature and function of certain expenses, management has made changes to the classification and allocation of expense line items; comparative figures have also been reclassified accordingly. The main figures, which were previously reported in 2019, affected by this reclassification were: Salary cost; Partner costs; Secondment cost; and the Contractor costs. The impact on the totals, previously reported in 2019, was a decrease of Implementation and support expenses of £1,209k with an increase in both Research and product development cost and Sales, general and administrative expenses of £473k and £737k respectively. These changes have had no impact on the total expenses or the profit before tax that was disclosed in 2019.

7. Personnel related costs

£'000s	2020	2019
Wages, salaries and short-term benefits	32,790	28,072
Training and recruitment	659	1,027
Social security	3,632	3,517
Post-employment benefits	2,894	2,676
Other employee expenses	433	1,054
Employee share schemes	1,321	636
Total personnel related costs	41,729	36,983

To better reflect the nature of certain expenses, management has made changes to the classification and allocation of expense line items; comparative figures have also been reclassified accordingly. The main figures, which had been previously reported in 2019, affected by this reclassification were: wages, salaries and short-term benefits which increased by £0.4m, social security which decreased by £0.5m, post-employee benefits which have increased by £0.1m and other personnel costs which have decreased by £0.5m. Overall the total personnel related costs disclosed for 2019 have decreased by £0.5m due to partner costs being classified separately, with the other movement reflecting reclassifications within the individual lines referred to above. These changes have had no impact on the total expenses or the profit before tax that was disclosed in 2019.

Average monthly number of people employed (including Executive Directors)	2020	2019
UK	255	236
USA	66	61
Rest of World	20	16
Total average monthly number of people employed	341	313

Average monthly number of people employed (including Executive Directors)	2020	2019
Software implementation	102	108
Research and product development	156	134
Sales, general and administrative	83	71
Total average monthly number of people employed	341	313

8. Key management

Key management compensation (including Directors):

£'000s	2020	2019
Wages, salaries and short-term benefits	2,560	2,428
Social security	250	223
Post-employment benefits	77	61
Share-based payments	213	19
Total key management compensation	3,100	2,731

Key management personnel consists of the Company Leadership Team and the directors. Directors' remuneration is detailed in the Remuneration report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

9. Auditor's remuneration

The Group obtained the following services from the Group's auditor as detailed below:

£'000s	2020	2019
Deloitte LLP		
Audit of the consolidated financial statements	–	165
Audit fees relating to prior year	96	48
Audit of subsidiaries	–	150
RSM UK Audit LLP		
Audit of the consolidated financial statements	170	–
Audit of subsidiaries	150	–
Total audit fees	416	363
Audit-related assurance fees		
Deloitte LLP	48	135
RSM UK Audit LLP	75	–
Total assurance fees	539	498
Non-audit services	–	–
Total audit and non-audit-related services	539	498

10. Finance income and expense

£'000s	2020	2019
Finance income		
Interest income on cash or short-term bank deposits	109	143

£'000s	Note	2020	2019
Finance expense			
Interest on lease liability	24	(787)	(852)
Other interest expense		(13)	–
Total finance expense		(800)	(852)

11. Income tax expense

Analysis of charge for the year

£'000s	2020	2019
Current tax		
Current tax on profit for the year	4,528	2,159
Adjustment in respect of prior years	(1,399)	(23)
Foreign tax on profit of subsidiaries for the current year	586	851
Current tax	3,715	2,987
Deferred tax		
Origination and reversal of temporary differences	(325)	(189)
Adjustment in respect of prior years	(520)	–
Effect of changes in tax rates	1	20
Deferred tax	(844)	(169)
Total tax charge in the year	2,871	2,818

The effective tax rate for the year is lower (2019: higher) than the standard rate of corporation tax in the UK. The effective tax rate for the year ended 31 December 2020 was 12.4% (2019: 21.7%). The effective tax rate for the year benefits from favourable adjustments in respect to prior years totalling £1,919k (2019: £23k), predominately due to UK R&D tax claims submitted in respect to 2018 and 2019. Excluding the impact of adjustments in respect to prior years, the effective tax rate for the year was 20.6% (2019: 21.9%). The overall tax charge for the year is reconciled as follows:

Analysis of charge for the year

£'000s	2020	2019
Profit on ordinary activities before taxation	23,240	13,000
Profit on ordinary activities at the standard rate of corporation tax – 19%	4,415	2,470
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	181	274
Expenses not deductible for tax purposes	56	260
Income not taxable for tax purposes	–	(1)
Share-based payments	18	(152)
Adjustment in respect of prior years	(1,919)	(23)
Impact of tax rate changes	1	20
Other	119	(30)
Total tax charge for the year	2,871	2,818

12. Earnings per share

	2020	2019
Profit attributable to equity holders of Alfa (£'000s)	20,369	10,182
Weighted average number of shares outstanding during the year	293,824,145	290,554,694
Basic earnings per share (pence per share)	6.93	3.50
Weighted average number of shares outstanding including potentially dilutive shares	300,069,048	298,812,270
Diluted earnings per share (pence per share)	6.79	3.41

The weighted average number of ordinary shares in issue excludes 6,175,855 shares held by employee benefit trust. The diluted number of ordinary shares outstanding, including share awards, is calculated on the assumption of conversion of all 6,139,161 potentially dilutive ordinary shares.

13. Financial assets and liabilities

£'000s	Note	2020	2019
Finance assets			
Financial assets at amortised cost:			
Trade receivables	20	5,812	4,050
Other financial assets at amortised cost	21	5,791	8,234
Cash and cash equivalents	22	37,020	58,839
		48,623	71,123
Finance liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	23	5,576	4,087
Lease liabilities	24	17,491	19,002
		23,067	23,089

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

14. Goodwill

£'000s	2020	2019
Cost		
At 1 January	24,737	24,737
At 31 December	24,737	24,737

The recoverable amount of goodwill has been determined based on value-in-use calculations using cash flow projections from financial budgets and forecasts for a five-year period using a discount rate of 11% (2019: 12%). Cash flows beyond these periods have been extrapolated using a steady 2% (2019: 2%) average growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Group operates. 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 CGU.

15. Other intangible assets

£'000s	Computer software	Internally generated software	Total
Cost			
At 1 January 2019	1,049	407	1,456
Additions	345	1,135	1,480
At 31 December 2019	1,394	1,542	2,936
Amortisation			
At 1 January 2019	253	–	253
Charge for the year	275	153	428
At 31 December 2019	528	153	681
Net book value			
At 31 December 2019	866	1,389	2,255
Cost			
At 1 January 2020	1,394	1,542	2,936
Additions	117	650	767
Disposals	(56)	–	(56)
At 31 December 2020	1,455	2,192	3,647
Amortisation			
At 1 January 2020	528	153	681
Charge for the period	321	521	842
Disposals	(29)	–	(29)
At 31 December 2020	820	674	1,494
Net book value			
At 31 December 2020	635	1,518	2,153

Significant movement in other intangible assets

During 2020, Alfa developed new internally generated software at a cost of £0.65m. This software will be amortised over three to five years.

The total research and product development expense for the period was £18.9m (2019: £15.2m), and there were £0.5m capitalised personnel costs in the year (2019: £1.1m) and £0.15m of capitalised external agency costs (2019: £0.1m).

16. Property, plant and equipment

£'000s	Fixtures and fittings	IT equipment	Motor vehicles	Total
Cost				
At 1 January 2019	1,147	2,859	40	4,046
Additions	4	372	–	376
Foreign exchange	67	(54)	–	13
At 31 December 2019	1,218	3,177	40	4,435
Depreciation				
At 1 January 2019	522	2,030	39	2,591
Charge for the year	107	565	1	673
Foreign exchange	25	(20)	–	5
At 31 December 2019	654	2,575	40	3,269
Net book value				
At 31 December 2019	564	602	–	1,166
Cost				
At 1 January 2020	1,218	3,177	40	4,435
Additions	38	202	–	240
Disposals	(50)	(84)	(40)	(174)
Foreign exchange	(4)	(13)	–	(17)
At 31 December 2020	1,202	3,282	–	4,484
Depreciation				
At 1 January 2020	654	2,575	40	3,269
Charge for the year	114	394	–	508
Disposals	(45)	(75)	(40)	(160)
Foreign exchange	(4)	(14)	–	(18)
At 31 December 2020	719	2,880	–	3,599
Net book value				
At 31 December 2020	483	402	–	885

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

17. Right-of-use assets

£'000s	Motor vehicles	Property	Total
Cost			
At 1 January 2019	92	17,898	17,990
Additions	128	4	132
Foreign exchange	(8)	3	(5)
At 31 December 2019	212	17,905	18,117
Depreciation			
At 1 January 2019	–	–	–
Charge for the year	67	1,648	1,715
At 31 December 2019	67	1,648	1,715
Net book value			
At 31 December 2019	145	16,257	16,402
Cost			
At 1 January 2020	212	17,905	18,117
Additions	127	91	218
Disposals	(73)	(62)	(135)
Foreign exchange	7	(9)	(2)
At 31 December 2020	273	17,925	18,198
Depreciation			
At 1 January 2020	67	1,648	1,715
Charge for the year	97	1,648	1,745
Disposals	(53)	(48)	(101)
Foreign exchange	–	(2)	(2)
At 31 December 2020	111	3,246	3,357
Net book value			
At 31 December 2020	162	14,679	14,841

The Group recognised the following amounts in the consolidated statement of profit or loss and comprehensive income in relation to leases under IFRS 16:

£'000	2020	2019
Depreciation	(1,745)	(1,715)
Interest expense	(787)	(852)
Short-term lease expense	(209)	(242)
Low-value lease expense	–	–

Sub-lease rentals

One of the leased properties is sub-leased to tenants under long-term operating leases, with rentals payable quarterly. Minimum lease payments receivable on these sub-leases of property are as follows:

£'000s	2020	2019
Within one year	427	427
Later than one year but not later than 5 years	45	473
Later than 5 years	–	–
Total sub-lease payments receivable	472	900
Income from sub-lease in the year	528	577

18. Deferred income tax

The provision for deferred tax consists of the following deferred tax assets/(liabilities) relating to accelerated capital allowances and short-term timing differences in relation to unpaid pensions accruals and share-based payments.

£'000s	2020	2019
Balance as at 1 January	596	8
Adjustments in respect of prior period	520	419
Deferred income taxes recognised in the consolidated statement of profit or loss and comprehensive income	325	169
Share-based payments recognised in reserves	369	–
Foreign exchange movements	(16)	–
Balance as at 31 December	1,794	596
Consisting of:		
Depreciation in excess of capital allowances	(88)	359
Other timing differences	1,882	237
Balance as at 31 December	1,794	596

Deferred income tax liabilities have not been recognised for the withholding tax and other taxes that would be payable on the unremitted earnings of certain subsidiaries as the Group is able to control the timing of these temporary differences and it is probable that they will not reverse in the foreseeable future. Unremitted earnings totalled £3.1m at 31 December 2020 (2019: £8.9m).

19. Interests in joint venture

At the beginning of May 2020, the Group formed Alfa iQ, a joint venture established to greatly enhance Alfa's ability to develop artificial intelligence solutions for the asset finance and auto finance industries. The joint venture was set up 51:49 between Alfa and Bitfount, a company founded by Blaise Thomson. The financial and operating activities of the Group's joint venture are jointly controlled by the participating shareholders. The participating shareholders have rights to the net assets of the joint venture through their equity shareholdings.

The interest in the joint venture consists of part investment and part loan to joint venture accounted for as set out in note 1.2.

Investment		
£'000s	2020	2019
Carrying amount as at 6 May 2020	336	–
Share of net loss from joint ventures	(15)	–
Carrying amount as at 31 December 2020	321	–

Loan to joint venture		
£'000s	2020	2019
Carrying amount as at 6 May 2020	64	–
Interest	9	–
Carrying amount as at 31 December 2020	73	–

The total loss from interest in joint ventures is £15k (2019: £ nil) and the total interest in the joint venture is £394k (2019: £ nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

20. Trade receivables

£'000s	2020	2019
Trade receivables	5,812	4,050
Provision for impairment	-	-
Trade receivables – net	5,812	4,050

Ageing of trade receivables

Ageing of net trade receivables £'000s	2020	2019
Within agreed terms	5,592	3,398
Past due 1-30 days	86	243
Past due 31-90 days	-	152
Past due 91+ days	134	257
Trade receivables – net	5,812	4,050

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.

Currency of trade receivables

£'000s	2020	2019
GBP	1,833	1,319
USD	3,100	2,073
Other	879	658
Trade receivables – net	5,812	4,050

Trade receivables due from significant customers

Customers with revenue accounting for more than 10% of total revenue have outstanding trade receivables as follows:

£'000s	2020	2019
Customer A	621	737
Customer B	1,153	-
Customer C	-	434

As at issuance of these financial statements, all amounts relating to customers accounting for more than 10% of total revenue had been collected.

Impairment and risk exposure

Information about the impairment of trade receivables and the Group's exposure to market risk (specifically foreign currency risk) and credit risk can be found in note 3.

21. Other receivables held at amortised cost

£'000s	2020	2019
Accrued income	4,992	7,214
Prepayments	2,065	1,613
Other receivables	799	1,020
Total other receivables held at amortised cost	7,856	9,847

Accrued income represents fees earned but not yet invoiced at the reporting date which has no right of offset with contract liabilities – deferred licence amounts.

Accrued income decreased by £2.2m. The current year balance represents unbilled work in progress in relation to our ODS customers and £1.4m of one-off licence revenue items where there is contractual agreement to invoice in 2020.

22. Cash and cash equivalents

£'000s	2020	2019
Cash at bank and in hand	37,020	58,839
Cash and cash equivalents	37,020	58,839

Currency of cash and cash equivalents

£'000s	2020	2019
GBP	28,468	48,222
USD	4,835	5,730
AUD	1,076	2,335
Euro	2,102	2,105
Other	539	447
Cash and cash equivalents	37,020	58,839

23. Current and non-current liabilities

£'000s	2020	2019
Trade and other payables	8,120	5,884
Corporation tax	1,266	1,355
Contract liabilities – software implementation	1,947	4,581
Contract liabilities – deferred maintenance	5,047	4,060
Lease liabilities (note 24)	17,491	19,002
Provisions for other liabilities	1,392	667
Total current and non-current liabilities	35,263	35,549
Less non-current portion	(17,182)	(17,997)
Total current liabilities	18,081	17,552

Trade and other payables includes amounts relating to other tax and social security of £2.5m (2019: £1.8m).

24. Lease liabilities

The following table sets out the reconciliation of the lease liability from 1 January to the amount disclosed at 31 December:

£'000s	2020	2019
Lease liabilities recognised at 1 January	19,002	20,480
Additions	203	132
Disposals	(17)	–
Interest charge	787	852
Payments made on lease liability	(2,487)	(2,462)
Foreign exchange	3	–
At 31 December	17,491	19,002

Additions to lease liabilities include extensions to existing lease agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

24. Lease liabilities continued

Below is the maturity analysis of the lease liabilities:

£'000s	2020	2019
Non-current	15,790	17,330
Current	1,701	1,672
Total lease liabilities	17,491	19,002
No later than one year	2,419	2,456
Between one year and 5 years	9,253	9,226
Later than 5 years	9,409	11,687
Total future lease payments	21,081	23,369
Total future interest payments	(3,590)	(4,367)
Total lease liabilities	17,491	19,002

The group's net debt is made up of cash and cash equivalents and lease liabilities. The movement during the year in lease liabilities is set out above. Movements in cash and cash equivalents are set out in the Cash flow statement.

25. Provision for other liabilities

£'000s	
At 1 January 2019	152
Provided in the period	515
At 31 December 2019	667
Provided in the period	725
At 31 December 2020	1,392

Provisions for other liabilities comprise amounts for office dilapidations, employer taxes on share-based payments and legal costs.

26. Share capital

	2020		2019	
	Shares	£'000s	Shares	£'000s
Issued and fully paid				
Ordinary shares – 0.1 pence	300,000,000	300	300,000,000	300
Balance as at 31 December	300,000,000	300	300,000,000	300

No additional shares have been issued or cancelled in the year ended 31 December 2020.

27. Translation reserve

£'000s	2020	2019
At 1 January 2020	26	376
Currency translation of subsidiaries	65	(350)
At 31 December 2020	91	26

28. Share awards

The LTIP awards granted prior to 2020 are conditional on employment only; the fair value of the awards issued under the 2018 and 2019 LTIP plans have been calculated using the grant date share price as a proxy for fair value of the option adjusted for any dividends over the period. There are no market or non-market performance conditions attached to the option schemes and, as such, no performance conditions are included in the fair value calculations.

On 4 June 2020 the Group awarded an LTIP conditional on performance conditions, 50% based on EPS performance (non-market condition) and 50% on TSR (market condition) as well as three year employment fulfilment. For those share schemes with market-related vesting conditions, the fair value is determined using the Monte Carlo model at the grant date. For share options issued with EPS (non-market) performance vesting conditions, the fair value of the underlying option is equal to the grant date share price discounted by the expected dividend yield to reflect the lack of dividend accrual over the vesting period. The following table lists the inputs to the model used for the awards granted in the year ended 31 December 2020 based on information at the date of grant:

LTIP awards (granted in June)	TSR element	EPS element
Share price at date of grant	74.3p	74.3p
Award price	0p	0p
Volatility	69.2%	-
Life of award	3 years	3 years
Risk free rate	0.02%	-
Dividend yield	9.2%	9.2%
Fair value per award	40.1p	55.6p

All of these Company schemes, as well as any non-cyclical awards, are equity-settled by award of ordinary shares.

The total share-based payment charge relating to Alfa Financial Software Holdings PLC shares for the year is split as follows:

£'000s	2020	2019
Employee share schemes – value of services	1,321	636
Expense in relation to fair value of social security liability on employee share schemes	194	88
Total cost of employee share schemes	1,515	724

The following table summarised the movements in the number in nil cost share-based payment arrangements:

	2020	2019
Outstanding at 1 January	6,482,950	13,361,253
Conditionally awarded in year	2,358,444	1,205,036
Exercised	(2,592,919)	(4,206,093)
Forfeited or expired in year	(109,314)	(3,877,246)
Outstanding at 31 December	6,139,161	6,482,950
Exercisable at the end of the year	-	-

The outstanding share schemes are made up of the following:

Grant date	Expiry date	Exercise price	Share options 31 December 2020	Share options 31 December 2019
June 2014/2015	4 annual tranches from 1 June 2018	0p	1,197,503	3,803,689
June 2018	June 2021	0p	1,378,178	1,474,225
November 2019	November 2022	0p	1,205,036	1,205,036
June 2020	June 2023	0p	2,358,444	-

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

29. Unrecognised items

29.1 Contingencies and commitments

The Group has no capital commitments, no material contingent liabilities and no contingent assets.

29.2 Events occurring after the reporting period

There have been no reportable subsequent events.

30. Dividends

A special dividend of 15 pence per share was paid on 6 November 2020 amounting to £44.2m (2019: £ nil).

Subject to approval at the Annual General Meeting on 10 May 2021, a 2020 dividend of 1.0 pence per share will be paid on 2 July 2021 to holders on the register on 11 June 2021. The ordinary shares will be quoted ex-dividend on 10 June 2021.

31. Related parties

31.1 Controlling shareholder

The ultimate parent undertaking is CHP Software and Consulting Limited (the 'Parent'), which is the parent undertaking of the smallest and largest group in relation to these consolidated financial statements. The ultimate controlling party is Andrew Page.

31.2 Basis of consolidation

The principal subsidiaries and joint ventures of the Group and the Group percentage of equity capital are set out below. All these are consolidated within the Group's financial statements.

	Registered address and country of incorporation	Principal activity	Held by Company 2020	Held by Group 2020	Held by Company 2019	Held by Group 2019
Alfa Financial Software Group Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Holding company	100%	100%	100%	100%
Alfa Financial Software Limited	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	100%	–	100%
Alfa Financial Software Inc	350N Old Woodward Avenue, Birmingham, MI 48009, USA	Software and services	–	100%	–	100%
Alfa Financial Software Australia Pty Limited	Level 57 MLC Centre, 19-29 Martin Place, Sydney, NSW 2000, Australia	Services	–	100%	–	100%
Alfa Financial Software NZ Limited	Level 1 Building B, 600 Great South Road, Greenlane, Auckland 1051, New Zealand	Services	–	100%	–	100%
Alfa Financial Software GmbH	Bockenheimer Landstraße 20, 60323 Frankfurt am Main, Germany	Software and services	–	100%	–	100%
Alfa iQ	Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, UK	Software and services	–	51%	–	–

Alfa iQ was established in May 2020 – see note 19 for more detail.

31.3 Transactions with related parties

Full details of the Directors' compensation and interests are set out in the Directors' Remuneration Report on pages 88.

See note 8 for further detail on monies paid to key management (including Directors).

Dividends to the amount of £29.6m were paid to the Parent (2019: £ nil).

Dividends of 15 pence per share were paid to all shareholders in 2020 (2019: £ nil). Directors and other key management received dividends based on their beneficial interest in the shares of the Company. Directors' beneficial interests in the shares of the company are disclosed in the remuneration report on page 103.

The balances outstanding from the Parent at 31 December 2020 and 2019 were £ nil and £ nil respectively.

During the prior period, the Group made arms-length transactions with Classic Technology Limited, a company in which the Chairman holds an interest. These transactions amounted in 2019 to £0.04m in relation to fees paid for rental of property. There were no similar transactions undertaken during 2020.

During the period the Group invested £400,510 in Alfa IQ consisting of: a capital contribution of £335,972; and an interest-free loan fair valued at £64,538. At 31 December the value of the investment is carried at £320,752 and the loan fair valued at £73,525.

There were no other outstanding receivable balances from related parties at the end of the reporting period.

32. Offsetting assets and liabilities

Assets and liabilities are offset and the net amount is reported in the consolidated statement of financial position where Alfa currently has a legally enforceable right to offset the recognised amounts, and there is an intention to realise the asset and settle the liability simultaneously.

The following table presents the recognised assets and liabilities that are offset as at 31 December 2020 and 31 December 2019 in the consolidated statement of financial position.

31 December 2020 £000's	Gross amounts	Amounts offset	Net amounts presented
Accrued income	12,548	(7,556)	4,992
Contract liabilities – software implementation	(9,503)	7,556	(1,947)
31 December 2019 £000's	Gross amounts	Amounts offset	Net amounts presented
Accrued income	15,763	(8,549)	7,214
Contract liabilities – software implementation	(13,130)	8,549	(4,581)

COMPANY STATEMENT OF FINANCIAL POSITION

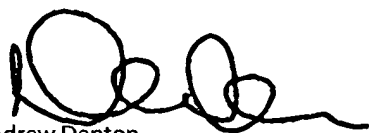
£'000s	Note	2020	2019
Assets			
Non-current assets			
Investment in subsidiary companies	4	348,693	347,436
Total non-current assets		348,693	347,436
Current assets			
Other receivables	5	253	287
Cash and cash equivalents	6	87	106
Total current assets		340	393
Total assets		349,033	347,829
Liabilities and equity			
Current liabilities			
Amounts owed to subsidiaries	7	222	3,448
Other payables	8	362	168
Accruals		448	661
Total current liabilities		1,032	4,277
Non-current liabilities			
Amounts owed to subsidiaries	7	-	32,516
Provision	8	13	-
Total non-current liabilities		13	32,516
Total liabilities		1,045	36,793
Capital and reserves			
Ordinary shares	9	300	300
Retained earnings		347,688	310,736
Total equity		347,988	311,036
Total liabilities and equity		349,033	347,829

Retained earnings includes a profit of £79.8m for the 2020 financial year (31 December 2019: loss of £2.8m). See the statement of changes in equity on the next page for further detail.

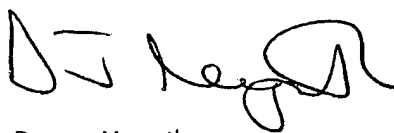
The Company has taken advantage of the exemption under Section 408 of the Companies Act 2006 from presenting its own profit and loss account.

The above Company statement of financial position should be read in conjunction with the accompanying notes.

The Company financial statements on pages 154 to 159 were approved and authorised for issue by the Board of Directors on 22 March 2021 and signed on its behalf.



Andrew Denton
Chief Executive Officer



Duncan Magrath
Chief Financial Officer

COMPANY STATEMENT OF CHANGES IN EQUITY

£'000s	Note	Called-up share capital	Retained earnings	Total equity
Balance as at 1 January 2019		300	312,864	313,164
Total comprehensive loss for the period		–	(2,764)	(2,764)
Employee share schemes – value of employee services	10	–	636	636
Balance as at 31 December 2019		300	310,736	311,036
Total comprehensive profit for the period		–	79,837	79,837
Employee share schemes – value of employee services	10	–	1,353	1,353
Dividends		–	(44,238)	(44,238)
Balance as at 31 December 2020		300	347,688	347,988

As at 31 December 2020 £2.3m (31 December 2019: £0.9m) of the retained earnings balance relates to reserves held to settle the Alfa employee share schemes, and does not qualify as distributable reserves.

The above Company statement of changes in equity should be read in conjunction with the accompanying notes.

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020

1. Summary of significant accounting policies

Alfa Financial Software Holdings PLC is a public company limited by shares and is incorporated and domiciled in England. These financial statements are the separate financial statements for the Company.

The registered office is Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom. The registered no. of Alfa is 10713517.

The principal activity of the Company is as a holding company.

1.1 Statement of compliance and basis of preparation

The financial statements of Alfa Financial Software Holdings PLC have been prepared in compliance with Financial Reporting Standard 102, the Financial Reporting Standard applicable in the United Kingdom and the Republic of Ireland ('FRS 102') and the Companies Act 2006.

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

These financial statements have been prepared on a going concern basis, under the historical cost convention. The Directors have used the going concern principle on the basis that the current profitable financial projections of the Company and its subsidiaries indicate they will continue in operation for the foreseeable future. As described in note 1.1 to the Consolidated financial statements, this assessment includes downside and reverse stress testing and consideration of the continued uncertainty surrounding the future impacts of Covid-19.

The Company financial statements have been prepared in pounds sterling which is the functional and presentational currency of the Company and have been presented in £'000s.

As permitted by FRS 102 the Company has taken advantage of the disclosure exemptions available under that standard in relation to financial instruments, presentation of a Cash Flow Statement, share-based payments, the aggregate remuneration of key management personnel and related party transactions with other wholly-owned members of the Group.

The parent company meets the definition of a qualifying entity under FRS 102. Where required, equivalent disclosures are given in the Group accounts of Alfa Financial Software Holdings PLC.

The profit for the financial period to 31 December 2020 was £79.8m (2019: loss of £2.8m).

1.2 Investments in subsidiaries

Subsidiaries are all entities over which the Company has control. The Company controls an entity when the Company 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.

Unless otherwise stated, subsidiaries have share capital consisting solely of ordinary shares, and the proportion of ownership interests held equals the voting rights held by the Company. The country of incorporation or registration is also each subsidiary's principal place of business.

Investments in subsidiary undertakings are stated at cost, including those costs associated with the acquisitions, less provision for any impairment in value. Where events or changes in circumstances, including an adverse movement in the share price, indicate that the carrying amount of an investment may not be recoverable, an impairment review is performed. An impairment write-down is recognised to the extent that the carrying amount of the asset exceeds the higher of the fair value less cost to sell and value in use.

Any subsidiary undertakings sold or acquired during the year are included up to, or from, the dates of change of control. Where control of a subsidiary is lost it is recognised in the profit or loss.

Amounts subsidiaries are unsecured, interest-free and repayable on demand. The carrying amounts of such payables are considered to be the same as their fair values due to their short-term nature.

1.3 Financial assets

Basic financial assets, including trade and other receivables, cash and bank balances and other receivables, are initially recognised at transaction price, unless the arrangement constitutes a financing transaction.

At the end of each reporting period financial assets measured at amortised cost are assessed for objective evidence of impairment. If an asset is impaired the impairment loss is the difference between the carrying amount and the present value of the estimated cash flows discounted at the asset's original effective interest rate. The impairment loss is recognised in profit or loss.

1.4 Financial liabilities

Basic financial liabilities, including trade and other payables and trading balances and loans from subsidiaries are initially recognised at transaction price, unless the arrangement constitutes a financing transaction, where the debt instrument is measured at the present value of the future receipts discounted at a market rate of interest. The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or expired.

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.

Payables are classified as current liabilities if receipt or payment is due within one year or less.

1.5 Equity

Ordinary shares

Ordinary shares are classified as equity. There are no restrictions on the distribution of capital and the repayment of capital.

1.6 Employee share schemes

Grants made to subsidiary employees will not result in a charge recognised in the income statement, any charges for share-based payments are recognised as an increase in the cost of investment in subsidiaries. For full details of the Group's share-based payments, refer to note 28 to the consolidated financial statements.

1.7 Dividends

Dividends are recognised through equity when approved by Alfa's shareholders or on payment, whichever is earlier.

2. Critical accounting judgements and key sources of estimation uncertainty

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 will, by definition, seldom equal the related actual results. There were no critical accounting judgements that would have a significant effect on the amounts recognised in the parent company financial statements or key sources of estimation uncertainty at the reporting date that would have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

3. Financial risk management

The Company's exposure to financial risks is managed as part of the Group's financial risk management. Full details about the Group's exposure to financial risks and how these risks could affect the Group's future financial performance are given in note 3 to the consolidated financial statements.

4. Investments in subsidiaries

£'000s	2020	2019
Cost		
As at 1 January	347,436	346,800
Capital contributions to subsidiaries	1,257	636
Impairment charge	-	-
As at 31 December	348,693	347,436

The carrying amount of the investment is £348.7m at 31 December 2020 (2019: £347.4m). The recoverable amount of the investment was determined based on value-in-use calculations using cash flow projections of the Company and its subsidiaries from financial budgets and forecasts for a five-year period using a discount rate of 11% (2019: 12%). Cash flows beyond these periods have been extrapolated using a steady 2% (2019: 2%) average growth rate. This growth rate does not exceed the long-term average growth rate for the markets in which the Company and its subsidiaries operate. In addition, the market capitalisation of the Company as at 31 December 2020 was £396.0m. As the recoverable amount, and the market capitalisation of the Company, are in excess of the carrying amount of the investment, no impairment charge has been recognised during the current financial year.

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2020 CONTINUED

5. Other receivables

At 31 December 2020, other receivables relate to prepayments of £210k (2019: £74k) and VAT receivables of £43k (2019: £113k).

6. Cash and cash equivalents

£'000s	2020	2019
Cash and cash equivalents	87	106

7. Amounts owed to subsidiaries

£'000s	2020	2019
Amounts owed to subsidiaries – current	222	3,448
Amounts owed to subsidiaries – non-current	–	32,516
Total amounts owed to subsidiaries	222	35,964

Current amounts owed to subsidiaries of £0.2m relates to operating expenses owed (2019: £3.5m). The prior year non-current amounts reflected a loan of £29.9m principal that was repayable in 10 years, and accrued interest, accruing at 2% over the applicable base rate. This loan and all accrued interest was repaid in 2020.

8. Other payables and provision for other liabilities

Other payables relate to accruals of social security and other taxes of £59k (2019: £53k), trade creditors of £78k (2019: £115k) and salary costs of £225k (2019: £ nil).

Long-term provision relate to the employer national insurance contribution of £13k of the 2020 share grant expense that relates to the employees of the Company (2019: £ nil).

9. Called-up share capital

Each ordinary share has a par value of 0.1 pence. All shares are fully paid and have equal voting rights.

Issued and full paid	Shares-ordinary	£'000s
At 31 December 2020	300,000,000	300
At 31 December 2019	300,000,000	300

10. Employee share schemes

Under the rules of the Company's LTIP plans, on 31 May 2018, 1 November 2019 and on 2 June 2020, selected employees of the Company's subsidiary were granted awards in the form of nil cost options over ordinary shares in Alfa. Refer to note 28 of the consolidated accounts for more detail on these grants. The cost of the share-based remuneration is passed to the relevant subsidiary.

11. Dividends

A special dividend of 15p per share was paid on 6 November 2020, amounting to £44.2m (2019: £ nil).

Subject to approval at the Annual General Meeting on 10 May 2021, a 2020 dividend of 1.0 pence per share will be paid on 2 July 2021 to holders on the register on 11 June 2021. The ordinary shares will be quoted ex-dividend on 10 June 2021.

12. Directors' remuneration

The Company has no employees other than the Directors. Full details of the Directors' compensation and interests are set out in the Directors' Remuneration Report on pages 100 to 107.

13. Related party and ultimate controlling party

The Company has taken advantage of the exemption under FRS 102:33.1A from disclosing transactions with other members of the Group.

The immediate and ultimate parent undertaking is CHP Software and Consulting Limited, which is the parent undertaking of the smallest and largest group to consolidate these financial statements. The registered office of the immediate and ultimate parent undertaking is Moor Place, 1 Fore Street Avenue, London EC2Y 9DT and copies of the financial statements of CHP Software and Consulting Limited can be obtained from this address. The ultimate controlling party is Andrew Page.

See a full listing of Company's subsidiaries and joint venture in note 31.2 of the Group accounts.

14. Subsequent events

There have been no reportable subsequent events.

GLOSSARY OF TERMS

Adjusted EBIT: Adjusted EBIT is defined as profit from continuing operations, before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets. Now no longer used.

Adjusted EBIT margin: Adjusted EBIT margin is defined as profit from continuing operations, before interest and income taxes, adjusted for capitalised costs relating to internally generated assets and the relevant amortisation costs on associated internally generated assets as a proportion of revenue. Now no longer used.

AI: Artificial Intelligence.

API: Application Programming Interface.

AGM: Annual General Meeting.

Alfa: The Group or Alfa Financial Software Holdings PLC and its subsidiary undertakings (as defined by the Companies Act 2006).

APM: Alternative Performance Measure.

Articles: The Articles of Association of the Company.

Banks: Customers classified as banking institutions are finance entities associated with regulated banking groups.

Basic earnings per share: Calculated by dividing the profit attributable to equity holders of Alfa by the weighted average number of ordinary shares outstanding during the year.

Board: The Board of Directors of Alfa Financial Software Holdings PLC.

Companies Act: The Companies Act 2006 (as amended).

CEO: Chief Executive Officer.

CFO: Chief Financial Officer.

CGU: Cash-generating unit.

Company: Alfa Financial Software Holdings PLC, a company incorporated in England and Wales with registered number 10713517 whose registered office is at Moor Place, 1 Fore Street Avenue, London, EC2Y 9DT, United Kingdom.

CLT: Company Leadership Team.

CODM: Chief Operating Decision Maker.

COO: Chief Operating Officer.

CSR: Corporate Social Responsibility.

DBSP: Deferred Bonus Share Plan.

Directors: The Directors of the Company whose names are set out on pages 66 to 67.

Disclosure and Transparency Rules: The Disclosure and Transparency Rules made under Part VI of the Financial Services and Markets Act 2000 (as amended).

EMEA: Europe, the Middle East and Africa.

ESG: Environmental, Social and Governance.

EPS: Earnings per share.

EU: European Union.

EURIBOR: the Euro Interbank Offer Rate.

FCA: Financial Conduct Authority

FCF: Free cash flow.

FRC: The Financial Reporting Council.

FTE: Full time equivalent.

FVOCI: Fair value through other comprehensive income.

FVTPL: Fair value through profit or loss.

GHG: Greenhouse gases.

HMRC: Her Majesty's Revenue & Customs.

KPI: Key performance indicator.

IP: Intellectual property.

IRT: Incident Response Team.

I&S: Implementation and Support ("I&S") expense.

LIBOR: London Inter-bank Offered Rate.

LTIP: Long-Term Incentive Plan.

ML: Machine Learning.

OEMs: Original equipment and automotive manufacturers.

Operating free cash flow conversion:

Operating free cash flow is calculated as cash from operations, less capital expenditures, less the principal element of lease payments in respect of IFRS 16 (applied for the first time in the year ended 31 December 2019). Operating free cash flow conversion represents Operating free cash flow generated as a proportion of Operating profit.

PDMR: Person Discharging Managerial Responsibilities.

PDP: Performance Development Plan.

RFI: Request for information.

R&PD: Research and product development.

SG&A: Sales, general and administrative expenses.

SI: Systems integrator.

SONIA: Sterling Overnight Index Average. The effective overnight interest rate paid by banks for unsecured transactions in the British sterling market.

STFR: Single total figure of remuneration.

TCV: Total contract value.

The Code: The UK Corporate Governance Code published by the FRC in July 2018.

TSR: Total shareholder return.

UAT: User acceptance testing UI: User interface.

VAT: UK value added taxation.

XaaS: Everything as a service.

SHAREHOLDER INFORMATION

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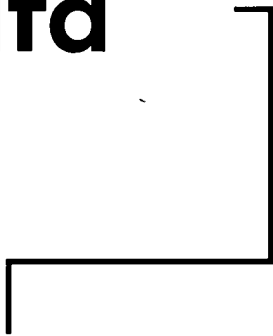
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Alfa[^]



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