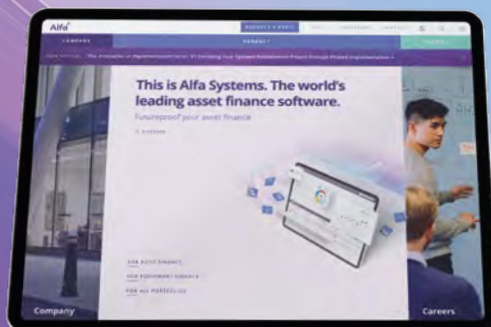




Stepping into our opportunity

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.



Find out more online at
alfasystems.com

Contents

Strategic report

- 1 Financial highlights
- 4 Software
- 6 Subscription
- 8 Services
- 10 At a glance
- 12 Chief Executive's review
- 16 Market overview
- 18 Business model
- 20 Investment case
- 22 Company strategy
- 24 Strategy in action
- 25 People
- 26 Partnering
- 28 Strategic Investment
- 30 Alfa iQ
- 32 Cloud Hosting
- 34 Alfa Start
- 36 Key performance indicators
- 38 Financial review
- 44 Risk management
- 46 Principal risks and uncertainties
- 52 Viability statement
- 54 Section 172 statement
- 58 Environmental, Social & Governance

Governance

- 71 Chairman's introduction to governance
- 74 Board of Directors
- 76 Company Leadership Team
- 77 Board leadership & company purpose
- 81 Division of responsibilities
- 86 Composition, succession & evaluation
- 90 Nomination Committee Report
- 94 Audit & Risk Committee Report
- 100 Directors' Remuneration Report
- 103 Directors' Remuneration Policy
- 112 Annual Report on Remuneration
- 122 Directors' report
- 127 Statement of Directors' responsibilities

Financial statements

- 129 Independent auditor's report
- 137 Consolidated statement of profit or loss and comprehensive income
- 138 Consolidated statement of financial position
- 139 Consolidated statement of changes in equity
- 140 Consolidated statement of cash flows
- 141 Notes to the consolidated financial statements
- 173 Company statement of financial position
- 174 Company statement of changes in equity
- 175 Notes to the company financial statements

Other information

- 179 Glossary of terms
- 180 Shareholder information

Financial highlights

Group revenue (£m)

2021	£83.2m
2020	£78.9m
2019	£64.5m
2018	£71.0m

Cash (£m)

2021	£23.1m
2020	£37.0m
2019	£58.8m
2018	£44.9m

Dividends paid (£m)

2021	£32.7m
2020	£44.2m

Non-financial highlights

Employee retention

2021	87%
2020	93%
2019	83%
2018	88%

Customer concentration (top 5)

2021	38%
2020	48%
2019	61%
2018	59%

Operating profit (£m)

2021	£24.7m
2020	£23.9m
2019	£13.7m
2018	£22.4m

Operating profit margin

2021	29.7%
2020	30.3%
2019	21.3%
2018	31.5%

Number of subscription customers

2021	31
2020	28
2019	25
2018	28

Employee engagement*

2021	78%
2020	74%
2019	55%
2018	68%

* Calculation revised, 2020, 2019 and 2018 restated, see KPI page 37.



Alfa is an

Big company impact.
Small company feel.

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.

➤ For our purpose and identity, turn to page 10

IP company

The IP that exists in Alfa Systems has been built up over 30 years of working and specialising in the auto and equipment finance industry. It is the core of our business and the heart and lungs of our customers' operations.

Key to the success of Alfa today is the launch, in 2010, of Alfa Systems v5. This was built with the future in mind: 100% web-based and 100% Java – making it fully digitally enabled and cloud native. It is constantly evolving to meet the needs of today's customers.

➤ Read more about our investment in IP on pages 28-29

REVENUE STREAMS

Constantly evolving

Dec 2020

5.6.3

Dec 2021

5.6.17

SOFTWARE

Market-leading software

Our Alfa Systems software is at the heart of some of the world's largest and most innovative auto and equipment finance companies.

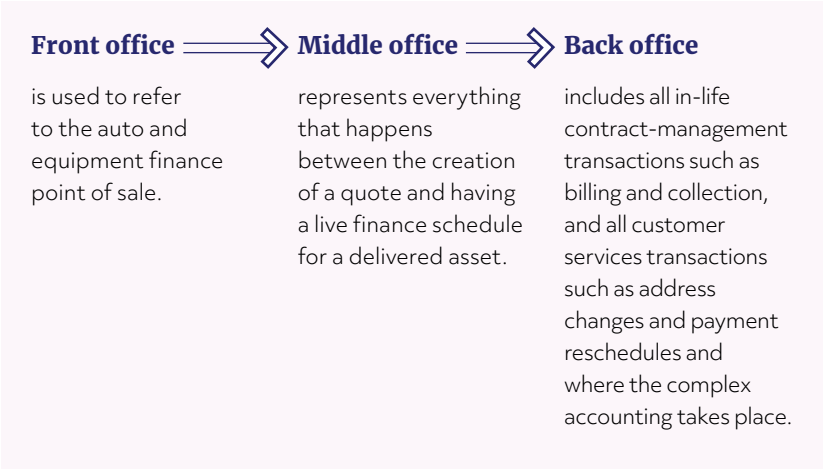
We develop software that is dedicated to the auto and equipment finance industry. The software is the heart and lungs of our customers’ organisations providing front office, middle office and back office functionality all in one system, developed ground up in a digital environment. The strength of our software lies not only in the years of knowledge and experience that has been poured into it, but that it was designed for the digital environment.

What is included in the software revenue stream?

Software revenues include revenues from recognition of customised licence revenue, one-off licence fees and any development fees charged to customers on a day rate basis.

What happened in 2021?

Every four weeks we release a new version of the software, and so there were 13 new releases in 2021. We also rolled out Mercury, our new User Interface, to 11 customers, whose users are now benefiting from its built-in accessibility and clean and modern environment. We had 27 go-lives during the year including 5 new implementations of v5. Of the new v5 implementations, 2 were upgrades from v4, as a consequence new licence revenues were relatively low in the year. Offsetting this was an increase in the number of development days charged to clients.



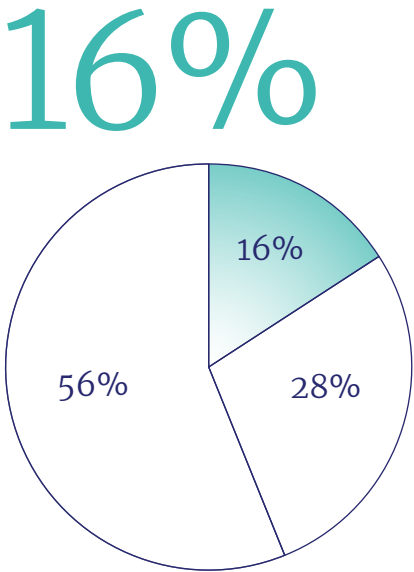
“After very careful evaluation and consideration, we selected Alfa because we felt it’s a great innovative platform for us, and so far we have been pleased with their product capability. I feel like the overall match between our two companies and culture, particularly around innovation and ESG, really helped us make this decision.”

Shamim Mohammad
EVP, Chief Information & Technology Officer, CarMax

Software revenue (£m)

2021	13.6
2020	20.0

Software revenue (%)



REVENUE STREAMS

Maintenance customers

Dec 2020

27

Dec 2021

29

SUBSCRIPTION

Reliable cloud hosting

Our cloud hosting services have grown rapidly and the robustness of the built in services and the ability to simplify and accelerate implementations make them an attractive choice for customers.

We have seen rapid growth in our cloud hosting service, particularly as customers have moved off v4 onto v5. They have recognised the benefits of speed of implementation, the strength of the offering and the reliability that comes with it. Customers can now take a ‘bundled’ service, which for a monthly fee incorporates the licence, maintenance and hosting services.

What is included in the subscription revenue stream?

Subscription revenues include recurring revenues paid on a monthly or annual basis, including subscription licence revenues, maintenance and cloud hosting.

What happened in 2021?

2021 built on the significant progress we made in 2020 in developing our cloud hosting services. There were nine go-live events for the hosting team in 2021, three of these were for new implementations, with the remainder being upgrade events.

We continue to focus on increasing subscription licence sales both when customers are looking to take our hosting services, but even where they wish to deploy in their own cloud.

Alfa cloud hosting services

- Customised automated task scheduling with monitoring and alerting
- Automated patching and deployments of Alfa Systems
- Agility to create, destroy and resize environments
- Disaster recovery leveraging managed services with annual test
- Automated database backup and on-request copying of data between environments
- 24/7 threat monitoring and annual penetration testing
- ISO 27001 and SOC2 audited processes
- Environment and performance monitoring with automated alerting



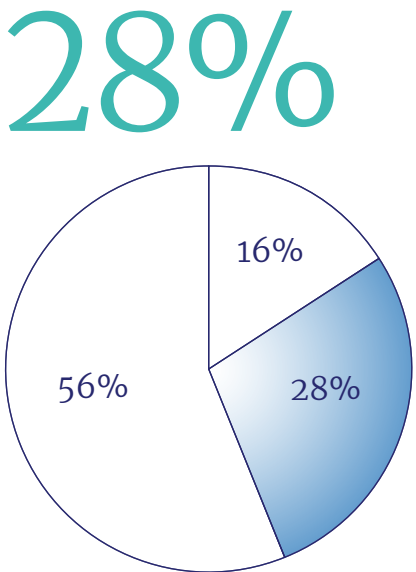
“We needed a system that was fit for purpose and fit for the future: Alfa v5 met those criteria. Alfa v5 will give Close Brothers Asset Finance scalability, but also nimbleness that’s a prerequisite in a changing environment. We operate in a number of jurisdictions and changes are constant, whether that’s regulatory, accounting, or just internal reporting, we’re going to be in a much stronger position to deal with change quickly and more economically.”

Neil Davies
CEO, Commercial, Close Brothers

Subscription revenue (£m)

2021	23.5
2020	18.1

Subscription revenue (%)



REVENUE STREAMS

Services customers (>£0.2m)

Dec 2020

19

Dec 2021

28

SERVICES

Quality delivery with quality people

The quality of our people, the knowledge sharing embedded in the organisation and the inherent IP within our software, means that our delivery record is second to none.

Our services revenue comes from selling days to customers for implementation and for other ongoing services. Fundamental to this is the quality of our people, the deep knowledge they have of the auto and equipment finance industry and commitment to delivering a high-quality service.

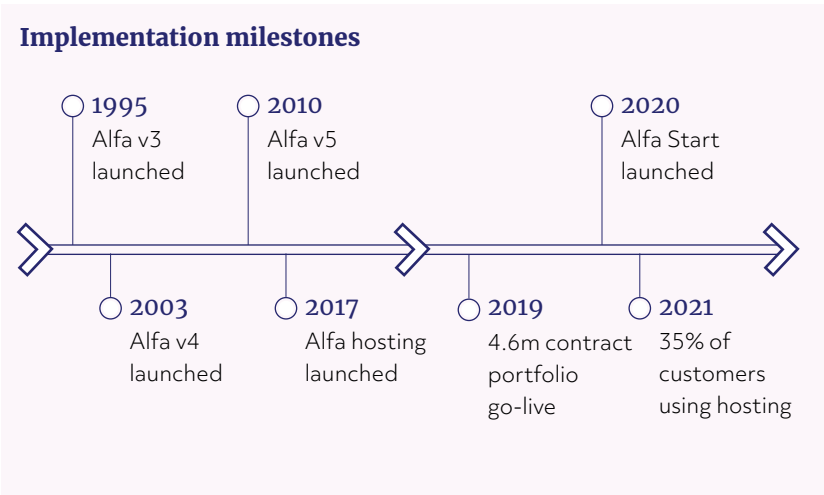
What is included in the services revenue stream?

Services revenues are revenues from any work done for customers including pre-implementation, implementation work, and ongoing services, but excludes any revenue from development work.

What happened in 2021?

2021 saw a continuation of our strong delivery record underpinned by the growth in our pool of client-facing people and placement of partner resources on customer projects. Working 100% remotely we successfully completed five new implementations of Alfa v5, continued ongoing implementation and v5 upgrade projects, and provided ongoing services across the majority of our existing customer base.

We continue to invest in the development of our people and in the quality and efficiency of our delivery model, as well as building and leveraging our partner ecosystem to enable more concurrent implementation projects.



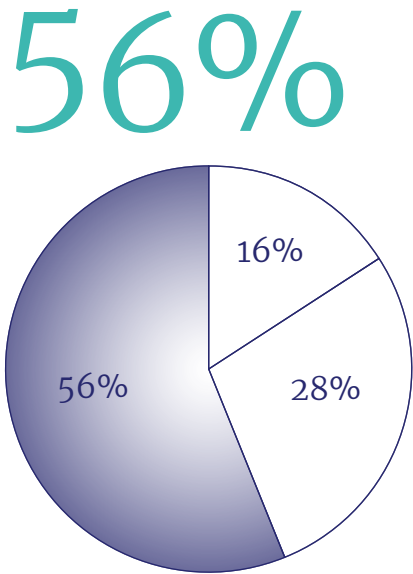
“We’re very pleased with the product, we’ve got a very strong team at Alfa supporting us. We’ve got multiple suppliers, but Alfa are by far and away the best performing partner that we have, in terms of the behaviours they operate with as an organisation – they’re extremely professional.”

Russ Fitzgerald
Chief Information Officer,
Hampshire Trust Bank

Services revenue (£m)

2021	46.1
2020	40.8

Services revenue (%)



AT A GLANCE

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.

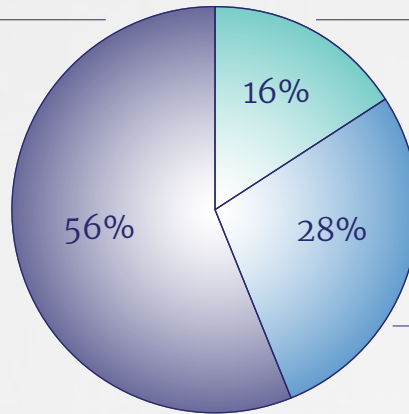


What we do

Services

We performed implementation or ongoing services for 28 customers during the year.

All of our revenues are for the sale of software and related services. This split is to help understanding of changes in business activity.



Software

We had 21 customers during the year where we provided development services. In addition, we had 7 customers where we recognised a portion of the customised licence in the period, and 6 customers where there was point-in-time licence recognition in the year.

Subscriptions

At 31 December 2021, we had 31 subscription customers, up from 28 last year. Of these, 12 were taking hosting services at the end of the year.

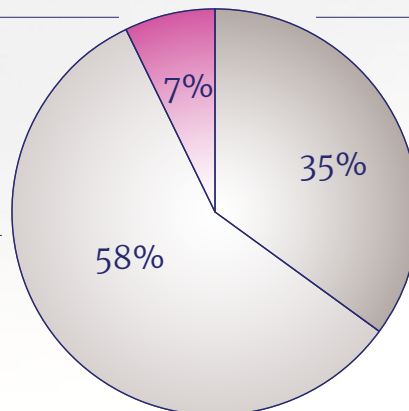
Where we do it

Rest of the World

We have operations in Australia and New Zealand specialising in both automotive and equipment finance. As at 31 December 2021 we had 26 team members in this region.

EMEA

We had 21 customers based in Europe and Africa, as at 31 December 2021. Alfa Systems has been implemented and is live in 16 EMEA countries, with a further expansion underway into additional countries over the next few years.



America

We primarily served customers across the US out of offices in Michigan and Texas, although US customers are also supported from the UK. We have deep experience of the USA automotive finance sector and a growing presence in equipment finance.

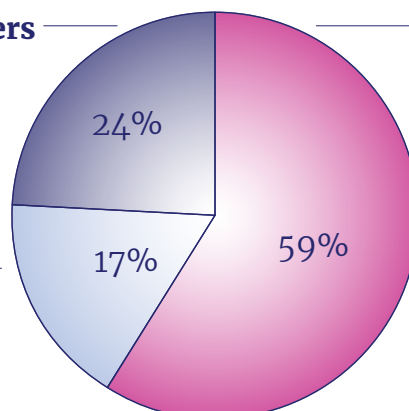
Who we do it for

Original equipment manufacturers

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

Independents

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.



Banks

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

CEO'S REVIEW



Andrew Denton
Chief Executive Officer

“We started 2021 with a strong financial and delivery performance and maintained this through the whole of the year. With the improving quality of our revenue mix, the strategic improvements made across the business, the quality of our people and strength of the intellectual property in our software, we have great confidence in Alfa’s prospects.”

Strong performance

We saw a strong performance throughout 2021 with good progress across all parts of our business. We have continued to deliver successful implementations with increased usage of our scalable and reliable cloud hosting solution, at the same time as releasing significant enhancements to our software.

We have seen excellent sales growth reflected in our contracted orders with Total Contract Value (TCV) of £133m up 4% since 30 September 2021 and 18% in the twelve months since 31 December 2020. The pipeline has continued to strengthen underpinning our confidence in the future growth of the business.

In another difficult year for our people, with the disruption and uncertainty from the ongoing impact from COVID-19, we have continued to focus on our culture and we are pleased to see that translate into high employee engagement scores. The resulting

high retention rates and our ability to continue to attract high-calibre people into Alfa, supports our ability to grow our headcount in a tight labour market. The strong conversion of our pipeline and continued investment in our product and processes have enabled our growing workforce to remain fully utilised.

Financial performance has also been strong. Revenue of £83.2m (2020: £78.9m) was up 5% on last year, or 14% compared with 2020 revenues of £73.3m, after excluding one-off licence revenue from a five year contract extension.

To support the growth in the business average headcount in the period was 383 (2020: 341), a 12% increase which increased salary costs. Hosting costs also increased as that business grew over last year. Both of these were partially offset by a full twelve months of reduced travel and office costs compared with 2020.

Overall operating profit up £0.8m to £24.7m (2020: £23.9m) with the revenue increase of £4.3m partially offset by increased costs of £3.5m, whilst maintaining operating profit margin at 30% (2020: 30%).

Cash conversion was strong at 114% (2020: 114%) and we finished the period with net cash of £23.1m (31 Dec 2020: £37.0m) after payment of £32.7m of dividends in the calendar year.

We have continued to diversify our revenue base with our top five customers now representing 37% of our revenues in 2021 compared to 48% in 2020 and 61% in 2019. We have continued to deepen our relationships across our customer base, leading to more customers making a material revenue contribution to our business. We had 14 customers contributing revenues of more than £2m in the year, up from 10 in 2020 and 7 in 2019.

Alfa's culture has meant that from the early days of forming the business we have focused on creating a positive, sustainable impact on society. It is pleasing that our underlying strength in ESG is now being reflected in improved ESG scores, including the Carbon Disclosure Project and by achieving an ISS ESG 'Prime' rating. ISS ESG takes an absolute best-in-class approach by industry, so companies are categorised as 'Prime' if they achieve/ exceed the sustainability performance requirements (the 'Prime threshold') defined by ISS ESG for each specific industry in the ESG Corporate Rating.

Subscription

Subscription revenues have grown rapidly over the last couple of years and comprise any revenues that are recurring including monthly or annual maintenance billing, cloud hosting services and bundled licence, maintenance and hosting contracts. We have transitioned to a 'cloud first' approach to sales because we see real benefits in the speed of implementation for customers and they see benefits in the reliability of the service and built-in tools, including automated monitoring, patching and scheduling. We anticipate that the majority of new customers will take a hosted service and all of the current v4 to v5 upgrades are moving into a hosted v5 environment. In addition we expect that new customers will increasingly take bundled licence, hosting and maintenance contracts, further improving the stickiness of the customer base. We now have seven customers taking cloud hosting services for

live production environments and have five customers taking hosting services during design and implementation, most of which will become live production customers, to give a total of twelve customers taking hosting services, up from ten at the end of 2020.

The number of customers with ongoing maintenance contracts has increased to 29 from 27 at the end of 2020.

Software

Our strategy is to continue to develop our software, to ensure that we meet industry and customer needs as they evolve and as the regulatory environment changes. We release a new update of Alfa every four weeks, each one of which makes enhancements available to customers that add to their ability to serve their own customers. This maintains our edge as a leading provider of auto and equipment finance software.

During 2021 we invested in improving the efficiency of our software development; all part of our continuing drive for simplification. We see the focus of development in 2022 move towards customer facing functionality improvements, as customers continue to innovate and react to the changing demands of the market. We are also looking to expand our capacity to deliver new developments, and consequently we are in detailed planning for creating a new virtual development hub in Portugal to augment our London development teams.

Our differentiators

This is why our customers choose Alfa Systems.

Delivery track record

Our best practice methodologies and specialised knowledge of auto and equipment 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 disparate legacy systems, 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.

Perform through leading-edge tech

Alfa Systems is designed ground-up with the latest technology to allow easy integration into other systems and to 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'S REVIEW CONTINUED

Despite more of an internal focus on development in 2021 we did significantly advance our ability to service Wholesale customers which is a new and significant vertical market for Alfa. These enhancements allow support for all asset types, speedier access to funds for Wholesale customers while tracking and managing contracts through the early stages and allowing for bulk changes to Wholesale contract curtailment schedules. We now have two customers using our Wholesale functionality and one of our major contract wins in the first half was for a Wholesale-only customer.

We have also delivered improvements in the areas of configuration management, credit decisioning, business rule creation and regulatory support for European markets.

The new user interface (UI) that we launched last year is now in production with eight customers and these new UI approaches have been used to develop collections and curtailments functionality.

As expected overall software revenue reduced compared with last year due to the reduction in brand new Alfa implementations and consequently there was a reduction in licence income, although this was partially offset by increased development days for existing customers, including those upgrading from Alfa Systems v4 to v5.

Services

Services revenues are derived from all of the work on implementations and other services but exclude development days on new and existing customers (which is shown in software). We have continued to deliver a very high level of service to customers, whilst operating remotely during the period. In 2021 in the UK we saw go-lives on an Alfa Start project, implementing for new business following the acquisition by another customer and, two v4 to v5 upgrades. In Europe we saw the continuation of a multi-country implementation across a further four European countries, and in the US a brand new implementation for an automotive client and the launch of three new modules for an existing customer.

We have grown our customer-serving team, however a greater proportion of their time was spent on software development which

“Engagement and retention has remained high, and we continue to be able to attract high-quality diverse people to Alfa, however we recognise that the market remains tight for quality software engineers and so we work hard to ensure that we are the employer of choice.”

shows in software. Within services there was a reduction in new implementation work, offset by the implementation of v4 to v5 upgrades.

We have also grown our access to partner resources and during the year we had partners operating with us for seven customers, which is up from four customers for the last year. In 2020 there was some large systems integration work done by a partner which normally would not be within the scope of our work, and if this was excluded total partner days were up 54%.

Our partner programme is a key enabler of our growth and we will expand this further. We will create plans to develop partner-led delivery which would be a significant step forward from partners simply augmenting our existing resources.

Alfa iQ – putting theory into practice

Alfa iQ spent 2021 engaged in prototyping work with Alfa customers which successfully validated the business benefit of artificial intelligence and machine learning applications within the asset finance industry. Alfa iQ has now been engaged by two leading organisations, one providing automotive finance and the other business finance, to implement artificial intelligence and machine learning solutions within their businesses, which will generate revenue in 2022.

The projects build on two different applications of artificial intelligence and machine learning in asset finance: improvements to originations and workflow optimisation.

Up until now Alfa iQ has relied on using resources from Alfa and Bitfount, the joint venture partners, however we are now actively recruiting into the joint venture. In the period Alfa iQ achieved ISO 27001 certification.

Strong engagement with our people

We have balanced the issues of safety along with recognising the mental health impacts of lockdowns. We have not required anyone to come to the offices during the pandemic who did not want to, but when allowed, we have opened up the office for those who want to be there. Each department or team has created its own charter for the way it wishes to work and we are implementing these now. We have continued to arrange remote events to keep engagement high, ranging from short presentations on work and life topics through to Company-wide hackathons, innovation days and conferences.

Engagement and retention have remained high, and we continue to be able to attract high-quality diverse people to Alfa, however we recognise that the market remains tight for quality software engineers and so we work hard to ensure that we are the employer of choice. With this in mind, we have a very full agenda in our global HR function, where activity has included updating our approach to on-boarding and to learning and development as well as an ongoing review of rewards and benefits. Employee share ownership has always been important to Alfa and we introduced a Save as You Earn (SAYE) share scheme in the UK and an Employee Stock Purchase Plan (ESPP) share scheme in the USA.

Capital return

We remain a strongly cash generative business. We continuously review our strategy and assess the funds needed to pursue that strategy and then review the options for any excess funds. When presenting our 2020 results we committed to starting a programme of regular dividends, and we remain committed to doing this through the declaration of a single ordinary dividend each year alongside our

full-year results. Despite the payment of a regular dividend, we expect to continue to generate excess cash and so from time to time we will also look whether to return it. Having made an assessment of our potential investment needs and reviewing our internal forecasts for the next 12-18 months we declared a special dividend of 10 pence per share, for a total payment of £30m, which means that we will have generated total dividends for shareholders over the last 12 months of 26 pence per share or £77m. Looking forwards it remains our intention to continue to pay a regular dividend, and to grow this progressively, but in addition we announced a share buyback programme in January 2022 to spend up to £18m over the next 18 months to buy back our shares, partly to satisfy share option vestings, but with the majority to be held in Treasury and/or cancelled.

Robust market conditions

While the underlying auto and equipment finance market did initially see a dip in activity following widespread COVID-19 lockdowns, it has broadly been recovering since H2 2020. This continued through 2021 and we now see generally favourable market conditions, recognising that whilst we have no direct exposure to events in Ukraine and Russia, it is too early to say what the medium term impacts on the macroeconomic outlook may be.

Regarding the asset finance software market, since the initial disruption of the uncertainty caused by COVID-19 in H1 2020, we have seen no adverse impact on our market. Indeed, the remote working practices that companies have been forced to adopt, and are increasingly looking to be standard practice going forwards, has accelerated moves towards a digital strategy, alongside increased focus on system flexibility and reliability, and increasing regulatory and legacy push factors, both of which Alfa is well positioned to benefit from.

Good conversion of late stage pipeline

When we announced our 2020 results we had a strong late-stage pipeline, but highlighted the importance of converting this into signed contracts and that



converting prospects into signed contracts was taking longer than normal. During the year we have converted seven prospects into wins and added an additional five prospects, without losing any, so finishing the year with eight prospects. This success in converting the late-stage pipeline demonstrates that we have a compelling proposition. Since the end of 2021 we have added one additional prospect and converted one into a win so that we currently have eight prospects in our late-stage pipeline.

It is not only the quality of our software that gives us such a strong conversion of prospects, but our strong delivery record. An increasing trend has been the move towards customers looking to implement Minimum Viable Product (MVP) solutions supported by Alfa Start. This has the advantage of getting us on the ground faster, demonstrating the quality of our software and people.

Outlook

The market opportunity for Alfa is very exciting and we have good visibility of work for 2022. We know there is a tight talent market at the moment, but assuming we continue our excellent recent record of attracting and retaining talent, we will see good revenue growth in 2022, albeit with some additional margin pressure due to salary inflation and return to normal costs. With the strategic improvements made across the business, the quality of our people and strength of the intellectual property in our software, we have great confidence in Alfa's prospects.

Andrew Denton
Chief Executive Officer

8 March 2022

MARKET OVERVIEW

Alfa has been at the forefront of the digital revolution in auto and equipment 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.

Global trends

Global economic recovery continues, with the focus shifting to the after-effects of a relatively short-lived recession. Supply chain disruption and surging demand have contributed to global inflation; and used assets have soared in value whilst new inventory remains low.

The climate emergency is forcing consumers and businesses to look at ways to improve their carbon footprint. Auto and equipment finance companies play a critical role in this change, providing the world with ever improving green technologies.

What this means for Alfa today

The ability to refinance assets or onboard used assets provides our customers with the ability to thrive in times of low inventory, but also provide tools for supporting the circular economy. Usage-based billing is fully configurable, allowing clients to build flexible financing solutions. Our customers are also configuring green financing products, including local government subsidies and recording key emissions data against their assets.

Alfa Systems is a highly configurable platform which often results in our customers being well positioned to face such challenges. Demand is strong worldwide as finance companies continue to look to implement resilient, flexible and modern technology landscapes.

What this means for Alfa tomorrow

Alfa continues to keep a close eye on trends and shifts within the geographies and industries in which we operate. Recent years have highlighted that, often, these shifts are unforeseen. This highlights the importance of flexibility and configurability within our solution, providing customers with features that not only satisfy the requirements of today but that can be applied to the challenges of tomorrow.

USA

It was expected that delinquencies in the USA automotive finance market would spike as forbearance programmes came to an end, but this has yet to materialise to the anticipated extent.

Supply chain issues and inflation continue to disrupt originations, but low rates and a trend towards longer terms are keeping payments affordable and demand high.

Equipment demand remains high with future prospects looking strong due to continued industry confidence and increased government infrastructure spending.

What this means for Alfa today

Alfa supports the largest providers in both the equipment and automotive industries, supporting their business through periods of challenge and opportunity.

The ability for clients to report in real time on their portfolio allows them to track industry trends as well as portfolio and process performance. This allows our clients to identify areas of concern and opportunity, such as the ability to introduce new products or streamline key processes ahead of a forecasted spike in volume.

What this means for Alfa tomorrow

Alfa's continued focus on automation, configurability and connectivity keeps our customers prepared for any future after-effects of the pandemic. Our internal investment process continues to introduce key product features required by a number of our clients, such as expanding our collections and credit offerings.

Europe

More aggressive sustainability targets amongst European captives have presented a challenge to provide green assets to the mass market.

Usage-based products continue to be an area of development as providers react to higher demand for more flexible, cost-efficient and sustainable ways of utilising assets while retaining profitability and managing residual risk.

Large multinational providers are looking to reduce technology overheads by selecting a single provider that can support multiple countries and an evolving product landscape.

What this means for Alfa today

Alfa Systems provides configurable support for usage-based products, allowing clients to configure bespoke offerings. Reporting and configuration management capabilities allow clients to accurately monitor the performance of their new products and iteratively improve upon them. Configurable subsidy management allows customers to manage an ever-changing landscape of green incentives across multiple jurisdictions.

Alfa's product flexibility and delivery experience across Europe means it is well placed to implement multi-country projects successfully. Furthermore, a wealth of experience in our home market along with our UK Alfa Start offering allows us to deliver high-quality solutions at a lower cost.

What this means for Alfa tomorrow

Alfa's product investment allows our customers to stay up to date with product and regulatory developments. Furthermore, Alfa continues to invest in and innovate its delivery methodology, building on an already proven delivery track record. This places us in the best position to meet the needs of our customers as they juggle large-scale change in a number of areas, such as meeting their sustainability targets.

Australia and New Zealand

Covid-19 has continued to dominate the agenda for many organisations, with the auto and equipment finance sector being no exception. It's increasingly clear that organisations with modern technology and processes have been better able to adapt to new ways of working. Throughout 2021 Alfa has worked with our clients in Australia and New Zealand to support both them and their end customers.

While smaller, the market in Australia and New Zealand is remarkably diverse. Australia in particular has a large equipment finance market led by the mining and raw materials sector, and automotive finance leasing has continued to show strength in both countries.

What this means for Alfa today

Strong and long-lasting relationships remain key to our success, with our ability to support the growing operations of our existing clients being a key measure of that success. Alfa's ability to support a broad range of agreement types on a single platform is an advantage in smaller markets with a high level of product diversification, and we continue to see strong demand.

What this means for Alfa tomorrow

First and foremost our key objective for 2022 is the execution of our existing projects, alongside the support of our existing customers. We expect to see business practices driving towards more and more automation and process support, both areas in which Alfa is very well placed.

Technology trends

Artificial intelligence and machine learning remain points of interest, with more possible applications being uncovered as new market trends and challenges emerge. One example is residual value modelling, both as supply chain issues continue and customers look for more flexible usage models.

Delivery requirements often drive technology requirements too, with agile delivery models demanding scalable cloud solutions. Our customers are looking to decrease the technology footprint managed by their internal teams, reducing the ongoing overheads that come with on-premise deployment.

The emphasis on data only grows stronger with more customers realising the value that big data provides. Robust API connectivity is of paramount importance as auto and equipment finance providers look to coalesce asset, contract, telematics and other data to provide clearer views of profitability and efficiency.

What this means for Alfa today

Alfa has been at the forefront of the digital revolution in auto and equipment finance, and Alfa Systems has a rich application programming interface (API) allowing seamless connectivity. We've continued to increase the breadth of services available and also expanded the integration patterns supported by Alfa Systems, such as Amazon SQS and HTTP transport types for outbound messaging.

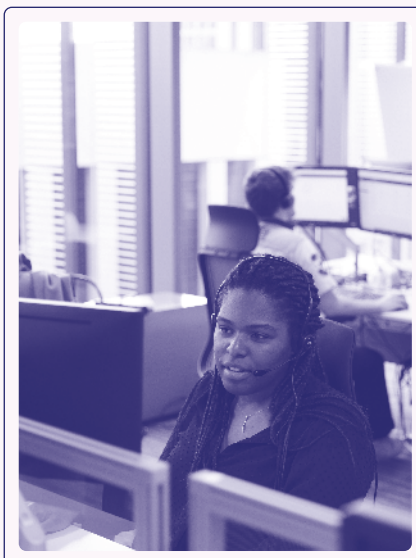
Investment into our cloud hosted offering continues. We recognise the importance of secure and resilient cloud architectures and these are key considerations in the design of our service, which we continually monitor through client engagement and internal procedures, such as disaster recovery tests.

Alfa's joint venture, Alfa iQ, continues to explore the use of machine learning in auto and equipment finance. The industry presence of Alfa iQ has increased through thought leadership and conference activity, driving the adoption of AI in the auto and equipment finance market.

What this means for Alfa tomorrow

The industry continues to focus on utilising new technologies in innovative ways and Alfa's investment mirrors this appetite, ensuring we are designing solutions that can place our customers at the forefront of technology trends.

➤ **More information on Alfa iQ can be found on page 30.**



BUSINESS MODEL

Inputs

Markets

See market overview
 > page 16

Culture and values

See more about our
 culture and values
 > page 62

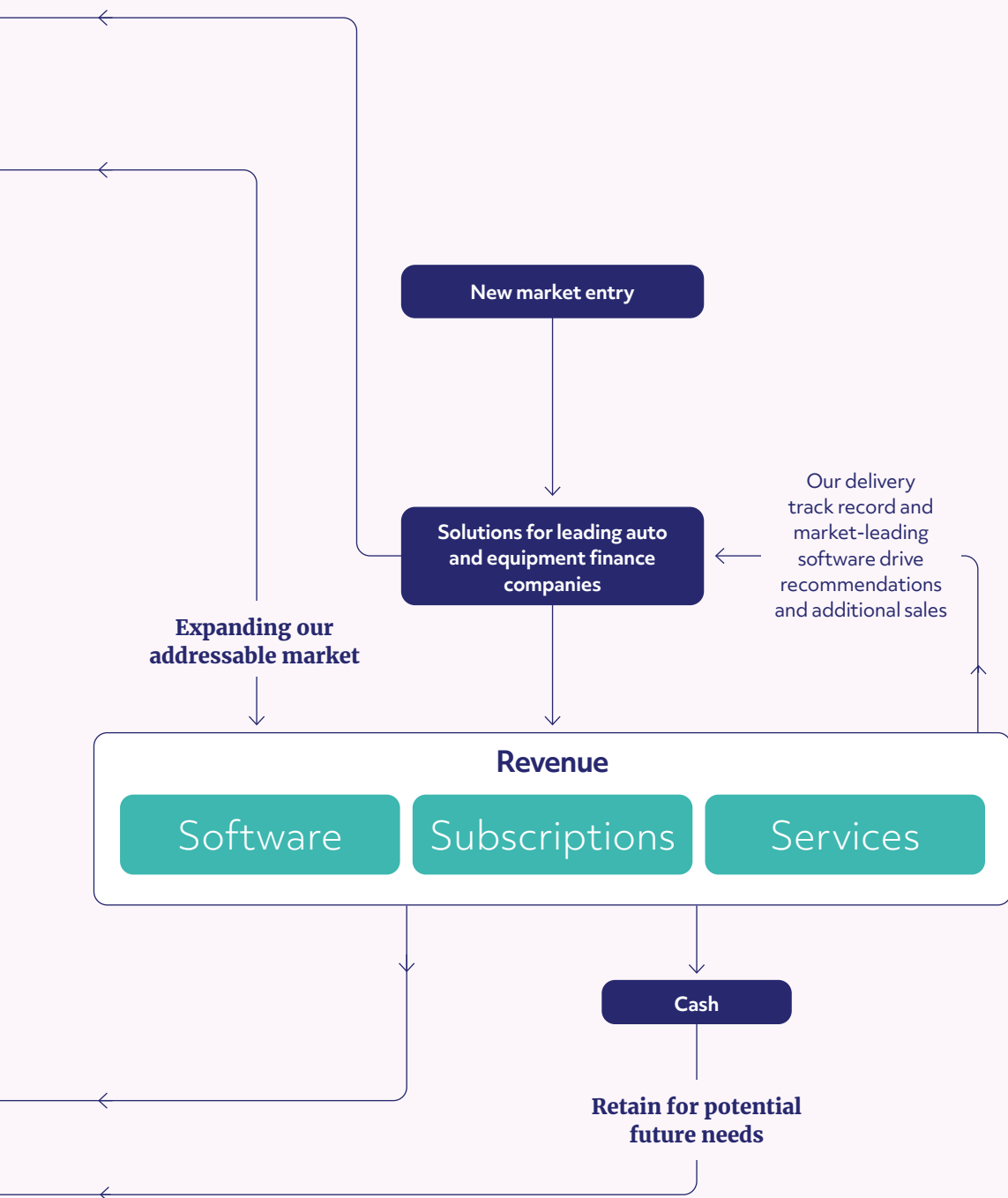
Value creation



Delivery

Our people and partners implement smart solutions for customers

Outputs



Financial returns for shareholders

See Financial review
➤ page 38

Positive impact on society

See ESG section
➤ page 58

INVESTMENT CASE

Alfa Systems is a leading auto and equipment finance software platform

Purpose-built for auto and equipment enterprises globally, developed to meet the current and future needs of the industry.

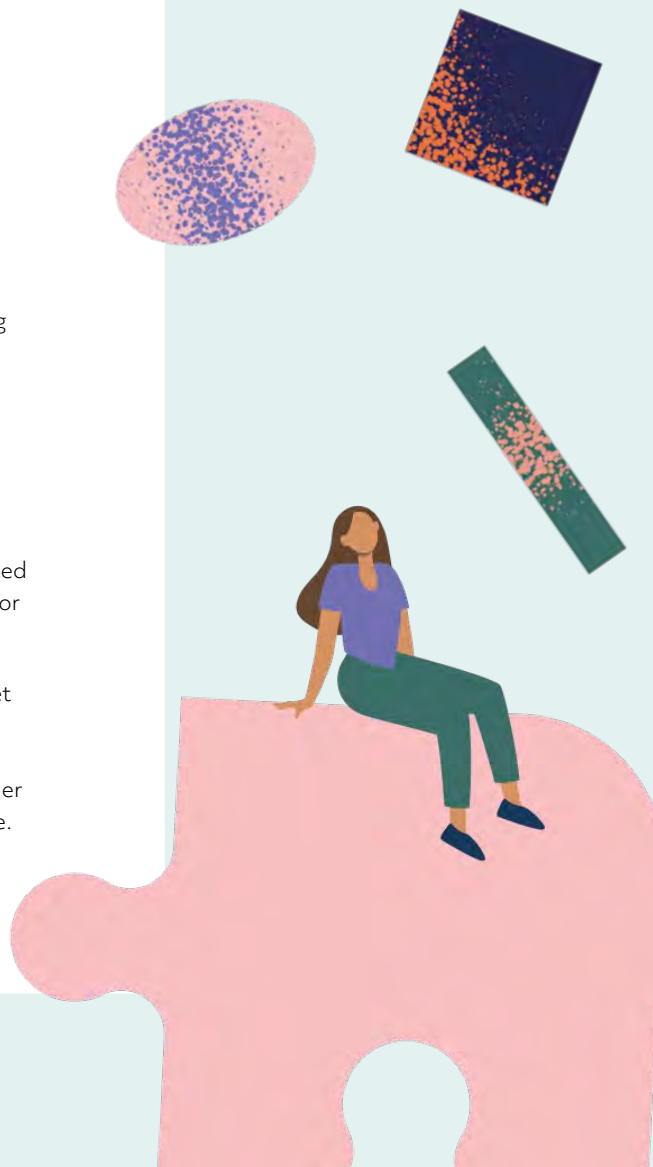
1

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

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

Changing regulations (for instance risk-free rates), the need for digital capabilities (accelerating as a result of changes in customer processes due to 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.



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 auto and equipment finance software platform into large enterprises, that 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.

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.

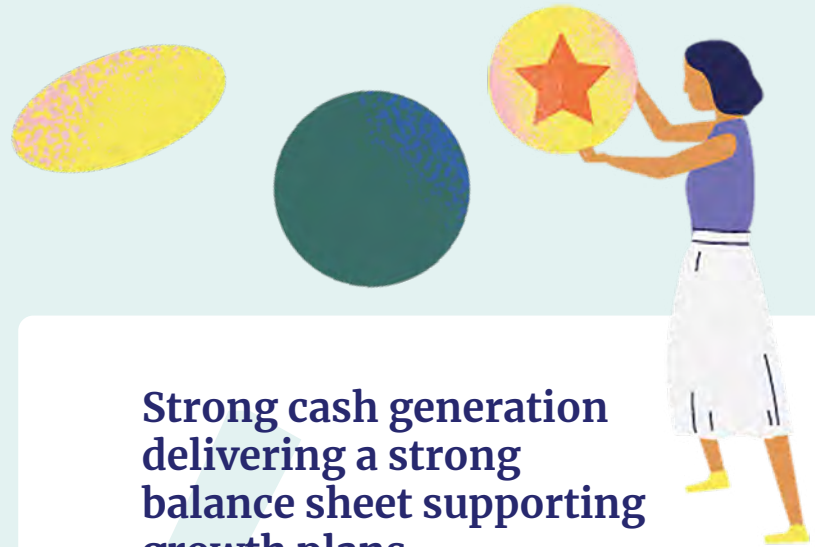
Our suite of integrated modules can be deployed and configured as a full end-to-end solution covering the entire auto and equipment finance lifecycle or alternatively to provide stand-alone support for functional or product areas.

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.



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



Strong cash generation delivering a strong balance sheet supporting growth plans

A robust balance sheet

£23m

of cash (2020: £37m)
and no bank debt
(2020: £nil)

An impressive cash conversion rate

114%

(2020: 114%)

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

Key	Strategic priorities	
<ul style="list-style-type: none"> A Group revenue B Operating profit C Operating profit margin D Cash E Operating free cash flow conversion F Total contract value (TCV) G Headcount H Retention rate I Employee engagement J Greenhouse gas emissions (tCO₂e) 	1 Strengthen	Grow our differentiation of market-leading People, Product and Delivery.
	2 Sell	Focus on cloud-hosted, subscription sales to our target markets.
	3 Scale	Increase our capacity for developing and delivering Alfa Systems.
	4 Simplify	Simplifying our product, implementations and processes to enable more concurrent Alfa Systems implementations.
	5 Synergise	Develop our partner ecosystem, to improve our sales opportunities and to enable more concurrent Alfa Systems implementations.
	6 Start	Improve our offering for smaller auto and equipment finance providers as a platform for innovation and to increase our reach.



Description	Our objectives	Link to KPIs
<p>We will continue to offer a supportive, diverse and collaborative working environment and be considered to be an employer of choice.</p> <p>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.</p> <p>We will maintain our unrivalled track record for delivering large system implementations and highly complex business change projects.</p>	<ul style="list-style-type: none"> • Retain and attract the best people • Support our people through flexible working • 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 • 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 • Successful delivery of all Alfa implementation projects and ongoing services • Maintain strong customer engagement and loyalty 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div><div>G</div><div>H</div> <div>I</div><div>J</div> </div>
<p>We will retain our market-leading position and grow our share of the enterprise auto and equipment finance sector. Our target markets inform and direct our sales and marketing effort.</p>	<ul style="list-style-type: none"> • Grow target market share • Grow cloud-hosted, subscription sales • Grow incremental sales to existing customers • Improve prospect engagement and sales process 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div><div>G</div><div>H</div> <div>I</div><div>J</div> </div>
<p>We will increase product engineering and delivery capacity, enabling revenue growth.</p>	<ul style="list-style-type: none"> • Improve product engineering scalability • Increase development capacity • Increase delivery capacity 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div><div>G</div><div>H</div> <div>I</div><div>J</div> </div>
<p>We will continue to invest in simplification to achieve our vision of delivering more concurrent Alfa implementations, more efficiently with a world-class product.</p>	<ul style="list-style-type: none"> • Simplify our supported codesets and platforms • Simplify our product development • Simplify our implementation and upgrade delivery approach • Improve operational efficiency • Improve management information and control 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div> </div>
<p>We will work with a select group of partners to create additional sales channel opportunities and increase our delivery capabilities whilst maintaining quality.</p>	<ul style="list-style-type: none"> • Leverage our partner ecosystem for sales • Scale and leverage our partner ecosystem for delivery • Add to our partner ecosystem • Continuous improvement of Alfa Partner programme 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div> </div>
<p>We will become a market leader in the volume market of the auto and equipment finance industry.</p>	<ul style="list-style-type: none"> • 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 	<div> <div>A</div><div>B</div><div>C</div><div>D</div> <div>E</div><div>F</div> </div>

STRATEGY IN ACTION

Initiatives underpinning our strategy

	Initiatives					
	SERVICES		SOFTWARE		SUBSCRIPTION	
	People	Partnering	Strategic Investment	Alfa iQ	Cloud Hosting	Alfa Start
Strategic priorities						
① Strengthen						
② Sell						
③ Scale						
④ Simplify						
⑤ Synergise						
⑥ Start						Alfa[^] start
	➤ Find out more on page 25	➤ Find out more on page 26	➤ Find out more on page 28	➤ Find out more on page 30	➤ Find out more on page 32	➤ Find out more on page 34

SERVICES

People



We are Alfa

Our talent is our best asset – successful project delivery depends on passionate people who are engaged and care about what they do. We take great pride in the strong culture at Alfa, and we work hard to look after our colleagues, retaining and attracting the best in the business.

Inclusion & Diversity:

A key strategic priority is to attract, develop and retain a truly diverse team. Our strong Inclusion & Diversity policy helps us recruit the best and smartest people.

Diverse cultural perspectives really do inspire innovation and creativity at Alfa. We make things better and solve problems together, so we're always striving towards being as inclusive as we can.

- Our new Transitioning at Work policy, launch of Cultural Days and the events and initiatives run by our Communities are 2021 successes we are really proud of.

Delivering the best projects & products:

Our smart people deliver great implementations to our customers and develop class-leading software. We support teams with flexibility, invest in wellbeing and make sure everyone feels connected. There are always Learning & Development opportunities for growth and career progression available.

- This year we've been preparing for the launch of our new Learning Management System as well as sharing a suite of tools, resources and workshops to support new ways of working and to help reach our full potential. Wellbeing has been a core focus, rolling out new rewards and benefits, training up Mental Health First Aiders and enhancing paid carer leave allowance.

Culture:

Recruiting and retaining the best people is fundamental to our growth. We attract and hold on to talent by reinforcing the Alfa Culture and ensuring a positive learning environment. Underpinned by our Values, the Alfa Culture is something often described as 'special'. We foster a setting in which everyone feels listened to and valued. We also enjoy each other's company and make efforts to have fun alongside working hard.

- 2021 saw us maintain connections and team rapport with a variety of virtual and real-world events. We seek regular feedback from all areas of the business and have kicked off projects which focus on our Employer Brand, sharing more on life at Alfa and getting to know each other better.

➤ Find out more on page 62

Communities – inside & outside Alfa:

Our internal Communities are employee-led groups – safe spaces for those involved to discuss and promote issues, support each other and work towards improving policies. They focus on: Racial Equity, Inclusion & Diversity, LGBTQ+, Parents and Women.

Our Environmental Impact, Social Impact and Alfa Communities look after the wider communities in which we work (as well as internal operations), raising money for charities, focusing on sustainability and giving back in the form of volunteering, work experience schemes and sharing expertise.

- Our Communities continue to do fantastic work in all their respective areas. We have enjoyed a huge variety of events and learned from each group this year. We've raised great sums for charity partners and are proud to confirm we reached carbon positivity in 2021.

➤ Find out more on page 65

STRATEGY IN ACTION

SERVICES

Partnering

6

Partner relationships

2

Partner-assisted project go-lives in 2021

5

Ongoing partner-assisted projects



“We’ve been collaborating with Alfa for more than 20 years now. The Accenture and Alfa leadership, consulting and technology teams have an excellent track record of working well and delivering business benefit together.”

Cameron Krueger
Managing Director, Accenture

“Deloitte and Alfa have been working together to modernise systems and processes and deliver compelling digital experiences for our clients. Together, our organisations complement one another extremely well to bring the best solutions and deliver great business outcomes for our clients.”

Andrew Denton
CEO, Alfa Financial Software



Approach

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

- 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 systems integration by skilled Systems Integrator (SI) partner resources with Alfa Systems 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; and
- Extended product offering and simplified implementations through integrating Alfa with complementary solutions from technology partners.

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



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 SI partners 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 three partner intakes 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 7 customer projects in three different geographies and we have seen two partner-assisted projects go live. This year we have benefited from increased sales channel opportunities via our partner relationships and the extended global reach and credibility they provide. We have also continued to explore new partnerships in various geographies that can help us in sales opportunities.

We have grown our partner ecosystem, agreeing engagement terms with a notable global 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 course material improvements and new Alfa Systems training environments automatically synchronised with the latest versions of Alfa Start. 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 – for 2022

In 2022, 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 expanding our partner-assisted delivery capability in North America to increase operational capacity.

As staff augmentation partnerships mature and partner resources gain expert Alfa Systems implementation knowledge and experience, we plan to advance them towards a joint delivery model, starting with Teamwill. In preparation for this, in 2022 we will continue to make significant investment in our partner programme including:

- Extending our partner support team;
- Improving partner onboarding, including introducing certification / accreditation;
- Improving partner collaboration tooling; and
- Opening up more roles for partners

We will continue sales collaboration activities with our partners. This 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.

STRATEGY IN ACTION

SOFTWARE

Strategic Investment

11

Clients live with Mercury UI

Mercury is a modern UI (User Interface) which is accessible to all, which helps users of Alfa Systems complete their daily tasks with ease in a modern, clean and uncluttered environment.



Continued investment in our leading-edge software to make our customers future ready

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.

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 further components allowing us to use them more easily in more contexts. We are also establishing architectural guidelines and automated tooling to assist Product Engineering teams adopt these principles as part of business as usual development in their areas.

Product Engineering now benefits from a completely new build process and system, delivered by the Software Development Lifecycle (SDLC) initiative, which keeps an always green mainline for Alfa Systems, using scalable computing resources. This removes significant friction from the development experience, providing better isolation between parallel enhancements and improving the opportunity for collaboration. This now opens the opportunity to efficiently further scale our

Alfa's dedicated UI/UX Design team have accessibility as part of their core remit. This team recently carried out an accessibility audit of our Alfa Systems software, part of a major internal investment initiative which fundamentally improves the overall UI and UX of Alfa Systems. A strand of this work (codenamed Mercury) was informed by the Web Content Accessibility Guidelines (WCAG) and has gone live at many of our clients, with hugely positive feedback from users.



engineering team and improve release flexibility, which should benefit our customers. We are already finding improvements from the new approach as engineers experiment and leverage this to automate other processes.

Business rules, now even better

Powerful Business Rules functionality has long been a key differentiator for the Alfa Systems product, allowing our clients to configure their own business decision logic within the system. This can include, for example, data validation, company policy rules and automation of workflow progressions and actions. Because this is configuration-based, it allows for rules to be added or updated without requiring Alfa Systems development effort and a new release of the software.

This year as part of our ongoing product investment, we have used functional groups to make significant improvements to the business rule editor to guide authors when creating rules, and to prevent creation of rules which would have no effect. These usability changes will enable our customers to define more rules, more efficiently, shortening the time to business benefit realisation.

Improved credit decisioning

In 2021 we extended our credit and middle office functionality in Alfa Systems, focusing initially on the UK equipment market. This investment included: consolidated support for credit applications; integration with Experian for consumer and commercial searches; more efficient decision making by gathering credit data only when required; and alignment between external and Alfa decision engines.

This exciting improvement to the product will benefit both existing and prospective customers and is very timely given the current economic outlook with Credit Decisioning being a primary focus for the industry in 2022.

Class-leading user interface

Last year we introduced a new user interface to Alfa Systems, code-named Mercury, the first to be entirely driven by direct end-user feedback. This year has seen Mercury rolled out to many of our v5 clients and feedback has been hugely positive.

Mercury and our future UIs continue to evolve via our engagement in regular end-user research sessions, watching people use Alfa Systems in their day jobs. This year our approach to user research has also developed significantly. For example, we now have a demo application where we can make prototype screens available to clients allowing them to trial new layouts and components before actual development starts.

We have also been working on a new framework for user interface development at Alfa (code-named Render), building on the success of Mercury. Render will both revolutionise and simplify UI development at Alfa, as well as providing a host of other benefits to areas such as testing and application performance. We genuinely believe this will be a game-changer for the Alfa product and for our users.

Plans – for 2022

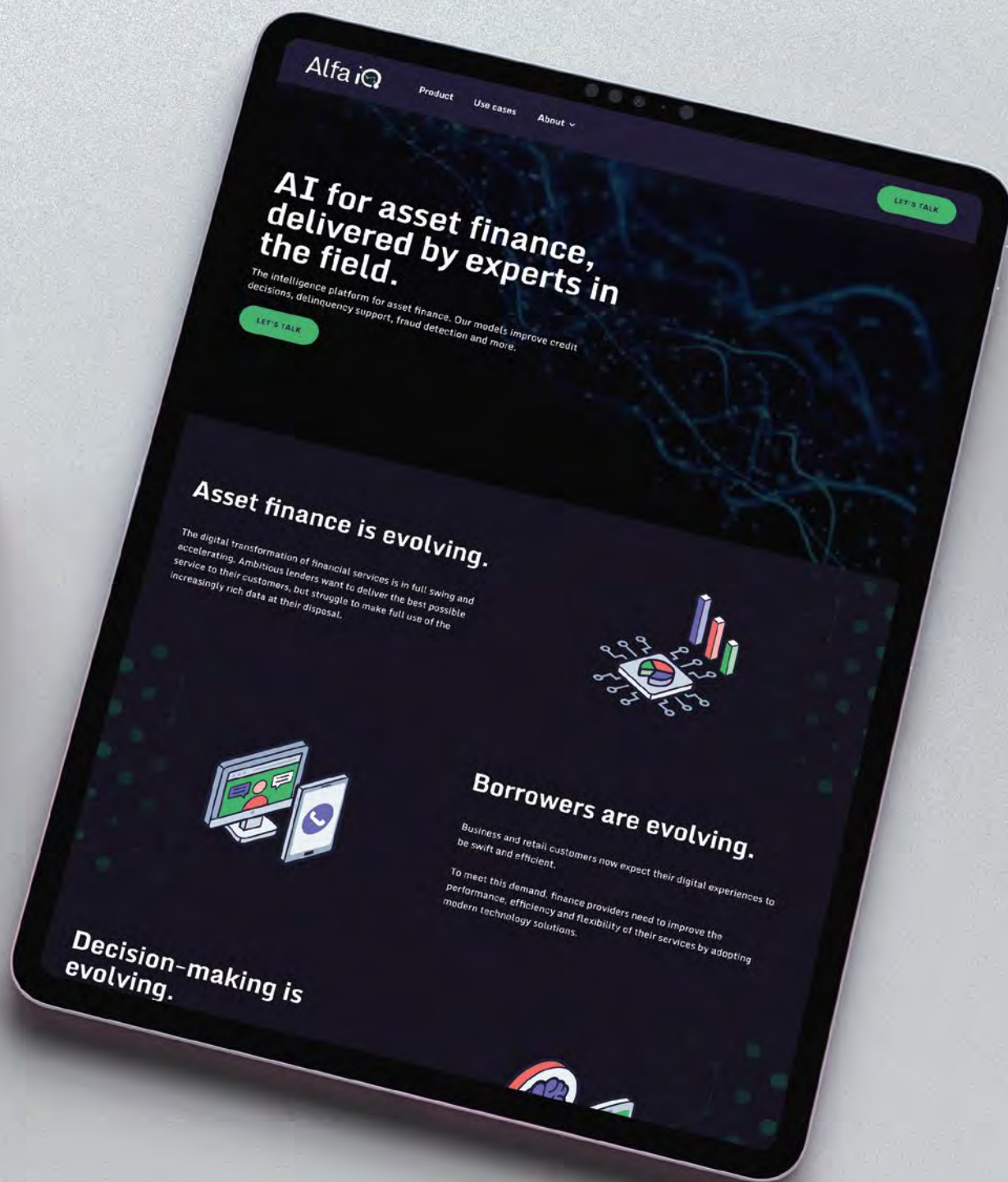
Our future investments will continue to focus on shortening the cycle from requirements to delivery ensuring that our customers receive the best service and are kept future-ready. We will progress our modularisation initiative, further focusing on simplification and bottlenecks. In parallel, we will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

2022 will also see an increased focus on investment in functional improvements to Alfa Systems, delivering more strategic roadmap items to continue to strengthen our market-leading product.

STRATEGY IN ACTION

SOFTWARE

Alfa iQ



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



Artificial intelligence and machine learning

2020 saw the formation of our joint venture with Bitfount. Alfa iQ was established with a mission to employ artificial intelligence (AI) and machine learning (ML) techniques to deliver the highest quality insights to the world's asset finance providers. AI and ML do however require careful implementation to yield valuable results. This is why we partnered with Bitfount, a team of carefully selected experts in AI and ML who are pushing the capabilities of such technology, not just in terms of the quality of the insights gained from their algorithms, but also in the way these are designed with data privacy at the forefront.

One challenge of these technologies is getting enough quality, well-structured data, to create robust algorithms, and so this collaboration, pairing Alfa's experts in asset finance and data structures, with Bitfount's deep understanding of this emerging technology, is uniquely well placed to provide consistent and unparalleled benefits to our customers. The advantages for our customers are as varied as improved auto-decisioning with a reduced need for manual intervention, improved delinquency prediction, exposure and concentration risk identification and ultimately more accurate lending, leading to a greater return on capital.

Highlights

We have been steadily introducing Alfa iQ to selected, leading industry players, including but not limited to existing Alfa customers. So far testing of our machine learning methods is continuing with two customers, and we have signed a paid contract with our first customer.

In 2021 Alfa iQ achieved ISO 27001 and Cyber essentials certifications for information security, demonstrating our ability to leverage contacts and experience to setup strong infrastructure around this new venture.

Alfa iQ also welcomed its first full-time staff member this year to augment the existing members from Bitfount and Alfa and this expansion of the team will continue in 2022. Hiring is being managed meticulously to recruit only individuals with the expertise and high standards we require.

Plans – for 2022

2022 will see iQ grow its customer base with both increases in work for existing customers, and the onboarding of new ones. After finishing testing and development with the initial onboarding customers, iQ intends to expand their products with both 'software as a service' options and bespoke analysis.

In order to achieve these goals, we will carefully manage the teams expansion, utilising the existing wealth of experience from the two parent companies, as well as new employees. Whilst this is ongoing, we anticipate that demonstrating the advantages of iQ's products will be increasingly easy as iQ's reputation and portfolio of work grows.

iQ's core strategy group consisting of senior leadership from Alfa and Bitfount worked hard throughout this year to get the structures and processes in place to begin work for their first customers and now the focus will move toward expanding capacity, to facilitate new workloads whilst retaining the highest quality.

STRATEGY IN ACTION

SUBSCRIPTION

Cloud Hosting

Up to

80%

faster for initial deployments

Delivery

- We are now live for eight customers across EMEA, Americas and now Asia Pacific.
- Managed infrastructure for six customers currently in the project implementation phase and as project accelerators for future on-premises customers.
- Seamlessly deployed significant Alfa Systems upgrades to our live customers allowing our customers to benefit from the latest versions of Alfa Systems.
- Provided our customers with timely information after the recent Log4Shell vulnerability was reported. Our layered architecture and software vulnerability monitoring process ensured that our customers were not impacted. We then rolled out the latest patches from AWS and our other vendors as soon as they were available.

Comparing these numbers to the 2020 report, many of those customers are now live, illustrating how Alfa Hosting can speed up implementation projects especially when used in tandem with Alfa Start.



No more infrastructure delays with fully-managed environments from Alfa Hosting. Open to users from the first day of a project.



Scalability

- Increased the size and geographical distribution of the team by onboarding additional capacity based in the USA. This allowed us to cover more out-of-hours requests for our EMEA customers and to provide more in-working hours support for our US and Asia Pacific customers.
- Towards the end of the year we launched a closed-beta for our customer portal. Customers will be able to self-serve important audit documents and view up-to-date status information for their environments. We will invest in additional portal functionality in 2022 with the aim of allowing our customers to manage features of their deployments whilst reducing the load on our team for simple and frequently executed tasks. In Q1 2022 we expect to open the portal as generally available to all customers.
- 2022 will see opportunities to automate more of our processes and to continue to improve the customer experience wherever we can.

Technology

- Delivered comprehensive support for running Alfa Systems in Docker containers from within the Alfa Hosting service to leverage alignment between all Alfa Systems. This included support for deploying upgrades of the Alfa Digital Gateway micro-service with zero downtime or service interruption.
- Migrated, with zero downtime, to the next generation of our security partner's machine-learning based threat monitoring. Alert Logic Managed Detection and Response provides best-of-breed AI-based intrusion detection, backed by a 24x7 team of security experts. This has significantly cut the time to deliver new infrastructure for our customers whilst ensuring that every server is monitored 24/7 for potential threats.
- Delivered a secure and scalable solution for moving obfuscated data between customer environments as required for issue reproduction or business verification testing.

Plans – for 2022

We will continue to onboard new clients and to provide secure and performant infrastructure to our existing clients allowing them to focus on delivering value to their business throughout every stage of a project.

We also plan to further increase the size of our team with additional members in both the EMEA and USA regions to provide expert round-the-clock support wherever our customers are located.

2022 will see increased investment in our deployment, monitoring and portal platforms to ensure that we continue to offer market-leading tooling to both our internal teams and customers.

STRATEGY IN ACTION

SUBSCRIPTION

Alfa Start

20 weeks

Alfa Start implementations can reach live production in as little as 20 weeks.



“Alfa Start makes a world-leading product – Alfa Systems – available to more companies. Our customers can use Alfa Start to simplify and expedite complex change programmes, reducing risk and enabling them to see benefits earlier. We can deliver more projects, in fewer days, but crucially without impacting any of the quality for which we’re known.”

Sarah Taylor



Approach

Alfa Start offers a preconfigured, hosted software solution for the quick and cost-effective delivery of Alfa Systems. Using a predefined, best-practice configuration and process catalogue, Alfa Start allows operations of all sizes to take full advantage of the multi-featured, market-leading Alfa Systems platform. The Alfa Start approach is designed to accelerate systems change programmes, maximising value and minimising risk.

Lean operations taking on Alfa Start's best-practice parameters and processes can quickly leverage the proven functionality and performance for which Alfa Systems has become renowned. For those organisations requiring more customisation, Alfa Start can act as a project accelerator, enabling faster implementations.

Alfa Start's rapid implementation model benefits both Alfa and our customers. Alfa Start is a key enabler of agile delivery, allowing clients to confidently and quickly establish a first phase go-live, recognising the benefits of Alfa Systems earlier and providing production experience for future phases. Implementations of this nature enable Alfa to scale effectively, delivering more concurrent projects, providing the same high-quality service, but without a corresponding increase in the number of implementation consultants.

Through Alfa Start we are increasing the number of available customers in key target markets, presenting Alfa as a more competitive package, especially amongst smaller auto and equipment finance providers. This not only protects our position as a market leader, but also allows us to support growth and disruption. 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, whilst increasing Alfa's subscription revenue stream.

Highlights

2021 has seen successful go-lives for both Alfa Start out-of-the-box and accelerator projects, plus the kick-off of numerous other projects utilising Alfa Start as an accelerator.

Alfa Start has been fully operationalised and embedded in two key target markets. All implementations across UK Equipment and US Automotive markets now utilise Alfa Start either as an accelerator or through the out-of-the-box approach. As the number of projects has increased, we are realising compounding benefits as we gather more feedback, build more expertise and increase our Alfa Start user group.

In parallel to project feedback, the ongoing internal investment initiatives throughout 2021 have ensured the continuous development of Alfa Start. This includes incorporating new product features, expanding functional and integration capabilities, establishing more client-facing documentation and improving internal testing. This has ensured that Alfa Start remains the class-leading product and implementation approach.

Plans – for 2022

In 2020 we launched Alfa Start products covering both the US Automotive and UK Equipment markets. Alfa Start has proved very successful in both markets, and 2022 will also see a number of existing implementations progress and new projects begin, ensuring the momentum created by Alfa Start continues to build.

Alfa Start has also proven to be successful in adjacent markets, with clients using parts of our existing offerings. As such, we are looking towards implementing new Alfa Start offerings for other target markets, in particular US Equipment. Through broadening the market coverage of Alfa Start we will further compound the benefits this model offers through more rapid implementations.

A number of key initiatives during 2022 will ensure that Alfa Start remains leading edge. A programme to simplify migration will look to enable rapid migration of portfolios and facilitate low-friction portfolio acquisition, supporting our customers' growth. In addition, we are building software partnerships to expedite the implementation of key integrations with common vendors, enabling our customers to rapidly incorporate Alfa into wider system landscapes. Finally, we are broadening the functional coverage of existing Alfa Start offerings, incorporating key differentiators such as automated credit decisioning.

KEY PERFORMANCE INDICATORS

Measuring our performance

Alfa measures a range of financial and operational metrics to help manage business performance

Our strategic priorities

1

Strengthen

2

Sell

3

Scale

4

Simplify

5

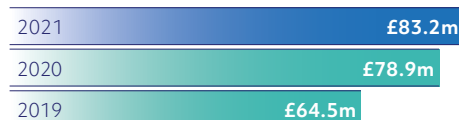
Synergise

6

Start

Financial

Group revenue £83.2m



2021 performance

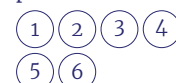
Group revenue grew by 5% from last year with strong growth in Services and Subscription streams, and a decline in Software stream driven primarily by a large one-off licence fee in 2020 which did not recur.

Why do we measure this?

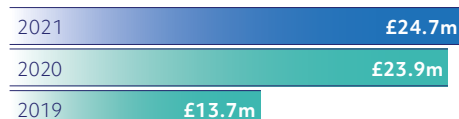
Growing revenue is a measure of customer and business success. It is central to our objective of growing by maintaining our leading competitive position through differentiation of market-leading People, Product and Delivery.

Linked to remuneration: Yes

Links to strategic priorities:



Operating profit £24.7m



2021 performance

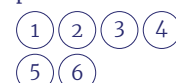
Operating profit increased from last year as a result of growth in revenues, partially offset by increased salary costs, as well as higher hosting and internal computer costs.

Why do we measure this?

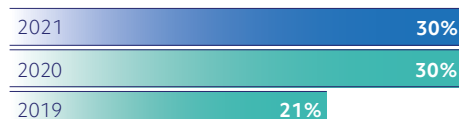
Operating profit is an indicator of the Group's profitability. It can be used to analyse the Group's core operational performance without the costs of capital structure and tax expenses impacting profit.

Linked to remuneration: Yes

Links to strategic priorities:



Operating profit margin 30%



2021 performance

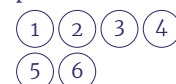
Operating profit margin has remained in line with last year with revenue growth partially offset by increased costs of our growing workforce (see comments under Group revenue and operating profit above).

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 £23.1m



2021 performance

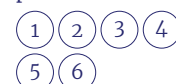
During 2021 a second special dividend of £29.7m was paid, reducing the Group's cash balance. Excluding the impact of the dividend payment, cash has further improved due to a favourable operating free cash flow performance.

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%



2021 performance

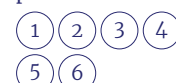
Operating free cash flow conversion performed in line with last year with continued focus on cash management.

Why do we measure this?

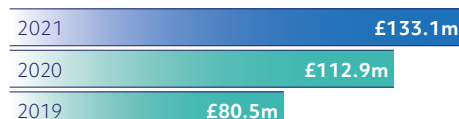
A strong unencumbered balance sheet position is key to growing the business in the future. Our business has always been cash generative and this KPI allows us to monitor cash flows before investment in capital projects.

Linked to remuneration: Yes

Links to strategic priorities:



Total contract value (TCV) £133.1m



2021 performance

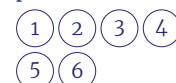
Year-on-year total TCV has seen significant growth from 31 December 2020 with improvements across all revenue streams particularly subscription and software. See p39 for further detail.

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 p37 for a detailed explanation of the calculation.

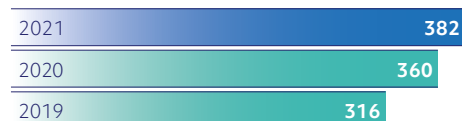
Linked to remuneration: No

Links to strategic priorities:



Operational

Headcount 382



2021 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:

① ③

Retention rate 87%



2021 performance

The retention rate has declined during the year largely due to the impact that the pandemic has had on the recruitment market and people's evaluation of future aspirations.

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:

① ③

Employee engagement* 78%



2021 performance

Employee engagement has improved during the year, due to the an increased focus on this area by senior management, as well as the deliberate actions that were taken in response to the pandemic.

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:

① ③

* Calculation revised, 2020 and 2019 restated.

Greenhouse gas emissions (tCO₂e) 142



2021 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 positivity through assessing our carbon footprint and emissions.

Linked to remuneration: No

Links to strategic priorities:

① ③

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:

- an assumption of three years of subscription payments (including maintenance, cloud hosting and subscription licence) assuming these services continued as planned (actual contract length varies by customer);
- the estimated remaining time to complete services and software deliverables within contracted software implementations, and recognise deferred licence amounts (which may not all be under a signed statement of work); and
- Pre-implementation and ongoing services and software work which is contracted under a statement of work.

The definition of TCV has been aligned with the new revenue streams reported, however the underlying calculations are consistent with previous periods, and accordingly no restatement is required.

Given this KPI is forward looking, in calculating the TCV we have used the budget 2022 exchange rates. These budget rates are; USD: 1.38, EUR: 1.17, AUD: 1.88, and NZD: 1.95.

(4) Employee engagement

The overall Employee engagement score is derived from bi-monthly employee Pulse survey ratings based on the questions "I am happy in my role" and "I would recommend Alfa to a friend as an employer".

The calculation of this score has been revised during the year to include only these two broad questions, which provides a clearer result than the previous method which included additional questions relating to specific aspects of working at Alfa which meant the impact of any specific issues could be duplicated within the overall score. Comparative period scores have been restated accordingly.

(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.

FINANCIAL REVIEW



Duncan Magrath
Chief Financial Officer

Financial results

£m	2021	2020	Movement %
Revenue	83.2	78.9	5%
Operating profit	24.7	23.9	3%
Profit before tax	23.8	23.2	3%
Taxation	(4.6)	(2.9)	159%
Profit for the period	19.2	20.3	(5)%
Basic earnings per share	6.5p	6.9p	(6)%

“2021 saw us make further financial progress, paying our second special dividend, along with our first ordinary dividend, and the launch of a share buyback programme in early 2022.”

Revenues increased by 5% or £4.3m to £83.2m in the twelve months ended 31 December 2021 (2020: £78.9m). Growth at constant currency was 9%.

Operating profit increased by £0.8m to £24.7m (2020: £23.9m), due to the £4.3m increase in revenues, partially offset by £3.5m increase in expenses, principally due to a £1.8m increase in salary costs from pay rises and increased headcount, as well as higher hosting costs up by £0.8m and other computer costs up by £0.8m.

Net finance costs which relate to lease expenses of £0.8m (2020: £0.7m) resulted in profit before tax of £23.8m (2020: £23.2m). The Effective Tax Rate (ETR) for 2021 is 19.3% (2020: 12.5%), the increase reflects that the prior year benefited from R&D tax relief for the two years 2018 and 2019, whereas the current year reflects the R&D tax relief for 2020 only. The resulting profit for the period was £19.2m (2020: £20.3m).

Revenue

Revenue – by type £m	2021	2020 (*restated)	Movement %
Subscription*	23.5	18.1	30%
Software*	13.6	20.0	(32)%
Services*	46.1	40.8	13%
Total revenue	83.2	78.9	5%

* To better reflect the nature and type of revenue, changes have been made to the classification and allocation of revenue line items. The comparative disclosures for the 2020 reporting period have also been amended to reflect a fair base for comparability. These changes have had no impact on the total revenue or the profit before tax that were disclosed for 2020. Software revenues include revenues from recognition of customised licence revenue, one-off licence fees and any development revenues. Subscription revenues include recurring revenues paid on a monthly or annual basis, including subscription licence revenues, maintenance and cloud hosting. Services revenues are revenues from any work done for customers including pre-implementation work, implementation work, and ongoing services, but excludes any revenue from development work.

Subscription revenues

Overall subscription revenues increased 30% to £23.5m (2020: £18.1m). The increase was driven by a 24% increase in maintenance revenues with customers increasing to 29 at the end of the year, up from 27 at the start of the year. Hosting customers increased from 10 at the end of last year to 12 at the end of 2021. Revenues from pure hosting alone grew strongly, alongside good growth from revenues from bundled subscriptions, which included not just hosting but also maintenance and licence payments.

Software revenues

Software revenues of £13.6m were down £6.4m or 32% on last year (2020: £20.0m). Of this reduction, £5.6m was due to a five-year contract extension agreed and recognised in 2020 with a customer who had previously terminated its licence. In 2021 we did recognise £2.1m of revenue across six existing customers for additional licence payments as a result of going through a contractual band or for new modules.

As previously discussed more of our implementation work this year has been for v4 to v5 upgrades, which generally do not attract additional licence payments, except where customers take on additional modules and so the income from customised licences was down on last year. This was partially offset by income from increased development work for existing customers, including those going through v4 to v5 upgrades.

Services revenues

Total services revenue increased by 13% to £46.1m (2020: £40.8m) at actual exchange rates, driven by higher chargeable days from our increased headcount. There was a reduction in pre-implementation revenues, where last year we had two large customers requiring detailed pre-implementation work. Revenues from new implementations were up, although stronger growth was seen with ongoing services work, largely on the back of v4 to v5 upgrades.

Total contract value (TCV)

TCV – by stream £m	2021	2020	Movement %
Subscription	85.8	69.1	24%
Software	14.9	12.8	16%
Services	32.4	31.0	5%
Total TCV	133.1	112.9	18%

Total contract value (TCV) – as defined in the definition section on page 37 – increased over last year by 18% to £133.1m. As expected the subscription TCV has increased 24% driven by an increase in the number of customers and the significant growth in our hosting business. There was also a 16% increase in software, from secured development work and licences from the contracts, and from the strong conversion of the last-stage pipeline in the year. Growth in services TCV, at 5%, was somewhat lower with a number of v4 to v5 implementations coming to an end.

TCV – by stream for next 12 months £m	2021	2020	Movement %
Subscription	26.9	22.4	20%
Software	6.7	6.1	10%
Services	26.2	23.8	10%
Total TCV	59.8	52.3	14%

Of the TCV at 31 December 2021, £59.8m (31 Dec 2020: £52.3m) is anticipated to convert into revenue within the next 12 months, assuming contracts continue as expected and are not cancelled or delayed. This includes £6.7m (2020: £6.1m) of software revenues, £26.9m (2020: £22.4m) of subscription revenues and £26.2m (2020: £23.8m) of services revenues.

Operating profit

The Group's operating profit increased by £0.8m, or 3%, to £24.7m in 2021 (2020: £23.9m). This reflected the £4.3m increase in revenues, partially offset by an increase in the Group's cost base as we continued to invest in the business. Increased headcount drove higher costs although this was partially offset by reduced partner costs, which were high in 2020 due to one large pre-implementation project. The Group's operating profit on a constant currency basis increased by 10% as sterling was stronger against the USD than last year.

Headcount numbers were up 6% at 31 December 2021 at 382 (31 December 2020: 360), with average headcount increasing more significantly to 383 (2020: 341) up 12%. Our staff retention rate has been strong at 87% over the 12 months up to that date, as expected down from the unusually high 93% experienced in 2020.

Expenses – net £m	2021	2020 (restated)	Movement %
Cost of sales*	29.0	27.0	7%
Sales, general and administrative expenses*	30.0	28.5	5%
Other income	(0.5)	(0.5)	–
Total expenses – net	58.5	55.0	6%

* To better reflect the nature and function of certain expenses, changes have been made to the classification and allocation of expense line items. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability. Costs previously classified as implementation and support expenses and research and product development expenses of £11.9m and £15.1m, respectively, have been presented as cost of sales. In addition, £3.4m of implementation and support expenses and £3.8m of research and product development expenses have been reclassified to sales, general and admin expenses. The main items affected are administrative salary costs, computer costs and property related expenses. These changes have had no impact on the total expenses or the profit before tax that were disclosed at the end of December 2020.

FINANCIAL REVIEW CONTINUED

Cost of sales increased by £2.0m to £29.0m (2020: £27.0m) due to higher salary costs from the increase in customer-facing headcount along with increased hosting costs, partially offset by a reduction in partner costs.

Sales, general and administrative (SG&A) expenses increased by £1.5m to £30.0m in the year (2020: £28.5m). This included increased salary costs through higher headcount although this was somewhat offset by the reduction in contractor costs. In addition Profit Share Pay increased to £3.1m (2020: £2.7m). There has also been an unfavourable increase in foreign currency differences of £0.7m, which moved from a gain of £0.5m in 2020 to a loss of £(0.2)m in 2021. The above factors were offset by a further reduction in travel and conference costs, as there was almost no travel for the whole of the twelve month period.

Finance costs

Net finance costs which relate to leases of £0.8m (2020: £0.7m) remained relatively unchanged with a small reduction in finance income from reduced cash balances and interest rates.

Profit for the period

Profit after taxation decreased by £1.1m, or 5%, to £19.2m in 2021 (2020: £20.3m). The Effective Tax Rate (ETR) for 2021 is 19.3% (2020: 12.5%) with this increase reflecting, in part, that the prior year benefited from R&D tax relief for the two years 2018 and 2019, whereas the current year will reflect the R&D tax relief for 2020 only.

Earnings per share

Basic earnings per share decreased by 6% to 6.49 pence in 2021 (2020: 6.93 pence). Diluted earnings per share decreased by 6% to 6.39 pence (2020: 6.79 pence).

Cash flow

Net cash (including the effect of exchange rate changes) decreased by £13.9m to £23.1m at 31 December 2021, from £37.0m at 31 December 2020. This decrease has been driven by strong cash generated from operations, offset by the payment of special and regular dividends of £32.7m.

Operating free cash flow conversion £m	2021	2020	Movement %
Cash generated from operations	31.3	30.1	4%
Adjusted for: Capital expenditure	(1.3)	(1.0)	30%
Principal element of the lease payments in respect of IFRS16	(1.9)	(1.7)	12%
Operating free cash flow	28.1	27.4	3%
Operating profit	24.7	23.9	3%
Operating free cash flow conversion	114%	114%	–





Cash generated from operations benefited from a continuing strong focus on cash performance. The Group's operating free cash flow conversion (FCF) of 114% (2020: 114%) was in line with last year due to continued focus on cash management. This is a very strong result and higher than our ongoing trend which will be closer to 100% conversion.

In addition to the cash generated from operations of £31.3m, the Group incurred £1.3m on capital expenditure (2020: £1.0m) and made net tax payments of £3.8m (2020: £3.8m). This included the research and development tax credit claim received during the period of £1.6m, which was claimed and recognised in 2020, resulting in the unusually low effective tax rate for FY 2020. The Group has no external bank borrowings.

In the year, net cash outflows of £39.2m (2020: £45.9m) from financing activities were largely driven by £32.7m (2020: £44.2m) of dividends paid, with ordinary dividends of £3.0m (2020: nil) along with Special Dividends of £29.7m (2020: £44.2m).

In addition there were principal element of lease payments of £1.9m (2020: £1.7m) and £4.6m (2020: nil) for funding the Employment Benefit Trust for the purchase of shares to satisfy current and future LTIPs thereby avoiding potential dilution from the issue of shares to satisfy vestings.

Balance sheet

The most significant movement in the balance sheet was the change in cash noted above. Other balance sheet movements were as follows:

Non-current assets of £44.4m were largely unchanged from last year (2020: £44.8m).

Current assets, excluding cash, increased by £2.8m to £16.5m (2020: £13.7m). Trade receivables remain well controlled with debtor days at 26 days (2020: 27 days) with only £0.1m (2020: £0.1m) more than 90 days overdue. Provision for impairment remains £nil (2020: £nil). Accrued income increased in the year by £1.3m to £6.3m due to increased revenue, partially offset by the unwinding of the accrued income related to the one-off licence fee booked in 2020.

Prepayments increased by £1.1m to £3.2m (2020: £2.1m) due to the inclusion of deferred costs (offset by a related increase in deferred licence contract liabilities).

Current liabilities of £24.0m (2020: £18.1m) were up £5.9m. There was a £1.1m increase in trade payables and other payables to £9.3m (2020: £8.1m) principally due to higher bonus and profit share payments. Lease liabilities increased from £1.7m to £1.9m due to new leases for the Michigan and Sydney offices. Contract liabilities increased by £4.0m to £11.0m (2020: £7.0m) with deferred licence liabilities increasing £3.4m to £5.3m (2020: £1.9m) due to an increase in the material right related to customised licence implementations, along with an increase in deferred maintenance liabilities up £0.6m to £5.7m (2020: £5.1m) due to growth in the business.

Non-current liabilities reduced slightly, down £0.6m to £16.6m (2020: £17.2m) due to a reduction in lease liabilities to £15.2m (2020: £15.8m) with provisions remaining unchanged at £1.4m (2020: £1.4m).

FINANCIAL REVIEW CONTINUED

Key financial metrics

The Group uses Operating cash flow conversion as a financial metric which is not specifically defined by IFRS but which management uses as a key measure to assess financial performance.

Operating cash flow conversion is calculated as cash generated from operations as a percentage of operating profit.

This measure is not directly comparable to similarly referenced measures used by other companies and, 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.

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.

Capital allocation and distributions

The Group's capital allocation policy takes into consideration the need to continue to invest in our people and technology whilst maintaining strong liquidity and is shown in more detail on the opposite page.

Since November 2020 we have paid £74m of special dividends and paid the first regular dividend of 1.0 pence per share in July 2021, amounting to £3m.

In January 2022 we announced a share buyback programme of up to £18m over the next 18 months.

The Board intends to progressively increase the dividend as the Group grows, whilst ensuring that we retain a strong balance sheet.

For 2021 we are proposing a dividend of 1.1 pence per share, amounting to £3.3m. If approved by shareholders in the Annual General Meeting, this will be paid on 24 June 2022 to shareholders on the register as at 27 May 2022. The ex-dividend date will be 24 May 2022.

Related parties

Details about related party transactions are disclosed in note 32.

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, 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 over future economic conditions, 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 is set out in the Strategic report on pages 52 to 53.


Subsequent events

On 18 January 2022 the Group announced the launch of a share buyback programme. Refer to the Company website for more details. There have been no other reportable subsequent events.

Duncan Magrath
Chief Financial Officer

8 March 2022

CAPITAL ALLOCATION FRAMEWORK

	Use of Cash	Reason	Impacts	Stakeholder	2021 Programme
 <p>Cash generated</p>	Strategic Investment	Expands functionality of product and increases opportunities for sales	Profit	Company Employees Customers Partners	For further details of Strategic Investment made in the year, see pages 28-29
	Product Maintenance	Ensures product remains up to date with latest technology	Profit	Company Employees Customers	Significant investment in 2021 in providing a faster and more reliable way of releasing new product updates
	CSR Days	Each employee is allowed to spend three days on CSR activities	Profit	Company Employees	On average one CSR day taken per employee – we will encourage greater take-up in 2022
	Climate Positive	Payments to offset remaining emissions to ensure we are climate positive	Profit	Environment	We signed up with Ecologi in 2021 to make monthly payments to be climate positive
	Profit Share	10% of profits generated paid out to employees	Profit	Employees	Total cost in 2021 of £3.1m.
	Regular Dividend	Gives a steady cash return to shareholders; allows income funds to invest	–	Shareholders	1.1 pence per share proposed amounting to £3.3m (2020:£3.0m)
	Additional Capital Return	Returns excess cash to shareholders if not needed for company growth	EPS	Shareholders	Payment of second special dividend of £30m and launch of £18m buyback programme

RISK MANAGEMENT

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

Introduction

A theme of 2021, like 2020, has been the continuing COVID-19 pandemic, with its wide-reaching social and macroeconomic impacts across all Alfa regions. We have built upon our experience of 2020, and have continued to adapt well to the situation, shielding our delivery and performance from the uncertainty. Our risk management framework has played an important role in this, providing us with a solid basis for assessing, preparing for and reacting to these types of challenges.

As the COVID-19 situation developed in 2021, our COVID-19 Incident Response Team worked closely with the Company Leadership Team (CLT) to identify, control and mitigate risks as they developed. This allowed us to take proactive action throughout the year, doing our part to ensure the safety and wellbeing of our employees and customers, and to minimise the risk to our operations.

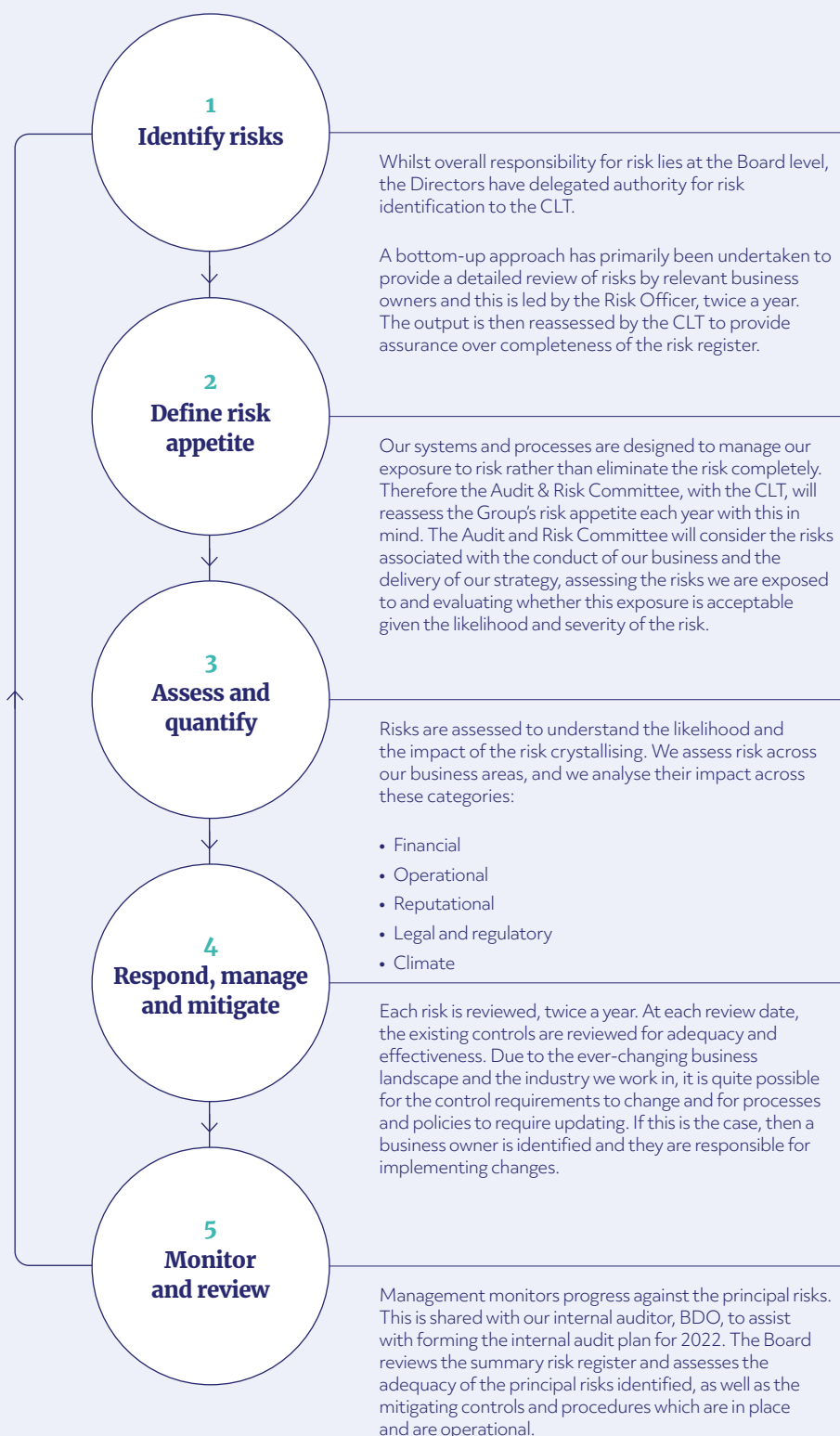
Risk management is integral to our strategic objectives

The events of 2021 have again 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:

- Strengthen – Grow our differentiation of market-leading People, Product and Delivery.
- Sell – Focus on cloud-hosted, subscription sales to our target markets.
- Scale – Increase our capacity for developing and delivering Alfa Systems.
- Simplify – Simplifying our product, implementations and processes to enable more concurrent Alfa Systems implementations.
- Synergise – Develop our partner ecosystem, to improve our sales opportunities and to enable more concurrent Alfa Systems implementations.
- Start – Improve our offering for smaller auto and equipment finance providers as a platform for innovation and to increase our reach.

How we monitor risk



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 2021 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 & 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 & 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 reports to the CFO in relation to risk management matters
- The CFO has responsibility for governance and risk management review
- The Risk Officer acts as an advocate for risk management across all levels of the business

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 Audit & Risk 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 has continued to evolve through 2021, forming the basis of our approach to protecting our employees, our customers and our deliverables to our customers.

Focus for 2022

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.

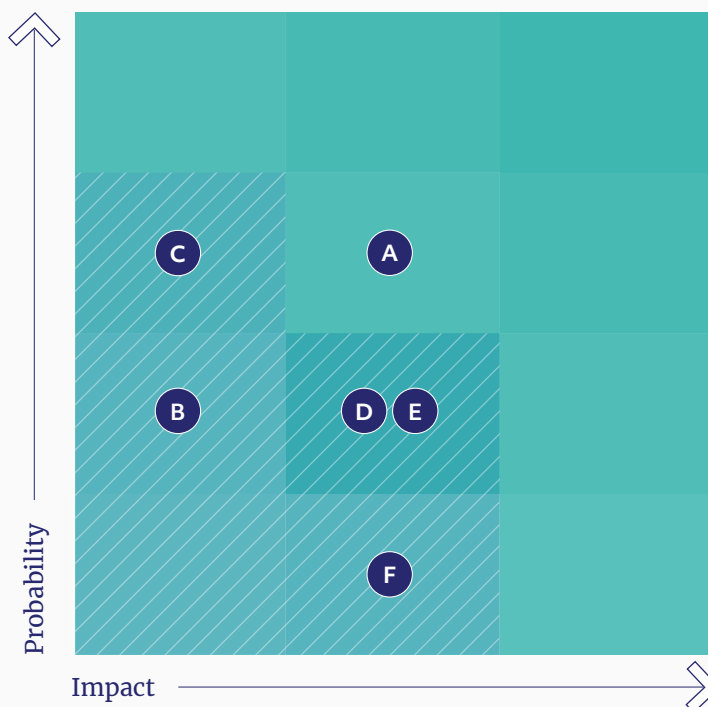
Cyber security and data protection – maintain SOC2 Type 2 and ISO programme compliance, and continue to assess and strengthen our cyber security defences.

Business continuity and disaster recovery – scenario testing exercises.

Internal audits – reviews of the strength and effectiveness of our financial and IT controls.

Continuing focus and development of understanding of climate-related risks.

Principal risk analysis (including mitigating activities)



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

Our strategic priorities

- | | | |
|---|---|---|
| <p>1 Strengthen – Grow our differentiation of market-leading People, Product and Delivery.</p> | <p>3 Scale – Increase our capacity for developing and delivering Alfa Systems.</p> | <p>5 Synergise – Develop our partner ecosystem, to improve our sales opportunities and to enable more concurrent Alfa Systems implementations.</p> |
| <p>2 Sell – Focus on cloud-hosted, subscription sales to our target markets.</p> | <p>4 Simplify – Simplifying our product, implementations and processes to enable more concurrent Alfa Systems implementations.</p> | <p>6 Start – Improve our offering for smaller auto and equipment finance providers as a platform for innovation and to increase our reach.</p> |

Risk A – Socio-economic and geo-political risk

Links to strategic priorities: How does it impact us?

1 2 3 6

Movement:

Same level of risk

Impact:

Major

Probability:

Likely

We continue to face uncertainty in the global economic outlook, which may impact demand for our services, or our customer's revenues, and therefore their budgets to pay for our services.

The current major components of this risk are:

- At the time of writing, Russian forces are invading Ukraine. Alfa does not have customers nor staff in Ukraine or Russia, and so our business is not directly impacted. However, there will be knock-on social and economic impacts of this concerning crisis throughout 2022, which may impact us. As the situation develops, we will assess risks to our business, and determine appropriate mitigation.
- 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.
- Inflation has increased in each of our regions, leading to increased costs to our business. These increases may outpace our revenue increases, if we are unable to increase our fees in line with costs.
- Changes to the trading relationships between the EU and the UK following Brexit may impact our ability to service customers in the EU, although we have not experienced significant impacts to date.

The uncertainty in global economic outlook introduced by the Ukrainian war leads us to retain this risk at the same level as before. The following elements of this risk have receded, however:

- The COVID-19 pandemic's economic impacts on our industry has not been damaging to Alfa to date, as we and our clients have adapted well as the situation has developed.
- Uncertainty around US economic, immigration and trade policy has receded in 2021.

What are we doing to manage the risk?

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 have formed a Markets and Products team, to further focus our attention on alignment of our product roadmap with the needs of our target markets. This helps us to be in the best position to take on opportunities as they arise.

Despite the uncertain outlook, we have attracted continued interest for new work from sales prospects and existing customers throughout 2021, from diverse geographies and sectors within the auto and equipment 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 trends affecting the auto and equipment finance industry.

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.

Our fees for services are generally increased annually, taking consideration of the increases experienced in our cost base.

We have an established presence and customer base in the EU, and are committed to this as a target market.

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:

Possible

How does it impact us?

The COVID-19 pandemic has continued to develop throughout 2021, with new variants emerging, and Government responses to control the spread varying from region to region.

Whilst the pandemic appears to be nearing its end, there is continuing uncertainty around how it will develop in 2022. 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 actively monitored and reacted to this situation throughout 2021 and early 2022, and we have concluded that the level of this risk to our business is reduced from its 2020 position.

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, for example as new variants emerge and become dominant. 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 restrictions may be reintroduced, through 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 2021, and our business has become very accustomed to operating in this environment.

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, and remote working has remained in place ever since. We have re-opened offices when possible for those who are better able to work in an office environment, and have plans in place for transitioning to a Smart Working policy once the pandemic dies down. All of our consultants and engineers use laptops, remote connections and remote working tools. Our systems which support remote working have functioned well throughout the pandemic.

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 that they have suitable business continuity and capacity planning in place.

We ensure that our sourcing activities for essential IT equipment remain ahead of supply chain delays, for example by carefully managing the stock levels held with our IT supplier, and actively monitoring lead times.

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

Links to strategic priorities:

① ③ ⑤

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.

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. This element of the risk has increased in 2021 and early 2022 (although this has not changed the overall Principal Risk level), as we are seeing higher competition in recruitment markets.

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.

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.

What are we doing to manage the risk?

We have implemented a Smart Working approach in order to adapt to the 'new normal' which will follow the COVID-19 remote working model. Teams decide their most effective working model, and capture this in a team charter. Central to this approach is continuing to build our culture, whilst retaining our excellent delivery, and enabling employee flexibility.

Our HR team are very proactive in the area of employee wellbeing, with an active programme of wellbeing events to support and engage with our employees while they are remote working.

Employee engagement surveys are carried out every two months, and allow areas for improvement to be identified and acted upon. Our employee surveys indicate that our proactive response from leadership to the COVID-19 epidemic has been a significant contributing factor in employee satisfaction.

We have continued to have high employee retention figures in 2021.

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, with 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.

Many of our teams are globally-distributed, allowing us to cover more regions and time zones effectively, and remote working is now common and efficient practice. This 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 2021, and this continues in 2022.

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 auto and equipment 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?

Reliance on our biggest customers has considerably decreased in 2021, with our Top 5 customers representing 37% of our revenues in 2021, compared with 48% in 2020 and 61% in 2019. We had twenty five customers contributing revenues of more than £1m in 2021, up from twenty one in 2020 and sixteen in 2019. This reduces this risk, but not sufficiently to move it down a rating.

We have continued to progress our strategy for building 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). This has reduced our reliance on any one of these areas, which have contrasting risk characteristics.

Initiatives such as Alfa Partnering, and Alfa Start for smaller organisations allow us to take on more concurrent implementations, thus reducing this risk.

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:

Same level of 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 global trend we saw in 2020 of high number of incidents of cyber attacks against IT companies has continued in 2021.

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 2021.

We have continuity plans for our Alfa Hosting services, where we use third party cloud hosting suppliers, including transferring our customers' data to a similar supported environment should the services be unavailable.

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

<p>Links to strategic priorities:</p> <div><div>1</div><div>2</div><div>3</div></div> <hr/> <p>Movement:</p> <div>Same level of risk<div>=</div></div> <hr/> <p>Impact:</p> <div>Major</div> <hr/> <p>Probability:</p> <div>Unlikely</div>	<p>How does it impact us?</p> <p>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.</p> <p>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.</p> <p>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.</p>	<p>What are we doing to manage the risk?</p> <p>We have an established, detailed and tested incident management procedure and escalation process.</p> <p>We have a disaster recovery and business continuity plan which is reviewed and tested annually.</p> <p>Our SOC2 Type 2 reporting and complete failover testing has identified no significant required remedial actions.</p> <p>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</p>
--	---	--

VIABILITY STATEMENT

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

Assessment of prospects

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

- Grow differentiation of market leading People, Product, Delivery;
- Focus on cloud-hosted subscription sales to our target markets;
- Increase our capacity for developing and delivering Alfa Systems;
- Simplifying our product, implementations and processes to enable more concurrent Alfa implementations, more efficiently, with a higher margin;
- Develop partner ecosystem, to improve sales opportunities and enable more concurrent Alfa implementations; and
- Improve our offering for smaller auto and equipment finance providers as a platform for innovation and to increase reach.

During the year ended 31 December 2021, the Group generated profit before tax of £23.8 million and, excluding the payment of a £29.7m Special Dividend in the year, was cash-generative with net cash generated from operating activities amounting to £26.7 million.

Taking into account the Group's current position and its principal risks and uncertainties as described on pages 46 to 51 of this Annual Report, the Directors have assessed the Group's prospects and viability.

Assessment period and process

The strategy and business model as set out on pages 22 to 35 and 18 to 19 are central to an understanding of its 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 auto and equipment 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 2024.

The first year of the financial forecasts forms the Group's 2022 budget 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, as described in principal risks and uncertainties on page 46.

The Board has considered the Group's financial performance in 2021, particularly in the context of the COVID-19 pandemic, and the risk factors noted above and consider that the key risks which could have a major impact the delivery of the Group's financial objectives are as follows:

- Socio-economic or geopolitical risks impacting conversion of the sales pipeline and/or spending by existing customers;
- Loss of significant customers.

Conclusion

It was determined that none of the individual risks would, in isolation, compromise the Group's viability. The Directors therefore reviewed the outputs of the alternative forecasts 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.

Scenario 2 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.

Based on the current commercial outlook, 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 this alternative scenario, 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 £8.2m.

Whilst it is acknowledged that there is continued uncertainty over future economic conditions, 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 2024.

Scenario 1:

This scenario assumes a 20% reduction in ongoing services spend by existing customers, no conversion of sales pipeline and no growth in partner utilisation during the forecast period, resulting in a 40% reduction from base case revenues by 2024. Employee retention rates reduced by 10% resulting in a reduction in headcount of 26% from base case by the end of 2024.

Direct costs relating to partner usage and Cloud hosting services are significantly reduced in line with customer activity, and the level of salary inflation, bonuses and profit share are also reduced.

No other mitigating actions are required in this scenario with other costs remaining in line with the base case and continued payment of dividends and share-buy backs as planned.

Scenario 2:

This scenario assumes a significant loss of customers in addition to no conversion of the sales pipeline. Includes two major implementation projects pausing during 2022 and significant loss of customers resulting in termination of existing maintenance agreements and reduced ongoing spending by remaining customers. This scenario results in a 55% reduction from base case revenues by 2024. Employee retention declines by 20% in this scenario but recruitment continues and no redundancies would be required; this results in a 46% reduction in headcount from base case by the end of 2024.

Direct costs are reduced further than in Scenario 1 and additional operating cost reductions in line with reduced headcount. Discretionary share buy-backs would be paused in this scenario, however no other mitigating actions are required.

S172 STATEMENT

Setting the right tone from the top

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.

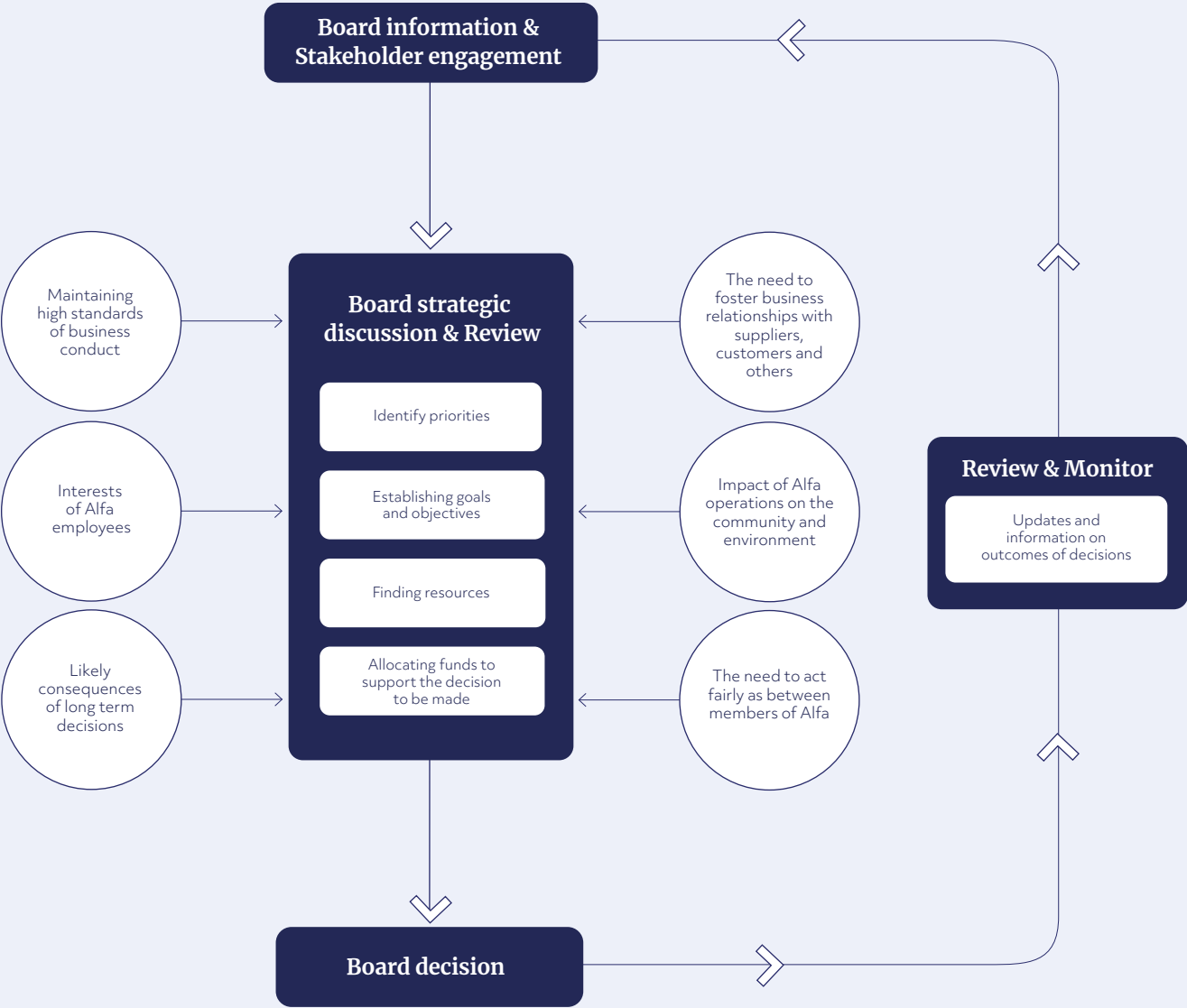
This may be locally, regionally or functionally, by the Board or senior management, depending on the stakeholder. Where the Board does not engage directly with our stakeholders, it is kept updated so Directors maintain an effective understanding of what matters to our stakeholders and can draw on these 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.

Example of s172 considerations in a Board decision

During 2021 the Board was asked to consider and approve taking out a new lease for the Michigan Office for seven years with a total cost over that time of \$2m. Through the pandemic we have demonstrated how we can work remotely and so we needed to decide whether we needed an office at all, and if yes how many people should it be able to accommodate.

S172 consideration	Considerations for the Michigan Office
Likely consequences of long term impact	Initially the office will be configured for 35 desks, but this can be expanded to up to 50 desks, allowing for the future growth for the Company.
Interests of the Company's employees	Benefits of an office included maintaining Alfa's culture, facilitating training with a dedicated training space and the potential beneficial impact on employee's mental health.
Foster business relationships with suppliers, customer and others	Having a physical presence makes it possible to invite customers and suppliers to get a feel for Alfa's culture and meet employees.
Impact of the company's operations on the community and environment	We decided to stay within the Michigan area although we did move a short distance away from the existing office to a slightly less expensive area. By having our own office, we can chose our energy supplier and we have selected a supplier that provides 100% renewable energy and we have set aside space in the kitchen for recycling.
Desirability of maintaining a reputation for high standards of business conduct	We believe that a smart, well designed office will project the standards that we as a company wish to abide by. When the office opens we will source sustainable, ethical local suppliers wherever we can.
Need to act fairly as between members of the company	We believe the cost of maintaining an office in Michigan is outweighed by the benefits of improved retention and improved employee welfare.



S172 STATEMENT CONTINUED

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.

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 two Board strategy sessions that were held in the year, the Board looked at customer needs and the extension of Alfa Systems into adjacent markets that could provide a broader offering to our existing and future customers.

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 auto and equipment finance industry.

Outcome of engagement

Our customers have direct channels to engage with all levels of the organisation, including providing feedback via user groups in both EMEA and the USA, chaired by a customer representative. During the pandemic, customers have realized the importance of a truly digital environment and the flexibility that this provides for remote working. This has driven increased enquiries for new Alfa Systems and also for further development and hosting services from existing customers. This has led to discussions in the Board as to how use of partners can help provide a more flexible quicker response to customer needs.

We continued to build on our long-term relationships with our customers. This is key to developing our leading-edge technology and hosting services, increasing customer loyalty, which in turn enables us to win new business.

Engagement in 2022

Looking ahead, the Board is keen to get back to in-person engagement with customers as pandemic considerations allow, including attendance at trade shows.

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.

Employees

Listening to our talented employees, being flexible, supportive and inclusive, are our routes to growing and retaining Alfa's talent pool, enabling us to deliver against our strategic priorities and develop our people.

How the Board engaged

Employee engagement remains a key priority for the Board. Vicky Edwards, the Chief People Officer, attended Board meetings twice in 2021 to provide an update on all HR initiatives. Matthew White, the COO, updates the Board with a HR dashboard, highlighting key statistics and reviewing employee survey results at each Board meeting.

In 2021 we continued to hold online events for employees to provide feedback, hear plans and make suggestions to the Company Leadership Team (CLT) and the Board, as well as an in-depth 'In Conversation With...' with two members of the CLT. Some in-person events were possible in locations where restrictions allowed. Outside these forums, feedback is always encouraged and communication is welcomed by all.

Outcome of engagement

We have a strong culture at Alfa and we are proud that our people are highly engaged, supportive of each other and of the organisation's aims. We have focused on keeping colleagues connected with events and communications, enhanced some of our family-friendly policies and rolled out various wellbeing and career development initiatives in response to need and the world around us, balancing changing rules and periods of working from home with offices re-opening. We continued to support all employees through 2021, again without furlough, and have been able to successfully on-board new employees remotely, supporting them with funds for their home set-up.

Engagement in 2022

We will maintain our commitment to diversity and inclusion, keeping this front of mind when making decisions. Internal communications will be enhanced to consistently align with Alfa's strategy and core themes, providing clarity and focus. We will continue to listen, learn and respond as we move to Smart Working.

Communities

We have a responsibility to use our expertise and resources to add value to the communities in which we operate. Our intention is to reduce our impact on the environment wherever possible. We also have active internal communities – employee-led groups that are safe spaces for colleagues to promote issues, support each other and contribute to organisational change.

How the Board engaged

The Board supports employees and endorses contributions to wider communities with time and expertise. Fundraising is matched by the company, paid volunteering days are encouraged and internal communities are supported and given platforms and resources. Events and initiatives run by our communities are promoted company-wide and attended by senior individuals.

Outcome of engagement

Environmental, Social & Governance (ESG) is becoming a greater focus with the establishment of a Steering Group in 2021. Both the CFO and CPO sit on the Steering Group and brief the CEO and wider CLT on the status and progress of projects. The CEO has ultimate responsibility to the Board for all ESG matters. Support has been given to carbon-offsetting projects and investment has been made into external consultancy for ESG measurement and guidance. We continue to fundraise for charities and support causes close to our colleagues' hearts.

Engagement in 2022

Looking ahead, the Board is committed to driving ESG initiatives further forward. We will review goals and a formal strategy will be developed in 2022. Roles and responsibilities for the ESG Steering Group and ESG work will be defined and communicated. Action will be taken to accurately measure Alfa's carbon footprint and strengthen reporting in this area. We will continue to support our internal and external communities and use our corporate voice responsibly wherever we can.

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 Board Strategy sessions in June and October 2021.

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. The Board supports continued scaling of our existing partnerships as well as extending our partner ecosystem to strengthen our coverage in core markets.

Engagement in 2022

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. Due to on-going COVID-19 restrictions, the AGM was held as a hybrid meeting in 2021 with shareholders invited to attend remotely. An invitation was included in the Notice of Meeting for shareholders to ask questions in advance of the meeting.

On 14 October 2021, shareholders were invited to view an online investor presentation on Alfa's technology, hosted by the CEO and members of the senior management team. The event gave an in-depth view of the product, the technology that underpins it and how it is developed to ensure it remains the leading software for auto and equipment finance.

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.

Engagement in 2022

We will continue to engage with our shareholders throughout 2022. We are provisionally planning to hold another investor day in 2022. Due to the ongoing uncertainty around COVID-19 restrictions, the Board will keep the 2022 AGM arrangements under review until there is more clarity around the future guidance to the ongoing pandemic.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

We are Alfa

We're people-powered. We've got talent across the globe – in fact more than 27 nationalities are represented within our 350+ employee base.

Our values underpin efforts to look after each other, develop talent professionally and personally, and to contribute to wider society in various ways.

From CSR to ESG:

CSR (Corporate Social Responsibility) was the precursor to ESG (Environmental, Social and Governance), ensuring a company's actions have a positive impact on the environment, consumers, employees, communities, and the public sphere.

ESG builds on CSR, measuring performance with metrics which can be used by investors, customers and employees to have an understanding of the company's ESG performance. At Alfa we have adopted the current terminology of ESG, which is now in common use by organisations. This year we formed an ESG Steering Group.

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.

We continue to align with the UN Sustainable Development Goals and focus particularly on four which fit well with ongoing projects and plans for future initiatives. These also tie in nicely with the Alfa Values.



4. Quality Education



5. Gender Equality



13. Climate Action



17. Partnerships for the Goals

We've been doing a lot of good things in this space for many years – it's a key reason one of our formal Company values is 'Create a Positive Impact'.

We know there are many business benefits to driving ESG initiatives, but we do this because it's important to us and always has been.

ESG is a core part of the Alfa culture.



	Link to SDG	Strong	Improve	Next year
...people 	  	<ul style="list-style-type: none"> • Our Communities • Focus on Learning & Development • Culture & Engagement • Inclusion & Diversity 	<ul style="list-style-type: none"> • Onboarding & Induction processes 	<ul style="list-style-type: none"> • Launch Learning Management System • Talent Development programme • Mentoring, Coaching & Buddies programmes
...customers and suppliers 	  	<ul style="list-style-type: none"> • Environmental Policy • Commitment to educate stakeholders 	<ul style="list-style-type: none"> • Supplier approval process 	<ul style="list-style-type: none"> • Partner with more clients & suppliers
...community 	  	<ul style="list-style-type: none"> • Volunteering scheme • Dedicated volunteering month • Charity partners in each region 	<ul style="list-style-type: none"> • Volunteering uptake 	<ul style="list-style-type: none"> • Formal partnership with Code Your Future
...environment 	  	<ul style="list-style-type: none"> • Environmental Policy • Reaching carbon positivity • Working with The Climate Coalition • Partnership with KO Cycle, recycling IT hardware 	<ul style="list-style-type: none"> • Measurement 	<ul style="list-style-type: none"> • Partnership with The Climate Coalition • Calculate detailed carbon footprint data • Formalise ESG Strategy

ENVIRONMENTAL SOCIAL AND GOVERNANCE CONTINUED

Our people

Our focus on people throughout 2021 remained a high priority and will always be key to Alfa's commitment to provide the best possible service to our clients.

We aim to use our corporate voice responsibly, internally and externally, supporting important movements.

Our active communities drive awareness and support social causes. We kicked off 2021 with a presentation from each of our communities at our global Company meeting, where they shared objectives, successes and initiatives for the year.

Our Communities are:

- Alfa for Racial Equity
- Environmental Impact
- Inclusion & Diversity
- LGBTQ+
- Parents'
- Social Impact
- Women's

All of these employee-led groups are safe spaces for those involved to discuss and promote issues, support each other and work towards improving policies. Their wonderful work includes cookery classes, showcasing an array of cultural delicacies, running work experience programmes aimed at school leavers from disadvantaged backgrounds, promoting causes with blog posts and networks of Champions, involvement in external round tables and events, and a huge variety of other activities.





“Alfa is hiring people that are really clever, deep thinkers and problem-solvers. They’re looking for what you’re going to bring to the organisation and how you’re going to help it grow and get to the next level. Every single person is an important part of the process. Alfa is big enough to have great software and clients, but not so big that you’re lost. People get heard.”

Caroline Chopra

“What I love is the ability to work on different things with different people, and the diversity and variety of people is also very good. You get a lot of varied perspectives, from a lot of different people all around the world, and from diverse backgrounds. That never really gets dry.”

Ricky Christian



“At Alfa you get listened to. You get nurtured. People here care about you. Every company will say the same stuff but at Alfa the employees say it themselves – and it’s real, you can feel it. It is great to work here. The people, the culture, how receptive we are to change... Alfa is special.”

Jack Matthewson



Gender equality

We were proud to have been in a position to welcome 69 new joiners across our offices in 2021, of which 25 (36%) were women.

In the UK alone, we welcomed 51 new joiners in the year, of which 19 (37%) were women, which represents a similar level to female hires in the UK in 2020.

Looking at graduate recruitment, we hired 20 new hires into the UK graduate scheme, of which 45% of positions were filled by female candidates.

Throughout the year, we sponsored recruitment events such as Bright Network’s Women in Tech and Women in STEM events. Through our recruitment partners we proactively target diverse groups through email marketing and campaigning. Of our graduate applications in the UK, around 30% of the applications we received were from female candidates. This ratio is a general representation of the gender make-up in the early careers STEM and technology sectors as a whole.

We continue to maintain a strong level of retention* across the business. As of December 2021, retention across the business was 87%.

Breaking this down by gender, retention of females stood at 86% and retention of males stood at 88%. Of leavers across the business in 2021, 34% were women.

* Retention calculation is as follows: Starting Headcount (from 12 months ago) minus Leavers over the 12-month period divided by Starting Headcount (from 12 months ago).



ENVIRONMENTAL SOCIAL GOVERNANCE CONTINUED

OUR PEOPLE CONTINUED

Inclusion & diversity

Diverse cultural perspectives really do inspire innovation and creativity at Alfa. We make things better and solve problems together, so we're always striving towards being as inclusive as we can.

In addition to our vibrant Communities, we adopt measures to improve things for people across the board. We were proud to launch our Inclusion & Diversity charter and our Transitioning at Work policy this year.

We developed and ran Inclusive Recruitment training for everyone involved in our recruitment process and there was a diverse series of talks, events and activities run by our Communities to promote and increase awareness on key issues.

In celebration of diversity, we're launching Cultural Days in 2022. Flexible Culture Days will allow our people to swap in and out of national public holidays that might not match their particular values, beliefs or heritage.

Wellbeing

Wellbeing remains a really important focus for Alfa. We haven't made use of the furlough scheme throughout the pandemic, and this year we continued to invest in wellbeing.

Along with enhanced paid carer leave allowance, access to physical, mental and financial advice and assistance via our employee benefits platform, and working from home contributions, we have grown an internal network of trained Mental Health First Aiders. 17 individuals in different regions are now available to colleagues for judgement-free listening and support.

We launched Gympass and Peppy health (in the UK) which provides support for menopause, fertility and new parents. 2022 will see us launching Peppy's new Peppy Men service.

We will continue to actively support our Communities internally and externally, challenge ourselves continually to be more inclusive and use our corporate voice for good, wherever we can.



"2021 has been another challenging year for everyone, in many ways, but we have managed to maintain our inimitable positivity and Alfa's special culture remains strong. We have lots of 'People Projects' on the go, but I am particularly focused on Culture and Inclusion – making Alfa a place where people have a voice, where we are all safe to be ourselves – being an employer that attracts and retains great people."

Vicky Edwards

Chief People Officer, Alfa Financial Software

Culture

The Culture at Alfa is something we're extremely proud of. It is one of our greatest strengths and remains highly valued by our people.

This year we've continued to keep our culture alive, despite the ongoing challenges of working remotely much of the time. Our Events team has maintained a programme of lively and well-attended events, ranging from virtual Company conferences through to real-world social events such as ice skating and boat trips. Giveaways across the year helped to spread smiles and cement our culture, and included branded beanies, hampers, and terrariums for home workspaces.

Adapting to restrictions, one of the UK Company meetings included sending out bamboo picnic utensils to everyone and using the intranet to drop pins on maps so that colleagues could meet up afterwards in smaller, safer groups for the social element of the day.

Our US colleagues held their conference in person in Miami in November, and Australia and New Zealand teams met in December, which were important reminders of the benefits of face-to-face meetings, albeit following rules and safety protocols as required.

We take feedback seriously at Alfa.

Our culture encourages positive conversation and transparency. There's always an opportunity to provide ideas and ask questions at all levels. We also seek anonymous feedback with regular employee surveys – and £5 for each completed survey also goes to charity. This year we launched a new platform to better measure employee engagement, providing more in-depth insight to drive action.

In addition to our Pulse surveys, we ensure we provide opportunities for two-way communication with regular townhall Q&As, and this year launched a series of 'In Conversation With...' where we deep dive into a host of subjects.

Alfa's frequent innovation days and annual Hackathon events are a highlight for colleagues to get creative, inspire change and get to know each other better. Teamwork and problem-solving are the focus, and the 2021 Hackathon winning team featured new joiners from the latest graduate scheme intake.

Next year we look forward to more opportunities to get together regularly and continue to develop effective two-way communication channels where everyone feels involved, informed and heard.

Learning & development

This year we invested in a new Learning Management System which has been built over many months and launches in 2022. This will support individual learning and development in a way never seen before at Alfa.

A whole new suite of tools and resources supporting all facets of life at Alfa has been created as part of our new learning and development offering.

New Company policies (such as Smart Working) have been supported with a programme of workshops and training, for managers of virtual teams, in a way that has really helped smooth transitions.

Our key priorities for 2022 include:

- Launch new Learning Management System
- Focus on our Management Development resources and approaches
- Mentoring, Coaching & Buddies – we'll define and train people to develop this valuable support tool

- Following extensive evaluation in 2021, we'll be revamping our Onboarding & Induction processes, making us more agile and responsive
- New Talent Development programme across the business will provide more opportunities for progression and personal ownership of careers

Recruitment & retention

The pandemic fast-tracked Flexible Working at Alfa. We took this one step further in 2021 and introduced Smart Working across the organisation. We know employees have commitments and lives outside work, which is why everyone can now choose, as part of their team, where they're based on work days. Be it in the office or at home, we keep everyone connected and make sure we're all pulling together. This supports retention and also widens the pool of talent we can attract. Smart Working will come into full operation in 2022, as local COVID-19 restrictions allow in all our locations.

We have continued to benchmark our total packages with strong pay and promotions activity and added new benefits, particularly in the Wellbeing space. The launch of our new employee ShareSave scheme enables employees to invest in Alfa and share in our success.

This year we have laid the foundations for a variety of Employer Brand projects which kick off in 2022. We are using employee stories in various mediums to give insight into life at Alfa both internally and externally – we have fascinating, diverse and hugely talented people at Alfa and we'll be shining a spotlight on them in order to attract and retain the best in the business.

In 2022 we are looking at creating remote hubs to further widen our talent pool, we will continue to enhance and promote our packages to remain competitive and will continue to invest in our social and wellbeing calendar to support our culture.

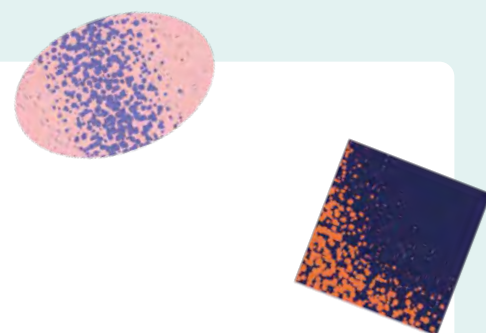
Statutory gender pay gap (GPG) reporting

Data from April 2021

Gender pay gap

Salary (£k)	2021	2020
Overall mean	38.2	39.1
Overall median	35.9	37.0
Mean – female	33.9	34.5
Mean – male	40.0	40.7
Gender pay gap	15.1%	15.3%
Median – female	32.5	32.7
Median – male	38.4	38.3
Gender pay gap	15.3%	14.7%

We have seen a slight improvement in the year for the mean gender pay gap, however a slight deterioration in the median gender pay gap. Like many in the industry our balance towards men over women at all levels is reflective of the overall industry. Our female talent pipeline continues to improve with 36% of 2021 joiners being female, and 45% of UK graduates, however as these are generally into more junior roles in the organisation, it will take some time for this to be reflected in improved gender pay gap figures (see page 61 for further details).



ENVIRONMENTAL SOCIAL GOVERNANCE CONTINUED

OUR CUSTOMERS & SUPPLIERS

Our customers & suppliers

Alfa's Environmental Policy includes a commitment to engage and educate employees and other stakeholders on the importance of sustainability.



User groups

We are committed to adopting and applying the latest technology, including server virtualisation technology, to ensure that our customers' energy consumption is kept to a minimum.

Our product, Alfa Systems, provides functionality to enable our customers to charge their customers on a usage basis, therefore making utilisation of assets more efficient.

In owned data centres, our provider has noted that 94% of our energy utilisation was from renewable energy sources.

Alfa also uses data centres operated by a third party, AWS Cloud Computing. AWS is committed to powering operations with 100% renewable energy by 2025.



Partnering in ESG

Next year we intend to partner with more clients and suppliers on ESG initiatives.

We will also review our supplier approval process and see how we can embed more ESG factors into selection.



Our community

We have a passion for using our expertise and resources to add value to the communities in which we work.



Volunteering

Alfa offers three days' paid volunteering per year and we have a framework in place to help employees choose a suitable volunteering opportunity. This is a really popular scheme at Alfa and one of our people are rightly proud of.

Everyone is encouraged to take an active part in the schemes offered and volunteers range in seniority from junior consultant all the way to CEO. It's mutually beneficial and we have developed strong partnerships over the years.

In June 2021 we had our first dedicated Volunteering Month.

A number of Alfa employees have volunteered with Code Your Future – which utilises our specific technical skills and abilities as an organisation.

Code Your Future is a charity which teaches code to refugees, asylum seekers and otherwise disadvantaged people. This helps increase diversity in software development as well as improving confidence and employment prospects. We're exploring a formal partnership with Code Your Future in 2022.

Something else we support each year is 'The Wonderful Xmas Post', a campaign to send crafty and uplifting Christmas cards to isolated older people in care homes across the world. Matched recipients are always delighted to receive cards from us and we love to send them!

Our plans for next year include working to increase the uptake of volunteering allowances across Alfa.



Fundraising

We have charity partners in each of our regions. In 2021 they were: **The Climate Coalition** in EMEA, **Feeding America** in the USA and **Share the Dignity and KidsCan** in Asia Pacific. These charities are nominated and voted for by employees. The company also matches any funds raised for these brilliant causes.

We raised over £26,000 for our charity partners and others during 2021.

Employees as individuals also hold events and raise funds for many other local and national charities throughout the year.

ENVIRONMENTAL SOCIAL GOVERNANCE CONTINUED

ENVIRONMENT

Our environment

One of the main aims of our Environmental Policy is to carry out our business in a manner that minimises our impact on the environment.



Environmental impact

Our Environmental Impact teams in all regions help us to drive change and reduce our impact on the planet in lots of ways.

Our Cycle to Work scheme introduced in 2020 has seen good uptake and this will undoubtedly increase as travel and office time resumes.

In our energy-efficient offices we ensure sustainable, ethical and environmentally conscious purchasing for café products, event giveaways and other items.

We also recycle waste and coffee grounds, compost food waste, have eliminated single-use plastics and use eco-friendly cleaning products.

Alfa sources electricity in the UK from renewable energy provider, Opus.

Alfa's Data and Equipment Disposal Policy covers off securely and sustainably disposing of IT equipment, including laptops. We also recycle technical hardware and donate to schools.

The Climate Coalition is the UK's largest group of people dedicated to action against climate change; a group of over 120 organisations – including the National Trust, Women's Institute, Oxfam, and RSPB – that is 22 million voices strong. The Climate Coalition's aim is to bring people from all walks of life and organisations with different goals together to collectively call for climate action and we've partnered with them.

We have been raising money for The Climate Coalition and, in return, they've joined us to deliver a variety of social talks on the theme of Climate Action. In November they delivered a talk on 'What Happens After COP26?'





Carbon emissions

One of our Company objectives for 2021 was to become a 'climate positive' workforce.

This year we have been looking at options for our interim carbon offsetting solution in order to reach this target and have worked with Ecologi for credible and impactful offsetting projects to support. Carbon offsetting is only a credible tool when used alongside emissions reduction strategies, which we are beginning to implement where possible.

The next goal is to work with a sustainability consultancy to help us calculate more detailed carbon footprint data and develop strategies to reduce it, before ultimately offsetting what cannot be avoided.

Alfa's London office has achieved an 'excellent' rating under the BREEAM In-Use certification for 2021/22.



“Our global Environmental Impact team is really looking forward to 2022; we have lots of ideas and motivation to improve Alfa's carbon impact and help to develop a formal emissions reduction strategy. We've had so much internal support from colleagues and senior management and feel we can break new ground for Alfa's ESG goals.”

Hannah Coral

Carbon emissions and energy consumption reporting

	2021		2020***	
	Global (inc. UK)	UK	Global (inc. UK)	UK
Total electricity use (kWh)	112,333	93,954	114,639	102,748
Total gas use (kWh)	97	–	–	–
Total transport fuel (kWh)	131,651	130,993	111,600	109,370
Total energy from other sources (heating & cooling) (kWh)	53,079	53,079	41,166	41,166
Total energy use (all sources) (kWh)	297,160	278,026	267,405	253,284
Total carbon emissions (electricity) (tCO ₂ e)	33	28	33	30
Total carbon emissions (gas) (tCO ₂ e)	0	0	0	0
Total carbon emissions (transport fuel) (tCO ₂ e)	49	49	39	38
Total carbon emissions (other sources – heating & cooling, flights and taxis) (tCO ₂ e)	60	14	140	46
Total carbon emissions (tCO₂e)	142	91	212	114
Scope 1 (tCO ₂ e) – gas, heating and company cars	49	*	43	*
Scope 2 (tCO ₂ e) – electricity and electric cars	44	*	38	*
Scope 3 (tCO ₂ e) – flights, taxis, water taxis	49	*	131	*
Total carbon emissions (tCO₂e)	142	*	212	*
Total revenue (£m)	83.2	–	78.9	–
Carbon intensity ratio (tCO₂e per £million)	1.7	*	2.7	*
Total carbon offsets purchased from Ecologi (tCO₂e)**	1,231	–	–	–

* This information has been calculated at a global level only.

** We compensate for unavoidable emissions by purchasing certified carbon emissions from Ecologi.

*** 2020 data has been updated as part of improvements to calculation methodology.

ENVIRONMENTAL SOCIAL GOVERNANCE CONTINUED

ENVIRONMENT

Carbon & energy efficiency actions

We are committed to responsible carbon management and will practise energy efficiency throughout our organisation, wherever it's cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the global community and we understand we have a role to play in reducing greenhouse gas emissions. We have implemented the policies below for the purpose of increasing the business's energy efficiency in the relevant financial year:

- Moved to remote home working due to COVID-19. Will review when situation permits.
- Implemented and encouraged use of video conferencing.
- Travel reduced due to COVID-19.

In 2021, we became carbon positive as our offsets purchased from Ecologi exceed our emissions (i.e. Scope 1 and Scope 2 emissions, as well as those Scope 3 emissions that have been disclosed).

Methodology used in the calculation of disclosures

ESOS methodology (as specified in Complying with the Energy Savings Opportunity Scheme version 6, published by the Environment Agency, 21.01.21) used in conjunction with Government GHG reporting conversion factors. The calculations have been approved by a PAS51215 compliant body.

For carbon only related matters, the SECR methodology as specified in 'Environmental reporting guidelines: including Streamlined Energy and Carbon Reporting and greenhouse gas reporting' was used in conjunction with Government GHG reporting conversion factors.

Estimates made with respect to the date include:

- Company car annual mileage provided and apportioned into months;
- Emissions in line with a medium-sized engine assumed for one car; and
- Assumed all taxi rides are 5 miles.

Note: Emissions data includes WTT (well-to-tank) and T&D (transmission and distribution). kWh data excludes flights, taxis and water taxis.



Taskforce on Climate-Related Financial Disclosures:

Area	Recommended disclosure	Alfa Disclosure
Governance	Describe the Board's oversight of climate-related risks and opportunities	Overall responsibility for all ESG matters sits with the Group CEO and progress is reported to the Board. Reporting and risk management issues are discussed and debated as part of the Audit & Risk Committee.
	Describe management's role in assessing and managing climate-related risks and opportunities.	As part of the twice a year detailed risk management process the Company Leadership Team reviews and discusses the latest view of all opportunities and risks including climate-related and in particular corporate level risks are discussed by the Executive Board members.
Strategy	Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term.	In the short-term we see little impact of climate-related risks and opportunities on our business, however we are acutely aware of our responsibility to contribute towards the global efforts to mitigate against climate change, and therefore we are actively looking to reduce our carbon footprint, including reducing travel to client sites, assessing renewable energy options for new offices, and considering travel distances for the location of conferences. In the medium to longer-term we see more positives for Alfa than negatives. A move towards lower carbon new technologies is likely to result in increasing requirements for asset backed finance solutions, which will drive growth in our underlying markets. In addition increasing reporting requirements through the supply chain will require agile systems that can respond to the new reporting requirements which will increasingly demonstrate the greater flexibility of Alfa Systems over competitor products.
	Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning.	To enable our systems to respond to increasing demands for mobile solutions and emissions reporting, it may require more investment in the product to make the most of these opportunities. The increased functionality however is likely to lead to increased licence revenues as customers want to access the new modules providing this.
	Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario.	As we do not believe there are significant risks to our organisation, other than the overall risk to the world economy, we believe our existing strategy has a high degree of resilience to different climate-related scenarios.
Risk management	Describe the organization's processes for identifying and assessing climate-related risks.	We have a comprehensive process of risk management which includes a detailed assessment of risks twice a year. Included within this process is explicit consideration of climate-related risks.
	Describe the organisation's processes for managing climate-related risks.	In the short-term we do not see significant climate-related risks for the organisation and as a consequence we keep the risks under review, but are not actively managing any at this point in time.
	Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management.	It is an integral part of our overall risk management, and in particular it is discussed when considering the corporate level risks.
Metrics and targets	Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process.	We do not currently use any metrics for assessing climate-related risks other than being aware of the growth projections in the underlying auto and equipment finance market. We are however intending during 2022 to set targets for reduction in emissions to ensure that we play our part in the overall journey to a net zero economy. See page 67 for further details.
	Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks.	See page 67.
	Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets.	We have no specific targets for the management of the risks and opportunities because as noted above we do not see any short-term risks or opportunities. If and when any risks and opportunities become more apparent we will seek to see what targets we could set.

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

Corporate governance

Section 1: Board leadership and Company purpose	See page	Section 2: Division of responsibilities	See page	Section 3: Composition, succession and evaluation	See page
A Effective Board	77	F Board roles	83	J Appointments to the Board	86
B Purpose, strategy, values and culture	77	G Independence	89	K Board composition	86
C Governance framework	77	H External commitments and conflicts of interest	84	L Board evaluation	86
D Stakeholder engagement	77	I Board efficiency: key activities of the Board	85	➤ Read more in the Nomination Committee Report on pages 90 to 93	
E Workforce policies and practices	79				
Section 4: Audit, risk and internal controls	See page	Section 5: Remuneration	See page		
M Financial reporting, external auditor & internal audit	98 to 99	P Linking remuneration with purpose and strategy	101 to 102		
N Review of 2021 Annual Report	96	Q Remuneration Policy review	104		
O Internal financial controls Risk management	98	R Performance outcomes in 2021 Strategic targets	114		
➤ Read more in the Audit & Risk Committee Report on pages 94 to 99		➤ Read more in the Remuneration Committee Report on pages 100 to 121			

CHAIRMAN'S INTRODUCTION



Andrew Page
Executive Chairman

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 & 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 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.

"Following the Director appointments made in 2020, this has been the first full year with the new Board and I can say it has been a pleasure to be the Chairman of such a progressive and knowledgeable team that continues to make excellent progress in developing the business."

Board focus areas in 2021

- Special dividend of 10 pence per ordinary share.
- Performance of the business, financially and operationally.
- 2022 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 2021. This report outlines how the Board continues to make sure 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: Audit & Risk Committee, Nomination Committee and Remuneration Committee. Together, these give a clear insight into how we manage corporate governance principles and processes within the Group.

CHAIRMAN'S INTRODUCTION CONTINUED

Continued strong performance during 2021

The upheaval of the global COVID-19 pandemic continued to provide an unprecedented challenge to all companies. The governance environment that Alfa had in place when the COVID-19 crisis unfolded in early 2020, 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 continues to respond to these unprecedented times is set out throughout this report.

During 2021, the Company kept in line with forecast, as highlighted in the scheduled market announcements, throughout the year. As a result of Alfa's continued strong performance despite the pandemic, we were delighted to announce a special dividend in the amount of 10 pence per share, which was paid to shareholders on 5 November 2021.

Additionally and as a result of the continued strong performance, CEO Andrew Denton and I have elected to forego any future remuneration, subject to minimum statutory requirements. We feel that as significant shareholders of the Company, we wanted to fully align our future remuneration with those of other shareholders through future dividend payments and the growth in the share price. Since IPO in 2017 Andrew Denton has elected each year to forego participating in Company LTIP and bonus schemes for which he would be ordinarily be included in, for the same reason.

Environment, Social & Governance

I'm pleased to report that during the year we have focused on enhancing the ESG actions that we are taking to enable improvement in our ESG reporting and ratings with a number of agencies.

Details of our ESG commitments and work during 2021 can be found on pages 58 to 69.

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, partners 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 Operating Officer. A focus of the Company Leadership Team during the year has been to continue to ensure the overall welfare of our employees throughout the COVID-19 pandemic.

The Board is satisfied that the approach towards engagement with colleagues described on pages 77 to 79 is robust.

CHAIRMAN'S INTRODUCTION CONTINUED



External Board evaluation

Following the Director appointments made in 2020, this has been the first full year with the new Board and I can say that it has been a pleasure to be the Chairman of such a progressive and knowledgeable team that continues to make excellent progress in developing the business.

An external Board evaluation process was conducted by Board Effectiveness and Governance Services (BE-GS) during the summer/autumn following the 2021 AGM. The evaluation acknowledged the great progress that has been made since the appointments in early 2020 with recommendations made by BE-GS made upon solid best practice. Details of the evaluation can be found on pages 86 to 88.

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



N

Andrew Page
Executive Chairman
Appointment to the
Board: May 2017

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.

Key strengths

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

Other appointments

Director of CHP Software and Consulting Ltd



Andrew Denton
Chief Executive Officer
Appointment to the
Board: April 2017

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 2010 and became CEO in September 2016. Andrew is also Director and joint founder of the Leasing Foundation, an organisation that supports the leasing and auto and equipment finance industry through charitable activities, research and development.

Key strengths

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

Other appointments

Director of CHP Software and Consulting Ltd



Duncan Magrath
Chief Financial Officer
Appointment to the
Board: April 2020

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 USA 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.

Key strengths

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

Other appointments

n/a



Matthew White
Chief Operating Officer
Appointment to the
Board: October 2019

Matthew joined Alfa as a graduate in 1999, starting in a software development role. In his 20-year career delivering software for the auto and equipment 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.

Key strengths

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

Other appointments

n/a

Committee membership

A Audit — N Nomination — R Remuneration — Committee chair



A N R

Steve Breach
Independent
Non-Executive Director
Appointment to the
Board: April 2019

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 17 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.

Key strengths

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

Other appointments

Advisor to a number of private companies



A N R

Adrian Chamberlain
Independent
Non-Executive Director
Appointment to the
Board: April 2020

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. During 2021, Adrian was appointed as the Senior Independent Director of the Trust. 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.

Key strengths

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

Other appointments

Chairman of eConsult Health Ltd
Senior Independent Director of Cambridge University Health Trust and Chair of the Performance Committee



A N R

Charlotte de Metz
Independent
Non-Executive Director
Appointment to the
Board: April 2020

Currently Chief People Officer at Keyloop which focuses on software for the automotive industry where she joined in early 2021, after serving as Chief People Officer at Synamedia where she led a large-scale global transformation. Prior to that, Charlotte was 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 inclusion and diversity. 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.

Key strengths

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

Other appointments

CPO, Keyloop Limited



A N R

Chris Sullivan
Senior Independent
Non-Executive Director
Appointment to the
Board: July 2019

Chris was Chief Executive of the Corporate & Investment Bank at Santander UK during the years 2015-2018, 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 auto and equipment finance industry, having spent nearly 30 years with the Lombard Group in a number of directorate roles including as CEO.

Key strengths

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

Other appointments

Chairman of the Westminster Abbey Investment Committee, Non-Executive Director of Guild Esports PLC, Senior Independent Director for DWF Group PLC, Non-Executive Director of Cannaray Ltd

COMPANY LEADERSHIP TEAM



Andrew Denton
Chief Executive Officer

Date joined Alfa
August 1995



Richard Raistrick
Chief International Officer

Date joined Alfa
May 1995



Vicky Edwards
Chief People Officer

Date joined Alfa
March 2020



Andrew Flegg
Chief Technology Officer

Date joined Alfa
February 2005



Duncan Magrath
Chief Financial Officer

Date joined Alfa
March 2020

Relevant experience/ previous roles

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

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.

Relevant experience/ previous roles

Andrew brings over 35 years of programming experience, over 25 years in commercial software development and over 15 years in the auto and equipment finance industry. He was previously Alfa's Global Director of Platforms, covering internal IT systems, cloud, information security and solution architecture.



Matthew White
Chief Operating Officer

Date joined Alfa
June 1999



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 auto and equipment finance for organisations of all sizes.



Richard Dewire
Chief Revenue Officer

Date joined Alfa
January 2001

Relevant experience/ previous roles

Richard has over 20 years in the auto and equipment 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.

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 for 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 76.

During this year and as part of the annual review cycle, the Board reviewed, updated and approved the Schedule of Matters Reserved for the Board and the Terms of Reference for each Board Committee. The Audit & Risk Committee also reviewed, updated and approved other relevant Company policies. 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 44 to 51 and the Audit & Risk Committee Report on pages 94 to 99.

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 69 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. Additionally, to understand what they experienced during the sales process and through the various stages of software implementations and provision of services.

Governance framework

The Board is made up of a majority of independent Directors whose diverse experience enables 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 pages 54 to 55 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 54 to 57 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 monitors and assesses engagement with all stakeholders, with particular attention on workforce engagement.

Employee Pulse surveys provide regular understanding of wider views and an 'open door' approach to feedback and communication also allows for frequent two-way conversation and insight. The challenges presented by the COVID-19 pandemic remained throughout 2021, but effort was made to maintain culture and connections with online events as well as in-person social elements to these events wherever restrictions allowed.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

All Board meetings feature updates on People matters and engagement levels. The Chief People Officer presented at two Board meetings in 2021, demonstrating the increased importance placed on our people. Attendance of Company meetings, social and online Town Hall events (including Q&A) with the Board as well as Company updates and frequent co-ordinated internal communications all support engagement across the organisation.

Given the Board's visibility of the engagement channels and efforts, as well as its accessibility to the workforce through the initiatives and events as mentioned, it is confident at this time that appropriate measures are in place as an alternative to Provision 5 of the 2018 UK Corporate Governance Code.

The Company actively encourages the involvement of employees in the Company's performance and the principal decision in 2021 with regard to employee interests was to launch UK/USA all-employee share plans. The Save As You Earn (SAYE) scheme known as the 'Sharesave' plan in the UK and Employee Stock Purchase Plan (ESPP) in the USA were launched in November 2021 allowing employees to become greater stakeholders in the business.

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, and 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 ongoing 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 2021 AGM behind closed doors again. As we approach our 2022 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 on 11 April 2022.

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 122.

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 2021, 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 124 of the Directors' Report.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Employee engagement

The Board monitors and assesses engagement with all stakeholders, with particular attention on employee engagement. Employee Pulse surveys provide regular understanding of wider views and an 'open door' approach to feedback and communication also allows for frequent two-way conversation and insight. The challenges presented by the COVID-19 pandemic remained throughout 2021, but effort was made to maintain culture and connections with online events as well as in-person social elements to these events wherever restrictions allowed.

All Board meetings feature updates on People matters and engagement levels. The Chief People Officer presented at two Board meetings in 2021, demonstrating the increased importance placed on our people. Online Town Hall events with senior team members as well as Company updates and frequent co-ordinated internal communications all support engagement across the organisation.



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 is essential to Alfa's continued success. The Board recognises the value of, and supports, significant investment of time and resources in our colleagues 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.

BOARD LEADERSHIP AND COMPANY PURPOSE CONTINUED

Throughout the year, 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 remained heightened during the pandemic with additional challenges for our remote working employees. We continue to invest in wellbeing. In addition to enhanced paid carer leave allowance, access to physical, mental and financial advice/assistance and working from home contributions, we have grown an internal network of trained Mental Health First Aiders, available to employees for judgement-free listening and support.

In 2021, we have delivered diversity training across a number of key groups – Inclusive Leadership, Inclusive Recruitment and Unconscious Bias training. We continue to support our communities to raise awareness across the company on issues around diversity and expanded our network of external bodies and partners that we work with and support. As a result of this work, 47% of new grads were female and 47% from a diverse background.

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.

An Equality, Diversity and Inclusion Policy was published in February 2022 which aims for our colleagues to be truly representative of all sections of society and our customers, and for everyone to feel respected and able to give their best.

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 & 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 revised and reissued a share dealing code during the year. This applies to all employees and Directors. It restricts dealings by all employees during closed periods, dealings by a particular sub-set of employees outside of closed periods, and provides additional 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.

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 six scheduled meetings in 2021 and two 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.

During the year, the Board and its Committees conducted most meetings in person but also remotely through video calls when necessary, enabling the Board to continue to function and maintain the integrity of our governance structure despite the ongoing pandemic. Although not necessary in 2021, if in the event that a Director is unable to attend a meeting they would receive all the papers for the meeting and be updated on matters discussed at the next meeting. Non-Executives meet without the Chairman at least annually to appraise the Chairman's performance and Chairman also holds meetings with the Non-Executive Directors without the Executive Directors being present.

The table below records the number of meetings held by the Board and each Committee during 2021 and the number of meetings attended by each member. There was 100% attendance at each meeting.

Board and Committee meetings and attendance

	Board	Audit & Risk Committee	Nomination Committee	Remuneration Committee
Andrew Page	6/6		2/2	
Andrew Denton	6/6			
Duncan Magrath	6/6			
Matthew White	6/6			
Steve Breach	6/6	4/4	2/2	4/4
Adrian Chamberlain	6/6	4/4	2/2	4/4
Charlotte de Metz	6/6	4/4	2/2	4/4
Chris Sullivan	6/6	4/4	2/2	4/4

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 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 & 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.

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. All Directors have access to the advice of the Company Secretary.

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

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

DIVISION OF RESPONSIBILITIES CONTINUED

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](#).



Each Director's biographical details and significant time commitments outside of the Company are set out in the Board biographies on pages 74 to 75.

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 their duties to the Company and their private interests and/or other duties.

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.

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.

Key activities of the Board in 2021

Focus area	Key stakeholders	Activities	Link to strategic priorities
Strategy and operations see pages 1 to 69	Customers Employees Partners Investors	<ul style="list-style-type: none"> 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. 	<div>1 2 3</div> <div>4 5 6</div>
Leadership, people and culture see pages 12 to 15 and 25	Employees Investors	<ul style="list-style-type: none"> 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. 	<div>1 2 3</div> <div>6</div>
Finance see pages 36 to 43	Customers Employees Community and Environment Partners Investors	<ul style="list-style-type: none"> 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. Developing and monitoring ESG reporting framework. 	<div>1 2 3</div> <div>4 5 6</div>
Governance see pages 70 to 127	Employees Customers Investors	<ul style="list-style-type: none"> 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 external Board effectiveness evaluation and setting actions. Approving updated Committees' Terms of Reference. Receiving and considering feedback from shareholder engagement. Reviewing and approving the modern slavery statement. 	<div>1 4 6</div>

Our strategic priorities

- 1

Strengthen – Grow our differentiation of market leading People, Product and Delivery.
- 2

Sell – Focus on cloud-hosted, subscription sales to our target markets.
- 3

Scale – Increase our capacity for developing and delivering Alfa Systems.
- 4

Simplify – Simplifying our product, implementations and processes to enable more concurrent Alfa Systems implementations.
- 5

Synergise – Develop our partner ecosystem, to improve our sales opportunities and to enable more concurrent Alfa Systems implementations.
- 6

Start – Improve our offering for smaller auto and equipment finance providers as a platform for innovation and to increase our reach.

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 90 to 93.

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 2021 Annual General Meeting (AGM) of the Company, all of the current Directors stood for reappointment, and were duly elected with majorities ranging from 99.15% to 100% of the votes cast.

All the Directors will retire and seek re-election at the 2022 AGM of the Company. This report and in particular the Board biographies on pages 74 to 75 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, in part, on its review of the results from the Board evaluation process outlined from this page, 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.

Board evaluation

The Board recognises the benefit of a thorough evaluation process to reflect on its strengths and the challenges it faces, and to identify opportunities to continuously improve its effectiveness.

Our Board evaluation process was conducted during the summer of 2021:

1. The Board agreed that an externally facilitated Board effectiveness review should be conducted in 2021.

↓
2. Discussions were initiated with three reputed external agencies shortlisted for conducting the Board effectiveness evaluation, and Derek Woodward and Mark Peters of Board Effectiveness and Governance Services (BE-GS) were selected on the basis of their proposed approach and Board experience. BE-GS does not have any other connections with the Company or with individual Directors.

↓
3. The CFO and Company Secretary, having liaised with the Chairman, discussed and agreed the scope of the evaluation with BE-GS.

↓
4. BE-GS conducted individual private interviews with each of the Directors, some members of the Company Leadership Team (CLT) and the Company's Brokers to gain insights as to how the Board sees itself and how it is perceived by others. The interviews with the Directors covered composition and the diversity of the Board; the breadth and depth of work programmes for the Board and Committees; and Boardroom culture. BE-GS also conducted a thorough desk-top review of Board and Committee agendas, papers, and minutes.

↓
5. BE-GS also conducted a separate evaluation of the Chairman against the measures identified by the Financial Reporting Council (FRC). This included interviews with each of the Directors and a detailed review with the SID.

6. BE-GS prepared a report of its findings from the review and identified constructive forward-looking recommendations to enhance the effectiveness of the Board and its Committees.

↓

7. The BE-GS report was first shared with the Chairman and the SID and was then presented to, and discussed by, the Board which agreed an action plan for the year ahead.

↓

8. Progress against the Board's action plan will be monitored by the Chairman with the support of the Company Secretary and periodic reports will be shared with the Board.

↓

9. The Board evaluation to be conducted in 2022 will be conducted internally but will reflect on the actions from the 2021 external review.

Recognising the positive progress made

The Board has made huge progress since it was refreshed and strengthened in 2019/20, despite the challenges of the pandemic restrictions.

The Board and Committees have established a good rhythm of work, with the new Directors bringing a diverse blend of solid experience and skills.

The regular information flows to the Board from the CEO, the CFO and the COO are high quality, comprehensive and consistent and are supplemented with quality communication between the Chairman and the NEDs. Meetings are well prepared and the cycle of CLT updates and separate strategy sessions are valued by the NEDs and provide an ongoing opportunity for experienced-based debate.

There is mutual respect and trust amongst the Board members, with the Executive Directors welcoming the rigour and contributions made by each of the NEDs. Each Director continued to contribute positively and effectively both within and outside of Board meetings.

There is a positive culture amongst all the Directors and the Board is visible to the wider organisation and leads by example. There is clarity in the communication cascade, which supports understanding by staff of the strategy and performance, and sets expectations.

Despite being a very new Board, it worked well throughout the restrictions of the pandemic. There is a high degree of confidence in the Chairman and the Committee Chairs.

The review did not identify any concerns and all recommendations made in the BE-GS report build upon a solid base of best practice. Based on BE-GS extensive "in the Boardroom" experience, all indicators suggest that the Board and its Committees are operating effectively.

On the Chairman's evaluation against the FRC measures, the conclusion reached was that he was effective. The Directors and investors agree that the Chairman is seen by all (including

himself) as being in a stewardship role, not exercising any undue control, and allowing the Board as a whole and the Executive to run the business.

A summary of the key assessment highlights contained in the BE-GS 2021 Board effectiveness review is set out below.

Key assessment highlights	Commentary
Board composition and attributes	Unanimous view that this is a high-quality Board; the size, composition and Executive/NED mix of the Board is optimum and comprises a solid and diverse range of skills, experience and knowledge. The NEDs bring a tremendous range of experience. Good Chair skills on the Board and Committees – high standard of technical ability.
Culture-Board and organisation	<p>The Boardroom culture is exemplary – the Directors lead by example. There is a very open and equal approach, with everyone sufficiently knowledgeable, experienced and confident to challenge; and having the maturity to be challenged and learn.</p> <p>The positive culture of the organisation shines through everything. There is clarity in the communication cascade, which supports understanding by staff of the strategy and performance, and sets expectations. The employee communication is two-way and encourages open engagement on performance and major decisions. The regular Pulse survey is one of many ways the Board keeps in touch with the culture as perceived by employees.</p>
Stakeholder perceptions	CLT members see the Board as value-adding and welcome the challenge and support provided by the external dimensions that the NEDs bring. Investors appreciate the solid Executive team under the stewardship of the Executive Chairman.
Board meetings	The Directors felt there to be a good rhythm and cycle of Board meetings with well-structured agendas and papers. There was a general feeling that the meetings were run efficiently due to comprehensive papers, Chair briefings and good pre-meeting preparations.
Board information	Information flows to the Board, including a good range of metrics, are of high quality and consistent. Stakeholder KPIs are good, but feedback and oversight of feedback mechanisms could be improved.
People strategy	Progress has been made in the Board's oversight of the Group's people strategy and succession. These are recognised as essential elements of the Board's responsibility and should be kept under regular review, along with diversity and the pipeline of talent below Board and CLT level.
Individual Directors	Each Director spoke highly of their colleagues, confirming that they brought different attributes to the Board's deliberations.
Committees	The Committees perform well and, following a detailed review of their activities compared with their duties within their terms of reference, cover most of what are required of them.

COMPOSITION, SUCCESSION AND EVALUATION CONTINUED

Summary of outputs and Board agreed actions

The following table presents a high-level summary of the outputs from the 2021 Board effectiveness review and the actions agreed by the Board.

A summary of the key assessment highlights contained in the BE-GS 2021 Board effectiveness review is set out below.

Outputs from the 2021 Board Effectiveness review	Board agreed actions
Increase the focus on below Board level people strategy, talent pipeline, diversity, succession, and remuneration to keep pace with the execution of the strategy and organisational evolution.	Deeper dives into our people strategy will feature on the 2022 Board agendas.
Continue with and increase the NEDs exposure to the CLT and the wider organisation to exchange ideas and reinforce the Board's presence, explain the matters reserved for decision by the Board and the value that it brings; such interaction will support the Board's role in talent management and succession planning.	Increased engagement as opportunities to meet up physically open up will be scheduled.
The pairing between NEDs and senior managers to be further developed.	More informal interaction between NEDs and senior management to be arranged.
Oversight and reporting mechanisms for stakeholder feedback to the Board to be formalised.	This will be addressed as part of a more structured ESG reporting framework.
The Board and the Committees should develop a forward programme of work to ensure broad coverage, support planning and to make effective use of precious Board/Committee time.	A forward programme of work to be developed and agreed.
An annual review of the Committees' activities gauged against their terms of reference to be conducted to ensure they have fully discharged their responsibilities.	Board's forward programme to reflect this recommendation.
The cycle of CLT presentations at Board meetings and the separate programme of strategy development meetings to be maintained.	Board's forward programme to reflect this recommendation.
Board papers (where appropriate) to build on the organisation's culture by more clearly referencing the stakeholder factors which had been taken into consideration.	Where a decision is being taken the papers will reflect s172 factors.

The Group's performance management system applies to management at all levels. The individual performance of the Executive Directors is reviewed separately by the Remuneration Committee. Further details of the Executive Directors' performance measures and objectives and their achievement against them are disclosed in the Remuneration Report on pages 100 to 121. As a result of the Board Effectiveness review, we do not believe there is a need to change the composition of the Board at this time.

BE-GS reviewed the accuracy of the content of this disclosure in relation to their work.

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 2021, 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.

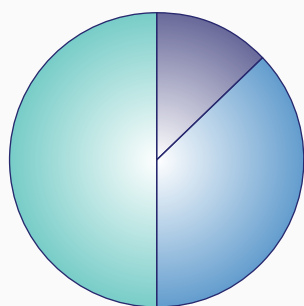
The Board is mindful of the aims of the Hampton-Alexander Review, an independent review body which aims to improve women's representation at Board level and in leadership roles. This principle of Board diversity is strongly supported by the Board, recognising that diversity of thought, approach and experience 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.

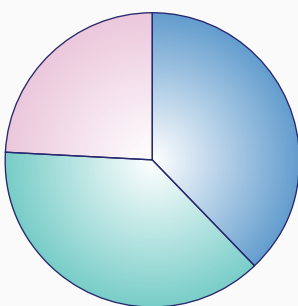
Diversity overview

Board composition



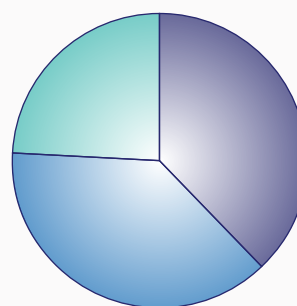
Executive Chair	13%
Executive	37%
Independent	50%

Board tenure



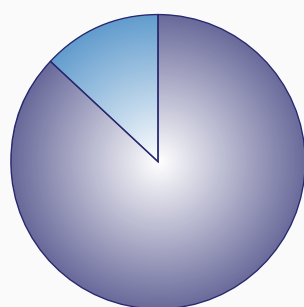
0-1 year	0%
1-2 years	38%
2-3 years	38%
3-4 years	0%
4-5 years	24%

Average age of the Board



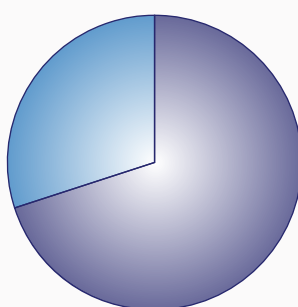
40-49	38%
50-59	38%
60-69	24%

Gender diversity Board



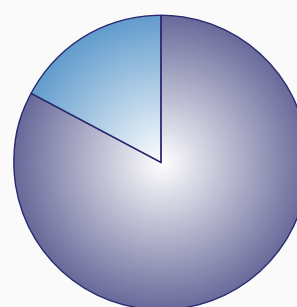
Male	87%
Female	13%

Gender diversity Company wide



Male	70%
Female	30%

Gender diversity Senior manager



Male	83%
Female	17%

NOMINATION COMMITTEE REPORT



Chris Sullivan
Chair of the Nomination
Committee

Attendance at meetings

Name	Meetings attended 2021
Chris Sullivan (Chair)	2/2
Steve Breach	2/2
Adrian Chamberlain	2/2
Charlotte de Metz	2/2
Andrew Page	2/2

Principal activities in 2021

- Considered the results of the 2020 Nomination Committee evaluation.
- Reviewed the structure, size and composition of the Board and its Committees.
- Considered wider elements of succession planning for the 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 2022

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

“During 2021, 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.”

Dear shareholders,

I am pleased to introduce the Nomination Committee (the 'Committee') Report for 2021 which summarises our key activities during the year.

During 2021, 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.

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 keep under review the skills and experience required to fulfil the Board's strategy, to make suitable recommendations based on those key attributes.

The Nomination Committee monitored the membership of all of the Board's Committees following the appointments in 2020 of Adrian Chamberlain and Charlotte de Metz and remain satisfied with their composition.

Succession planning

Succession planning for the Executive Directors and Company Leadership Team (CLT) remains 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 requirements relating to the development of a diverse pipeline for succession for the Board and the CLT contained within the 2018 Code. Discussions were held about initiatives taken to increase the diversity in the hiring process, including drawing on NEDs experience in other organisations of attracting diverse talent.

Chris Sullivan
Chair of the Nomination Committee

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 Executives 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 minor revisions to the Terms of Reference in December 2021.

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.

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 recognise 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.

NOMINATION COMMITTEE REPORT CONTINUED

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 2021, 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 2022.

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 2021.

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 2022 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 as part of the external Board evaluation conducted during summer/autumn 2021 by Board Effectiveness and Governance Services (BE-GS). The results of the evaluation of the Board and its Committees were subsequently discussed in entirety and areas identified to develop the effectiveness of the Committee further. Information on the process can be found on pages 86 to 88.

Focus for 2022

Board membership and succession will continue to be high on the agenda moving into 2022. The Committee will continue to 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

8 March 2022

AUDIT AND RISK COMMITTEE REPORT



Steve Breach
Chair of the Audit and
Risk Committee

Attendance at meetings

Name	Meetings attended 2021
Steve Breach (Chair)	4/4
Adrian Chamberlain	4/4
Charlotte de Metz	4/4
Chris Sullivan	4/4

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

Principal activities in 2021

- Reviewed the 2020 year-end financial statements and Annual Report.
- 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 2021 internal audits and approval of the 2022 internal audit plan.
- Review of Information and Cyber Security governance and organisation.
- Tax compliance status review.
- Reviewed Internal & External Audit effectiveness.
- Considered key accounting matters.

Areas of focus for 2022

- Continued to monitor legislative and regulatory changes that may impact the work of the Committee.
- Considered the impact of proposed audit industry changes.
- Continued with oversight of internal audit activities and findings.
- Monitored the continued progressive enhancements to Alfa's systems and internal controls.

“Alfa's financial control environment and governance framework has seen progressive enhancements during the year, in particular around the timeliness and accuracy of reporting and forecasts.”

Dear shareholders,

I am pleased to present our Audit and Risk Committee Report for the year ended 31 December 2021. The Report explains the work of the Committee during the year, as well as setting out expected key areas of focus for 2022.

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.

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 continued to spend 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 continued to make progress during the year improving the timeliness and accuracy of reporting and forecasts. Importantly, these improvements have continued during an extended period of remote working which has existed since the date of the last report.

Committee members' skills and experience are set out on pages 74 to 75. 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 auto and equipment finance and enterprise software sector and corporate governance.

This year the Board undertook an external evaluation 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 pages 86 to 88. 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

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 four times and met privately with the external auditor once. 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 2021, 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.

AUDIT AND RISK COMMITTEE REPORT 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 six months ended 30 June 2021 and year ended 31 December 2021. 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	<p>The Group's operations include complex software implementation programmes and service activities.</p> <p>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. Contract modifications also occur from time to time.</p> <p>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. Estimates are applied in this assessment for example when assessing the stand alone selling price.</p>
Development costs	<p>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.</p> <p>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.</p>
Goodwill and carrying value of investments	<p>The Group has goodwill on its balance sheet and the Company holds investment in subsidiaries. These need to be reviewed annually to ensure that the recoverable amount exceeds the book value, and in the case of investment in subsidiaries also to see if a previous impairment should be reversed.</p>
Going concern and viability statement	<p>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.</p>

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, including key sources of estimation uncertainty, 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 Committee reviewed reports from management detailing the costs that had been identified as appropriate for capitalisation.

The Committee reviewed and challenged management's impairment assessment.

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 2022 budget and also plans for 2023 and 2024.

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 46 to 51 in the Strategic report.

The Committee discussed and challenged the downside scenarios modelled as part of the Viability statement as disclosed on pages 52 to 53 in the Strategic report, the funding headroom available, the feasibility of mitigating actions, the dividend policy and share-buy back programme, 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 2021 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 that no impairment was required in the current year for both goodwill and the carrying value of the investment in subsidiaries. In light of the investment's good performance in the year, the Committee agreed that the impairment recognised in 2018 should be reversed in the company only financial statements of Alfa Financial Software Holdings PLC.

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.

AUDIT AND RISK COMMITTEE REPORT CONTINUED

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 2022 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 137 to 172;
 - the Company's business model, as described on pages 18 to 19; and
 - the Company's strategy, as described on pages 22 to 35.

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 44 to 45. The principal risks and uncertainties facing the Company are addressed in the Strategic report in the table on pages 46 to 51. 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.
- Controls in respect of financial reporting and the production of the consolidated financial statements are well established. Group accounting policies are consistently applied and review and reconciliation controls operate effectively.
- 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.

During 2021 the Board, through the Committee, has continued to monitor the company's risk management and internal control and it has also reviewed their effectiveness. Throughout 2021 Alfa's financial, operational and compliance controls continued to operate as intended.

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 2021 included the following areas of focus:

- Post implementation review for US financials system change
- IT Procurement review
- Payroll review
- ESG review
- Follow up on prior recommendations.

The Committee performed an effectiveness review of internal audit during the year. As part of this 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).

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, which was updated in the year, 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 2021, 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 2021 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 52 to 53. 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 126 and confirmed its satisfaction with the testing methodology.

Assessment of the effectiveness of the Committee

The Committee's effectiveness in respect of 2021 was evaluated as part of the external review described on pages 86 to 88. 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 2022

In 2022, 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. The Committee will also continue with oversight of internal audit activities and findings as well as monitoring the continued progressive enhancements to Alfa's systems and internal controls.

Steve Breach Chair, Audit and Risk Committee

8 March 2022

DIRECTORS' REMUNERATION REPORT



Adrian Chamberlain
Chair of the Remuneration
Committee

Attendance at meetings

Name	Meetings attended 2021
Adrian Chamberlain (Chair)	4/4
Chris Sullivan	4/4
Steve Breach	4/4
Charlotte de Metz	4/4

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

Principal activities in 2021

- Working with COO and CPO on developing a new structure for Executive Director and Leadership personal objectives.
- Setting the annual bonus targets for the Executive Directors for the financial year 2021 and measuring performance against them (following the year end).
- Approving LTIP awards to employees, and the targets attached to these.
- Reviewing and recommending for approval the revised Terms of Reference of the Committee.
- Launch of all-employee share plans in the UK (SAYE) and USA (ESPP).

Areas of focus for 2022

- Approval of bonus performance measures and targets for 2022.
- Approval of performance conditions and awards under the Company's LTIP for 2022.
- Review of any issues raised by shareholders in relation to remuneration and the Remuneration Policy.
- Assessment of the ongoing appropriateness of the remuneration arrangements in light of remuneration trends and market best practice.

“We want to ensure the overall remuneration structure remains fit for purpose in light of evolving circumstances, but also aligned with the interests of other stakeholder groups, notably our employees.”

Dear shareholders,

I am pleased to present our Directors' Remuneration Report for the year ended 31 December 2021. I would like to thank Chris Sullivan, Steve Breach and Charlotte de Metz for their contribution to the Committee's work during 2021.

During 2021 COVID-19 continued to have an impact on the operating environment. The Remuneration Committee took a decision to ignore its potential effects in 2020 when setting short and long-term targets; reflecting our belief in the business's robustness and prospects.

In 2021 we continued to believe this approach was appropriate. The 2021 bonus and 2021 LTIP targets were set against this background. During the course of 2021 the Committee decided not to scale back rewards or adjust targets as a result of the pandemic.

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. This included the launch of new all-employee share plans in the UK (SAYE) and USA (ESPP), designed to encourage and widen employee share ownership.

The Committee has 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 2021

The Company saw a strong financial and operational performance in 2021. Revenues were up 5% on the prior year at £83.2m (2020: £78.9m) and operating profit increased by £0.8m to £24.7m (2020: £23.9m). At constant currency revenue grew 9% with operating profit up 10%. For a comprehensive overview, I would direct readers to the Strategic report on pages 1 to 69.

During 2021 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 November 2021, following Board approval, we were once again delighted to announce the declaration of a special dividend. This returned £29.7m to shareholders and was positively received.

Performance outturns for 2021

The Committee approved the 2021 bonus outcomes for the Executive Directors, reflecting the company's strong operational and financial performance. Operating profit and revenue performance both significantly exceeded the ranges set, and the free cash flow modifier was achieved, warranting 100% pay-out of the bonus's financial elements.

The Committee also assessed the performance of each of the Executive Directors against their personal objectives. It concluded that pay-outs of between target and maximum were warranted for the CFO and COO.

The CFO was awarded 70% of maximum, the COO 73% of maximum. More information on how the annual bonus for 2021 was determined is provided on page 113.

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 2021 and for any Long Term Incentive Plan (LTIP) award for the performance period beginning January 2022. Shareholders will be aware that the Executive Chairman and CEO also waived any entitlement for all performance years since the IPO in 2017. 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 second LTIP awards for Executive Directors and members of the Company Leadership Team were awarded in April 2021 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 2023 will be reviewed regularly.

2021 Policy and implementation

As required by the reporting regulations, the Remuneration Policy was submitted to a binding vote at the 2021 AGM, this being the third anniversary of its adoption. During 2021, the Committee debated the existing remuneration arrangements. On balance we decided that the current approach remained well suited to Alfa's strategic intentions. The Policy that was put to shareholders at the 2021 AGM remained largely unchanged.

Further details on our Remuneration Policy are described on pages 103 to 111.

At the end of 2021, the Chairman and CEO requested that the Committee approve their proposal to reduce their salaries, bonus and shares to the legal minimum level. Both the Chairman and CEO are significant shareholders in the Company and expressed a desire to align their future remuneration with those of the other shareholders.

The Committee members were supportive of the proposal and approved it effective 1 December 2021.

Therefore, for the upcoming year, salaries for the Chairman and CEO will reflect the National Living Wage. Salaries for the CFO and COO will remain unchanged.

DIRECTORS' REMUNERATION REPORT CONTINUED

The opportunities available under the annual bonus will be 0% of salary for the CEO and remain at 125% of salary for the CFO and 100% of salary for the COO.

The Committee has taken the opportunity to review the performance measures for the 2022 annual bonus and is of the view that our existing measures of revenue, operating profit and personal objectives, with cash as a modifier, continue to be appropriate for 2022. Further information is provided on pages 120 and 121.

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 2022 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 externally by Board Effectiveness and Governance Services (BE-GS). Further information on the process is summarised on pages 86 to 88. 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 2022.

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 (£000)	CEO	£310					CEO salary waived from 1 December 2021 (Minimum statutory salary only)
	CFO	£288					
	COO	£230					
Pension	CEO	Waived					Unchanged
	CFO	6%					
	COO	6%					
Annual bonus (Policy max 150%)	CEO	Waived	50% deferred in shares for three years				Unchanged
	CFO	125%					
	COO	100%					
LTIP (Policy max 150%)	CEO	Waived			2-year holding period		Unchanged
	CFO	2021 grant 150%					
	COO	2021 grant 100%					
Safeguards (Malus & clawback)	CEO						Unchanged
	CFO						
	COO						
Shareholding requirements (% of salary)	CEO	200%					Unchanged
	CFO	200%					
	COO	200%					
Post-employment shareholding (% of salary)		Post employment Y1	Post employment Y2				Unchanged
	CEO	200%	100%				
	CFO	200%	100%				
	COO	200%	100%				

ALFA FINANCIAL SOFTWARE HOLDINGS PLC 2021 DIRECTORS' REMUNERATION POLICY

Shareholders approved the new Remuneration Policy at the AGM on 10 May 2021 and it 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 remained 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.	<p>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.</p> <p>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.</p>	<p>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.</p> <p>In appropriate circumstances the Committee may award increases outside this range.</p> <p>These may include:</p> <ul style="list-style-type: none"> • A change in role and/or responsibilities; • Performance and/or development in the role of the Executive Director; and • A significant change in the Company's size, composition and/or complexity. <p>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.</p>	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.	<p>Given that the cost of benefits depends on the Executive Director's individual circumstances, there is no prescribed maximum monetary value.</p> <p>The cost of the benefits provision will be reviewed by the Committee on a periodic basis to ensure it remains appropriate.</p> <p>Other payments such as legal fees or outplacement costs may be paid if it is considered appropriate.</p>	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)	<p>Incentivises and rewards the achievement of annual financial and non-financial objectives integral to the Company's strategy.</p> <p>The part-deferral of earned bonus into shares provides alignment with shareholders' long-term interests.</p>	<p>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.</p> <p>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.</p> <p>Where exercised, the rationale for this discretion will be fully disclosed to shareholders in the relevant Annual Report.</p> <p>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.</p> <p>Malus and clawback provisions will apply (see explanatory notes).</p>	<p>The maximum bonus opportunity may be up to 150% of salary for the Executive Directors for each financial year.</p> <p>Annual awards made each year to Executive Directors will be set out in the Annual Report on Remuneration in respect of the relevant year.</p>	<p>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.</p> <p>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).</p>
Long Term Incentive Plan (LTIP)	<p>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.</p>	<p>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.</p> <p>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.</p> <p>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.</p> <p>The Committee retains the discretion to allow dividends to accrue over the vesting period in respect of the awards that vest (see explanatory notes).</p>	<p>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.</p>	<p>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.</p> <p>The performance conditions may include, but are not limited to, market measures, financial measures, and strategic long-term objectives.</p> <p>For performance between threshold and maximum, awards vest on a straight-line basis.</p>

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.	<p>Awards granted under the CSOP become exercisable subject to such timings and performance conditions as may be set by the Committee.</p> <p>Options are granted at market value or the nominal share price if higher.</p> <p>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.</p>	Maximum value of £30,000 at the time of grant, including any existing awards under the CSOP.	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% of their salary in value. 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	Performance
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.	<p>Fees for Non-Executive Directors will be determined by the Chairman and the Executive Directors.</p> <p>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.</p>	<p>Details of the current fee levels for the Non-Executive Directors are set out in the Annual Report on Remuneration.</p> <p>There is no prescribed maximum annual increase. Total fees will not exceed the maximum amount provided in the Company's Articles of Association.</p>	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, time of 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;
- Where there is 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.

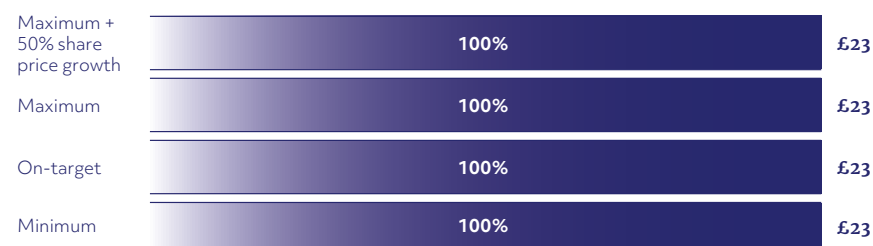
NOTES TO THE POLICY TABLE CONTINUED

Illustrations of potential remuneration outcomes

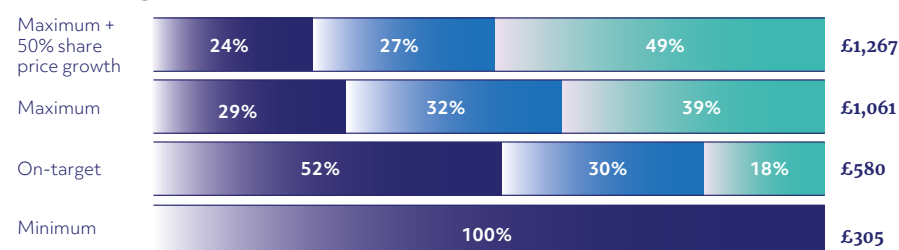
The following charts illustrate the remuneration that could be received by each of the Executive Directors for varying levels of performance in 2022. The charts are based on the following assumptions:

Pay scenario	Purpose and link to strategy
Maximum +50% share price growth	Assumes 100% payout under the annual bonus Assumes 100% payout under the LTIP plus 50% share price growth
Maximum	Assumes 100% payout under the annual bonus Assumes 100% payout under the LTIP
On-target	Assumes 50% payout under the annual bonus Assumes 25% payout under the LTIP (aligned with threshold performance)
Minimum	Fixed elements of remuneration only – base salary, benefits and pension

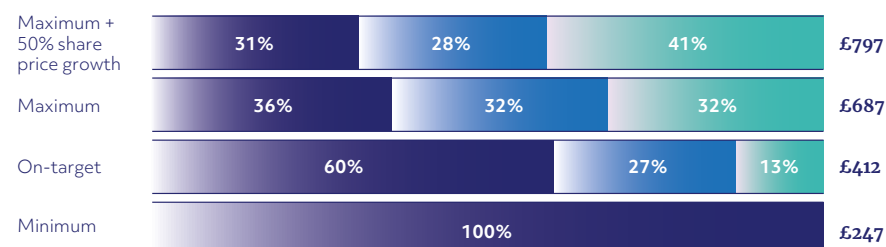
Andrew Denton, CEO (£000)



Duncan Magrath, CFO (£000)



Matthew White, COO (£000)



● Fixed ● Bonus ● LTIP

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
Sharesave (SAYE) Scheme	Unvested options will lapse and savings will be returned on cessation of employment. 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 can be exercised immediately, or up to six months of savings can be made before exercising options. The Committee may determine that the options should be exercised 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 original release date. If the participant dies, options will normally vest at the time of their death on the same basis as for other good leavers. Vested options may be exercised at any time in the six months after the date of cessation, after which they will lapse.
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.

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 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.

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 2021

This section of the Directors' Remuneration Report sets out the remuneration paid in 2021 and the proposed remuneration for 2022. During the year, the Remuneration Policy operated as intended. The following sections on pages 112 to 115 have been audited by RSM: Single figure remuneration, Long-Term Incentive Plan – awards vesting in the year, Pension entitlements, External Appointments, Payments for loss of Office, Payments to past Directors.

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 ongoing response to COVID-19 and the external market performance. 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 and no employee received a pay cut and bonus payments were maintained
- Shareholder guidance was maintained throughout the period and a special dividend in the amount of £29.7m was paid to shareholders

Single total figure of remuneration

The following tables set out the total remuneration received by Executive Directors and Non-Executive Directors who served during 2021 and 2020.

£'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	2021	345	12	–	357	–	–	–	357
	2020	374	13	–	387	–	–	–	387
Andrew Denton	2021	297	13	–	310	–	–	–	310
	2020	322	15	–	337	–	–	–	337
Duncan Magrath ⁵ (appointed 24 April 2020)	2021	275	13	16	304	316	–	316	620
	2020	214	7	12	233	217	–	217	450
Matthew White	2021	220	14	13	247	205	–	205	452
	2020	220	10	13	243	176	–	176	419
Non-Executive Directors									
Chris Sullivan	2021	65	–	–	65	–	–	–	65
	2020	65	–	–	65	–	–	–	65
Steve Breach ⁶	2021	65	–	–	65	–	–	–	65
	2020	70	–	–	70	–	–	–	70
Adrian Chamberlain (appointed 24 April 2020)	2021	65	–	–	65	–	–	–	65
	2020	45	–	–	45	–	–	–	45
Charlotte de Metz (appointed 24 April 2020)	2021	55	–	–	55	–	–	–	55
	2020	38	–	–	38	–	–	–	38

- 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.
- Pension – Andrew Page and Andrew Denton have opted out of the pension scheme. Duncan Magrath and Matthew White receive a cash payment in lieu of a pension contribution.
- Annual bonus – corresponds to the amount earned in respect of the relevant financial year. Details of 2021 targets are set out on page 113. The Executive Chairman and the CEO waived any eligibility for a bonus in 2020 and 2021.
- 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).
- 2020 remuneration for Duncan Magrath was pro-rated from the commencement of his employment.
- A payment of £5,085 was paid in January 2020 to cover work completed on the finance remediation plan in 2019.

Base salary

Executive Directors' salaries were reviewed in 2021. Andrew Page and Andrew Denton proposed to the Board an adjustment to their base salary to minimum legal requirements, effective 1 December 2021. The Board approved this proposal.

The Board also determined that there would be no increase awarded to Duncan Magrath and Matthew White for the period from 1 January 2022 to 31 December 2022.

2021 annual bonus

The 2021 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 2021:

- Revenue for the year;
- Operating profit;
- 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 individual's 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 2021 performance year.

The table below shows the bonus outturn relating to each measure:

Measure	Weighting	Target	Threshold	Maximum	Actual	2021 bonus pay-out
Revenue	37.5%	£74.6m	95%	110%	£83.2m	100%
Operating profit	37.5%	£13.6m	75%	146%	£24.7m	100%
Cash flow conversion	Modifier		Above 100%		114%	0%
Personal performance	25%		0%	25%	CFO:17.50% COO:18.25%	CFO:70% COO:73%
Total (as a percentage of opportunity)						CFO:92.50% COO:93.25%

Straight-line vesting occurs between threshold and maximum.

REMUNERATION COMMITTEE REPORT CONTINUED

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	Finance Structure	Created a high performing finance team, delivering timely, accurate key data to drive business performance.	70%
	ESG Reporting	Improved reporting of ESG to key stakeholders.	
	Investor Relations	Emphasised strength of IP in Alfa to investors, including focused technology day.	
	Management Information	Improved forecasting accuracy and medium to long term strategic modelling, including implementation of a new tool.	
Matthew White	People	Built, developed and retained a smart, diverse team. Measured by headcount, engagement scores and retention.	73%
	Technology	Delivered high quality software to our customers and secure technical infrastructure for Alfa. Measured through various quality and delivery metrics.	
	Implementation	Delivered successful Alfa Systems implementation projects. Measured by project delivery and profitability.	
	Maintenance & Hosting	Delivered high quality and highly profitable maintenance and hosting services. Measured through issue count, availability and profitability.	
	Strategic Change	Delivery of initiatives to: <ul style="list-style-type: none"> • Increase systems implementation capacity. • Increase software development capacity. • Simplify the implementation of our software. • Improve our strategic process. 	

Based on the achievements listed above, the Committee agreed that the final vesting under the 2021 bonus would be 92.50% of the maximum for Duncan Magrath and 93.25% 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.

In accordance with the Remuneration Policy, 50% of these bonus amounts will be paid in cash, with the remaining 50%, after deduction of tax, to be deferred into an award of Alfa shares with a minimum holding period of three years.

Executive	Base salary	Maximum opportunity (% salary)	Performance outcome (% of maximum)	Bonus outcome £	of which cash £	of which shares £
Duncan Magrath	£275,000	125%	92.50%	317,969	158,984	158,984
Matthew White	£220,000	100%	93.25%	205,150	102,575	102,575

Long Term Incentive Plan – awards granted in the year

Share awards were made to the Executive Directors under the LTIP on 30 April 2021 equivalent to 150% of salary for the CFO and 100% of salary for the COO.

The Executive Chairman and CEO have waived their entitlement to participate in the 2021 LTIP.

Executive	Date of award	Face value (% of salary)	Number of shares granted	Average share price at grant (£)	Award value (£)	Threshold vesting (% of face value)	Performance period
Duncan Magrath	30 April 2021	150%	300,218	1.374	£412,500	25%	1 January 2021 to 31 December 2023
Matthew White	30 April 2021	100%	160,116	1.374	£220,000	25%	1 January 2021 to 31 December 2023

1. The share price used to calculate the number of performance shares was £1.374, the average 5-day share price preceding the date of the award (30 April 2021). This represents the face value of the share awards.

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
2021				
Total shareholder return (TSR)	Measured with reference to the FTSE Small Cap index 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 2023	50%	5.4p	7.6p
2020				
Total shareholder return (TSR)	Measured with reference to the FTSE Small Cap index 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 begin on 1 January of the year the awards are granted and will end on 31 December of the third year. 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

No LTIP awards vested in 2021.

Pension entitlements

The only element of remuneration that is pensionable is basic annual salary. A cash payment in lieu of pension contributions are 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

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 2021 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

There were no payments for loss of office during the year or prior year.

Payments to past Directors

There were no payments to past Directors for loss of office during the year or prior year.

REMUNERATION COMMITTEE REPORT CONTINUED

Statement of Directors' shareholdings and scheme interests

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 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 2021 are set out in the table below:

Measure	Shares owned outright at 31 December 2021	SAYE without conditions	Interests in share incentive schemes without performance conditions	Interests in share incentive schemes with performance conditions	Shares owned outright at 31 December 2020	Shareholding requirement (% of requirement achieved) ¹
Andrew Page	182,334,041	–	–	–	181,764,821	achieved
Andrew Denton	15,322,107	–	–	–	15,891,327	achieved
Matthew White ²	861,866	11,718	–	456,213	552,368	achieved
Duncan Magrath ²	182,165	11,718	–	1,040,460	100,000	63%
Chris Sullivan	–	–	–	–	–	n/a
Steve Breach	43,983	–	–	–	43,983	n/a
Adrian Chamberlain	14,380	–	–	–	–	n/a
Charlotte de Metz	–	–	–	–	–	n/a

1. Calculated using the share price of £1.895 (as at 31 December 2021).

2. Duncan Magrath and Matthew White elected to join the Company SAYE share scheme for which an option to acquire 11,718 ordinary shares at an option exercise price of £1.536 per ordinary share was granted on 30 November 2021. Subject to certain conditions being satisfied, the entitlement to exercise the SAYE option arises during the period 1 January 2025 to 30 June 2025.

No LTIPs were exercised during the year and there were no unexercised vested shares held at 31 December 2021. 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 2021 no new shares or reissue of treasury shares had been used to satisfy awards, and so 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:

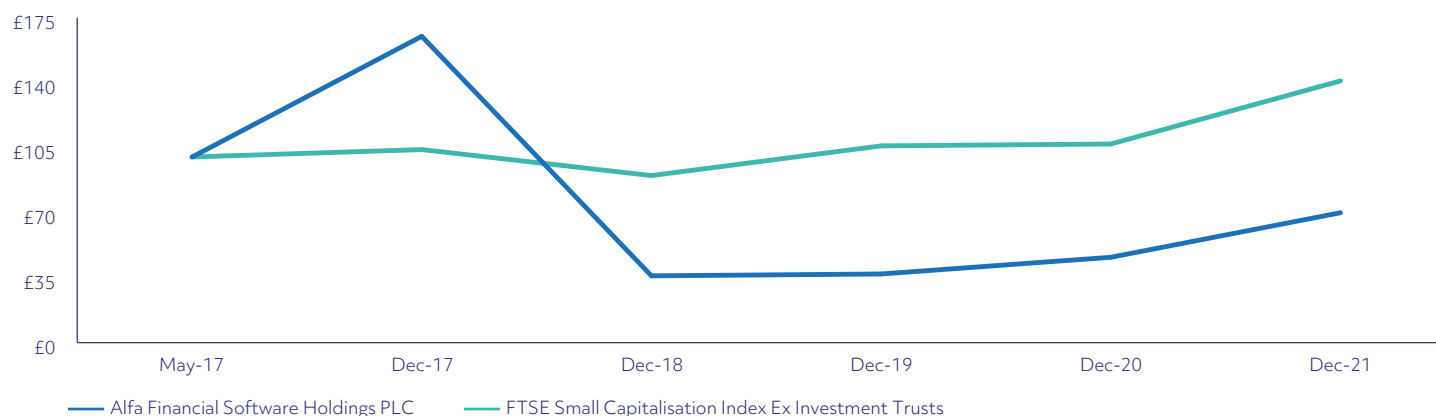
	Start of current term	Expiry of initial term
Chris Sullivan	18 July 2019	17 July 2022
Steve Breach	9 August 2019	8 August 2022
Adrian Chamberlain	24 March 2020	23 March 2023
Charlotte de Metz	24 March 2020	23 March 2023

Total shareholder return performance

The graph below shows Alfa's TSR performance from Admission in May 2017 to 31 December 2021 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 index, 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 2021.

Total shareholder return (for the period from 25 May 2017 to 31 December 2021)

Value (£) (rebased)



CEO single figure of remuneration and variable pay outcome

£'000s	CEO single figure of remuneration	Annual bonus pay-out (as a % of maximum opportunity) ¹	LTIP vesting (as a % of maximum opportunity) ²
2021	£310,236	n/a	n/a
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 2021, 2020, 2019, 2018 and 2017.

2. The CEO waived any eligibility to participate in the long-term incentive awards in respect of the 2021, 2020, 2019, 2018 and 2017 performance years.

3. The CEO agreed to a reduction in salary effective 1 Dec 2021.

Percentage change in CEO remuneration compared with employees

The table below shows the average increase in each component between the CEO and average employee in the Company from Admission to 2021:

	% change in base salary	% change in bonus earned	% change in benefits
CEO	2021: (8)%	2021: 0%	2021: (13)%
	2020: 0%	2020: 0%	2020: (6)%
	2019: 0%	2019: 0%	2019: 0%
	2018: 0%	2018: 0%	2018: (42)%
	2017: 0%	2017: 0%	2017: 87%
Alfa UK employees	2021: 5%	2021: 39%	2021: 7%
	2020: 9%	2020: (1)%	2020: 13%
	2019: (3)%	2019: (13)%	2019: (42)%
	2018: 1%	2018: (37)%	2018: 22%
	2017: 2%	2017: (33)%	2017: (11)%

REMUNERATION COMMITTEE REPORT CONTINUED

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 & 2020 and 2020 & 2021 compared 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 in 2020 in line with the requirements under the EU Shareholder Rights Directive II and over time a five-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	2021 % change in salary/fees	2021 % change in benefits	2021 % change in annual bonus	2020 % change in salary/fees	2020 % change in benefits	2020 % change in annual bonus
Andrew Page (Chairman)	(8)%	(8)%	n/a	0%	7%	n/a
Andrew Denton (CEO)	(8)%	(12)%	n/a	0%	(6)%	n/a
Duncan Magrath (CFO)	0%	46%	100%	n/a	n/a	n/a
Matthew White (COO)	0%	29%	100%	0%	n/a	n/a
Steve Breach (NED)	0%	n/a	n/a	0%	n/a	n/a
Adrian Chamberlain (NED)	0%	n/a	n/a	n/a	n/a	n/a
Charlotte de Metz (NED)	0%	n/a	n/a	n/a	n/a	n/a
Chris Sullivan (NED)	0%	n/a	n/a	0%	n/a	n/a
Employees	5%	7%	n/a	9%	13%	(1)%

1. D Magrath did not receive a bonus in 2020. The first year he received a bonus was in April 2021, in relation to the 2020 financial year.
2. M White joined the Board in October 2019 and did not receive any bonus as a Director in 2020. The first year he received a bonus was in April 2021, in relation to the 2020 financial year.
3. D Magrath, A Chamberlain and C de Metz joined Alfa part way through 2020. In calculating the increase in salaries, the figures for 2020 have been adjusted as though they started on the 1 January of that year.

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. Bonuses and the value of any LTIPs that have been granted, which are both zero in the case of the CEO, have been excluded from the remuneration figures used.

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 2021 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 annual salary reviews and annual reviews of benefits packages. Salary awards are made with reference to the outputs of annual industry benchmarking exercises. As per guidance, data relating to employees who left part way through the year and/or employees on secondment were excluded from the data set and analysis. Information calculated as at 31 December 2021.

Year	Method	25th percentile (lower quartile)	Pay ratio 50th percentile (median)	75th percentile (upper quartile)
2021	A	6.1:1	4.0:1	3.2:1
2020	A	5.7:1	4.3:1	3.2:1
2019	A	5.7:1	4.4:1	3.2:1

Year	£'000s	25th percentile	50th percentile	75th percentile
2021	Total remuneration	50.9	77.1	96.7
	Salary only	46.8	72.2	86.2
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 third 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 slight increase to the ratio at the 25th percentile (lower quartile). Meanwhile, the ratio at the 50th percentile (median) has decreased slightly and at the 75th percentile (upper quartile) has remained the same. There have been decreases to the median remuneration figures at all quartiles, most notably at the 25th percentile. The movement observed in the ratios and total remuneration figures in 2021 compared to the previous year(s) can be explained by a number of factors, including:

1. A number of new joiners to the company in 2021 fell into the lower quartile bracket, thus lowering the lower quartile median figure;
2. A number of senior members of staff (who would typically fall into the upper quartile bracket) left part way through the year and were therefore excluded from the data set and analysis. This is reflected in the decrease to the upper quartile (median) remuneration figure; and
3. The CEO advised the Committee that due to his holding in CHP Software and Consulting Ltd, the main significant shareholder in the Company, he elected to reduce his salary to the minimum statutory level of remuneration with effect from 1 December 2021. This resulted in the CEO's SFTR being lower than in previous years.

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 page 25. 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 a 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 the period and last financial year.

	2021	2020	Change
Total personnel costs (£m) (note 7 to the consolidated financial statements)	42.4	39.6	7%
Average number of employees (note 7 to the consolidated financial statements)	383	341	12%
Revenue (£m) (consolidated income statement)	83.2	78.9	5%
Operating profit (£m) (see note 4.2 to the consolidated financial statements)	24.7	23.9	3%

During FY2021, the Company paid dividends to shareholders amounting to £32.7m (FY20: £44.2m). For more information on dividends and expenditure on remuneration of all employees, see pages 171 and 158 respectively.

REMUNERATION COMMITTEE REPORT CONTINUED

Implementation of the Remuneration Policy in 2022

2022 Executive Directors' base salaries

At the end of 2021, the Chairman and CEO requested the Committee approve their proposal to reduce their salaries, bonus and shares to the legal minimum level. Both the Chairman and CEO are significant shareholders in the Company and expressed a desire to align their future remuneration with those of the other shareholders. The Committee members were supportive of the proposal and approved it effective 1 December 2021.

The Committee carried out a review of the CFO's and COO's remuneration packages in late 2021 and determined that there would be no salary increase and that the bonus and LTIP opportunities remained appropriate.

The table below shows the salaries for the Executive Directors as at 1 January 2022 in comparison to base salary at 1 January 2021:

£'000s	1 January 2022	1 January 2021	% change
Andrew Page	23	374	(94)%
Andrew Denton	23	322	(93)%
Duncan Magrath	275	275	0%
Matthew White	220	220	0%

Pension and benefits

For 2022 the CFO and COO, in lieu of a pension contribution, will receive a cash allowance of 6% of salary in line with the pension contribution available to the wider workforce. No changes are proposed to the benefits provided.

2022 annual bonus

The Chairman and CEO have waived their bonus opportunity going forward. The COO will be entitled to a maximum annual bonus equal to 100% of salary for 2022 with the CFO entitled to a maximum annual bonus of 125% of salary. The following measures have been selected for the 2022 annual bonus performance year:

Measure	Weighting
Operating profit	37.5%
Revenue	37.5%
Operating free cash flow conversion	Modifier
Personal performance	25%

The Committee is of the view that our existing measures of revenue, operating profit and personal objectives continue to be appropriate for the business.

Each bonus measure has a target, failure to meet a minimum percentage of the revenue and operating profit target will result in no bonus being awarded for that element. Achieving a maximum percentage of operating profit and revenue target will result in the maximum bonus being awarded under the formula (subject to the minimum operating profit target being achieved). The operating profit and revenue bonus elements can be increased or decreased by the operating free cash flow conversion modifier depending on cash performance, although the modifier cannot increase them beyond their maximum opportunity. 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 2022 Directors' Remuneration Report.

In accordance with the Policy, 50% of any bonus earned will be deferred into shares for a three-year holding period.

2022 Long-Term Incentive Plan

The normal maximum LTIP opportunity under the Policy is 150% of salary. For 2022, the CEO has waived their LTIP opportunity. The award opportunity will remain at 100% of salary for the 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 TSR and EPS measures for the LTIP, with an equal weighting applied to each measure.

The comparator group for the TSR is the constituents of the FTSE Small Cap index, 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.

2022 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 2022 fees. It was determined that the fees will remain at the following level:

Base fee	£55,000
Additional fee for chairing Audit & Risk Committee or Remuneration Committee (subject to maximum fees of £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 share schemes. The Company have continued to retain the services of Ellason LLP as external advisers to the Committee for the Executive remuneration incentives and provided updates on market trends and also Tapestry Global Compliance LLP (Tapestry) who continue to act as external advisors to the Committee, to provide support and information on our all-employee share schemes, both selected on their expertise and quality of their previous advice and originally appointed by the Committee. None of the advisers has any other connection with the Company or its Executive Directors. Ellason LLP's fees for 2021 amounted to £14,688; Tapestry fees were £37,906. The Committee is satisfied that Ellason LLP (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 Directors' Remuneration Policy and FY2020 Director's Remuneration Report were approved by shareholders at the 2021 AGM which was held on 10 May 2021. The votes cast were as follows:

£'000s	For	Against	Votes withheld
Directors' Remuneration Report (FY2020)	99.97%	0.03%	0
Directors' Remuneration Policy	98.50%	1.50%	0

Director service contracts

Director service contracts are available for inspection at the Company's registered office.

Signed on 8 March 2022 on behalf of the Board

Adrian Chamberlain

Chair, Remuneration Committee

8 March 2022

DIRECTORS' REPORT

Statutory information

The Directors of Alfa present their report and the audited financial statements for the year ended 31 December 2021. 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 69
Important events affecting the Group since the financial year	171
Climate change emission reporting	66 to 69
Key Financial Performance indicators	36 to 37
Principal risks and uncertainties	46 to 51
Long-term Viability statement	52 to 53
Employee involvement	25

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 (page)
Details of any long-term incentive schemes	169 to 170
Details of waiver of Director emoluments and future emoluments	100 to 121
Shareholder waiver of dividends and future dividends	125
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 auto and equipment 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 32.2 to the accounts on page 171.

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 124.

In addition, amounts are capitalised as Other intangible assets which are shown in note 15 to the consolidated financial statements.

Research and development

The Group continued to invest in product research and development throughout the year. The product is enhanced by both specific customer driven requirements, some of which are paid for by customers, but also by internal development using the skills and knowledge from the development teams but also using feedback from the implementation teams.

The amount expensed in the profit and loss account for research and development is shown in note 6 to the consolidated financial statements.

In addition, amounts are capitalised as Other intangible assets which are shown 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. Information on employee engagement is available on pages 79 and 80.

Further information on team engagement, as monitored by our internal employee surveys, is included in the ESG report on pages 58 to 69.

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.

We endeavour to meet our responsibilities to train and employ disabled people. Employment applications by people with any disability are given full and fair consideration for all vacancies and are assessed in accordance with their skills and abilities.

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

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 this report on page 124.

All Directors will stand for re-election at the AGM 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 www.investors.alfasystems.com.

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 and as at 31 December 2021, the Directors have not exercised any of their powers to issue, or purchase, ordinary shares in the share capital of the Company. However post year end, a share repurchase program commenced on 18 January 2022. Further details can be found on p124.

Directors' interests

The Directors' interests in and options over ordinary shares in the Company are shown in the Directors' Remuneration Report on page 116.

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 they have, 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.

DIRECTORS' REPORT CONTINUED

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 2021 and 8 March 2022, 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 2021 through to the date of this Report. However, on 18 January 2022, the Company announced it had entered into a share repurchase programme. More detail can be found on this page under 'Authority to purchase own shares'.

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, were 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 followed by three further lock-up periods of 365 days, 720 and 1,095 days. Each of these further lock-up periods commenced on the termination of the Initial Lock-Up Period and covered on each occasion a further 25% of the relevant Restricted Shareholder's holding of ordinary shares. The final lock-up period expired on 1 June 2021.

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 2021 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 2021 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 2022 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.

On 18 January 2022, the Company announced that it had entered into an arrangement with Barclays Bank PLC, acting through its investment bank to purchase ordinary shares in the Company up to an aggregate purchase price of £18m over an 18-month period. The purchase of the ordinary shares is made independently and uninfluenced by the Company and held as treasury shares.

The purpose of the share purchases is to reduce the Company's share capital and to enable the Company to meet obligations arising from share option programmes and not to issue any new shares to satisfy future option exercises.

As at 7 March 2022, being the last practicable date prior to the production of this Annual Report, the number of ordinary shares held in treasury was 388,605. Accordingly, total voting rights amounted to 299,611,395 ordinary shares as at the same date.

During 2021, the Employee Benefit Trust (EBT) purchased 3,415,650 ordinary shares with the nominal value of £3,415.65 for a total consideration of £4,607,677.18 and to be held in the EBT for the purpose of providing shares to cover future share option awards.

Transactions with related parties

The only subsisting material transactions which the Company has entered into with related parties are:

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 Rule 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 Company 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 32 to the consolidated financial statements.

Profits and dividends

The consolidated profit after tax for the year ended 31 December 2021 was £19.2m (FY20: £20.3m). The results are discussed in greater detail in the Financial review on pages 38 to 42. Information on dividends is shown in note 31 of the Financial Statements and is incorporated into this report by reference. During the year, the trustee of the employee benefit trust which operates in connection with the Company's share plans waived its rights to receive dividends on any shares held by it. Details of the trust can be found in note 12 of this report.

Subject to approval at the Annual General Meeting on 12 May 2022, a 2021 final dividend of 1.1 pence per share will be paid on 24 June 2022 to holders on the register on 27 May 2022. The ordinary shares will be quoted ex-dividend on 26 May 2022.

The trustees of the Company's employee share scheme (EBT) have a rolling dividend waiver in place in respect of shares held in trust.

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.

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 takes effect, alters or terminates 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 (FY20: £nil). It remains the Company's policy not to make political donations or to incur political expenditure.

At the 2021 AGM, the Directors were generally and unconditionally authorised by the Company's shareholders to make limited political donations of 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 2021 or at 31 December 2020.

Stakeholder engagement

Details of how the Group has engaged with its employees, suppliers, customers and other principal stakeholders together with details of the key decisions taken by the Group during the year are disclosed on pages 54 to 57.

Significant Shareholdings at 31 December 2021 and 25 February 2022 (being the latest practicable date of this report)

At the relevant dates, the Company had been notified, in accordance with chapter 5 of the Disclosure Guidance and Transparency Rules, of the following voting rights as a shareholder of the Company:

Name of shareholder	No. of ordinary shares at 31 December 2021	% of total voting rights at 31 December 2021	No. of ordinary shares at 25 February 2022	% of total voting rights at 25 February 2022	Nature of holding
CHP Software and Consulting Limited	197,645,649	65.88	197,645,649	65.96	Direct
Aberdeen Investments (Standard Life)	11,642,054	3.88	11,377,726	3.80	Indirect
Blackrock Investment Mgt	9,110,936	3.04	11,423,020	3.81	Indirect

During the period between 25 February 2022 and 8 March 2022 the Company did not receive any notifications under chapter 5 of the Disclosure Guidance and Transparency Rules.

DIRECTORS' REPORT CONTINUED

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, 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 over future economic conditions, 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 is set out in the Strategic report on pages 52 to 53.

Corporate governance statement

The Company's statement on corporate governance can be found on page 71 of the Corporate governance report. The report forms part of this Directors' Report and is incorporated by cross reference.

Climate risk reporting

For the first time this year the Company has made disclosures consistent with the recommendations from the Task Force on Climate-related Financial Disclosures (TCFD). These disclosures are shown on page 69.

Annual General Meeting

The Company's Annual General Meeting will be held at 3pm on Thursday, 12 May 2022 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 2022 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 & Risk Committee and in accordance with section 489 of the Companies Act of 2006, a resolution to reappoint it will be put to the 2022 AGM.

Board approval of the Directors' Report

The Directors' Report was approved by the Board on 8 March 2022 and signed on its behalf by:

Andrew Denton
Chief Executive Officer

8 March 2022

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 UK-adopted International Accounting Standards. 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 UK-adopted International Accounting Standards 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 UK-adopted International Accounting Standards;
- 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; and
- 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. 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 74 to 75 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 8 March 2022 and is signed on its behalf by:

Andrew Denton
Chief Executive Officer

8 March 2022

Financial statements

Financial statements

- 129 Independent auditor's report
- 137 Consolidated statement of profit or loss and comprehensive income
- 138 Consolidated statement of financial position
- 139 Consolidated statement of changes in equity
- 140 Consolidated statement of cash flows
- 141 Notes to the consolidated financial statements
- 173 Company statement of financial position
- 174 Company statement of changes in equity
- 175 Company notes to the financial statements

129–175

Other information

- 179 Glossary of terms
- 180 Shareholder information

179–180

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 2021, 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 UK-adopted International Accounting Standards. 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 including Financial Reporting Standard 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 2021 and of the group's profit for the year then ended;
- the group financial statements have been properly prepared in accordance with UK-adopted International Accounting Standards;
- 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.

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.

Summary of our audit approach

Key audit matters

Commentary

Group

- Revenue recognition – software and services revenue from implementation projects

Parent Company

- None

Materiality

Group

- Overall materiality: £1,140,000 (2020: £893,000)
- Performance materiality: £859,000 (2020: £670,000)

Parent Company

- Overall materiality: £1,120,000 (2020: £882,000)
- Performance materiality: £846,000 (2020: £662,000)

Scope

Our audit procedures (excluding analytical procedures at group level) covered 100% of revenue, 98% of total assets and 99% of profit before tax.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the group and parent company 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 – software and services revenue from implementation projects

Key audit matter description

The 2021 group financial statements disclose the following types of revenue:

- Software £13.6m (2020: £20.0m)
- Services £46.1m (2020: £40.8m)
- Subscription £23.5m (2020: £18.1m)

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 and 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 for software and services revenue for implementation projects 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 degree of estimation involved in determining some inputs for inclusion in software/services implementation revenue calculations.
- 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".

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 (software and services) 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 and across projects. This included testing inputs in the calculations to supporting evidence.
 - 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 analysis of the sensitivity of the calculations to these estimates.
 - Assessed key judgements made on specific contracts including management's treatment of any contract modifications and whether these were recognised appropriately in line with IFRS 15.
- Auditing 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.

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.

No key audit matters were identified in respect of the Parent Company.

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	£1,140,000 (2020: £893,000)	£1,120,000 (2020: £882,000)
Basis for determining overall materiality	5% of profit before tax (2020: 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 (2020: 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	£859,000 (2020: £670,000)	£846,000 (2020: £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 £57,000 and misstatements below that threshold that, in our view, warranted reporting on qualitative grounds.	Misstatements in excess of £56,000 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 8 components, located in the following countries;

- United Kingdom
- United States of America
- Germany
- Australia
- New Zealand

Full scope audits were performed for 4 components, targeted audit procedures for 2 components and analytical procedures at group level for the remaining 2 components. The coverage achieved by our audit procedures was:

	Number of components	Revenue	Total assets	Profit before tax
Full scope audit	4	74%	90%	93%
Targeted audit procedures	2	26%	8%	6%
Analytical procedures at group level	2	0%	2%	1%
Total	8	100%	100%	100%

Targeted audit procedures were performed on components which are not financially significant by size but include a significant risk. The targeted 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.

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:

- Checking the arithmetic accuracy of the forecasts that form the basis of the directors' going concern assessment and Viability statement
- Corroborating the cash balance that is used as the starting point for the forecasts by confirming to bank confirmations
- Challenging management's forecasts and comparing the 2022 budget to YTD results and order book
- Assessing the assumptions made in management's stress-testing
- Completing further sensitivity analysis and stress-testing
- Auditing the disclosures in the financial statements in respect of going concern and viability

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.

In relation to the entity reporting on how they have applied the UK Corporate Governance Code, 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.

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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

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.

Corporate governance statement

We have reviewed 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 Code specified for our review by the Listing Rules.

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 and 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 set out on pages 52 to 53;
- Directors' explanation as to their assessment of the group's prospects, the period this assessment covers and why the period is appropriate set out on pages 52 to 53;
- Director's statement on whether it has a reasonable expectation that the group will be able to continue in operation and meets its liabilities set out on page 53;
- Directors' statement on fair, balanced and understandable set out on page 98;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 46 to 51;
- Section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on page 98; and,
- Section describing the work of the audit committee set out on pages 94 to 99.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 127, 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. 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;
- 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:
UK-adopted IAS, FRS 102 and Companies Act 2006	<ul style="list-style-type: none"> • Review of the financial statement disclosures and testing to supporting documentation; • Completion of disclosure checklists to identify areas of non-compliance.
Tax compliance regulations	<ul style="list-style-type: none"> • 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.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF ALFA FINANCIAL SOFTWARE HOLDINGS PLC CONTINUED

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.
Capitalisation of development costs	<ul style="list-style-type: none"> • Reviewing the Investment Committee meeting minutes for any projects which may indicate the understatement of amounts capitalised during the period; • Interviewing relevant personnel to understand the projects capitalised in the period and the nature of projects not capitalised; • Verifying the amounts capitalised during the year by reference to underlying payroll records and timesheet data.
Management override of controls	<ul style="list-style-type: none"> • 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

Following the recommendation of the audit committee, we were appointed by management in July 2020 to audit the financial statements for the year ending 31 December 2020 and subsequent financial periods.

The period of total uninterrupted consecutive appointments is 2 years, covering the years ending 31 December 2020 and 31 December 2021.

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 in accordance with ISAs (UK).

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, United Kingdom, EC4A 4AB
8 March 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME

£m	Note	2021	2020 (restated)
Continuing operations			
Revenue	5	83.2	78.9
Cost of sales*		(29.0)	(27.0)
Gross profit		54.2	51.9
Sales, general and administrative expenses*		(30.0)	(28.5)
Other income		0.5	0.5
Operating profit	6	24.7	23.9
Share of net loss of joint venture	19	(0.1)	–
Profit before net finance costs and tax		24.6	23.9
Finance income	10	–	0.1
Finance expense	10	(0.8)	(0.8)
Profit before taxation		23.8	23.2
Taxation	11	(4.6)	(2.9)
Profit for the financial year		19.2	20.3
Other comprehensive income:			
Exchange differences on translation of foreign operations	27	(0.1)	0.1
Other comprehensive (loss)/income net of tax		(0.1)	0.1
Total comprehensive income for the year		19.1	20.4
Earnings per share (in pence) for profit attributable to the ordinary equity holders of the Company			
Basic	12	6.49	6.93
Diluted	12	6.39	6.79
Weighted average no. of shares (m) – basic	12	296.7	293.8
Weighted average no. of shares (m) – diluted	12	301.5	300.1

* To better reflect the nature and function of certain expenses, changes have been made to the classification and allocation of expense line items. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability. Costs previously classified as implementation and support expenses and research and product development expenses of £11.9m and £15.1m, respectively, have been presented as cost of sales. In addition, £3.4m of implementation and support expenses and £3.8m of research and product development expenses have been reclassified to sales, general and administrative expenses. The main items affected are administrative salary costs, computer costs and property related expenses. These changes have had no impact on the total expenses or the profit before tax that were disclosed at the end of December 2020.

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

£m	Note	2021	2020
Assets			
Non-current assets			
Goodwill	14	24.7	24.7
Other intangible assets	15	2.4	2.2
Property, plant and equipment	16	0.8	0.9
Right-of-use assets	17	14.4	14.8
Deferred tax assets	18	1.8	1.8
Interests in joint venture	19	0.3	0.4
Total non-current assets		44.4	44.8
Current assets			
Trade receivables	20	6.0	5.8
Accrued income	21	6.3	5.0
Prepayments	21	3.2	2.1
Other receivables	21	1.0	0.8
Cash and cash equivalents	22	23.1	37.0
Total current assets		39.6	50.7
Total assets		84.0	95.5
Liabilities and equity			
Current liabilities			
Trade and other payables	23	9.3	8.1
Corporation tax	23	1.8	1.3
Lease liabilities	24	1.9	1.7
Contract liabilities	23	11.0	7.0
Total current liabilities		24.0	18.1
Non-current liabilities			
Lease liabilities	24	15.2	15.8
Provisions for other liabilities	25	1.4	1.4
Total non-current liabilities		16.6	17.2
Total liabilities		40.6	35.3
Capital and reserves			
Share capital	26	0.3	0.3
Translation reserve	27	–	0.1
Own shares	28	(3.4)	–
Retained earnings		46.5	59.8
Total equity		43.4	60.2
Total liabilities and equity		84.0	95.5

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

The consolidated financial statements on pages 137 to 172 were approved and authorised for issue by the Board of Directors on 8 March 2022 and signed on its behalf.

Andrew Denton
Chief Executive Officer

Duncan Magrath
Chief Financial Officer

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

£m	Note	Share capital	Own shares	Translation reserve	Retained earnings	Equity attributable to owners of the parent
Balance as at 1 January 2020		0.3	–	–	82.0	82.3
Profit for the financial year		–	–	–	20.3	20.3
Other comprehensive income		–	–	0.1	–	0.1
Total comprehensive income for the year		–	–	0.1	20.3	20.4
Transactions with owners in their capacity as owners:						
Equity-settled share-based payment schemes	29	–	–	–	1.3	1.3
Equity-settled share-based payment schemes – deferred tax impact	18	–	–	–	0.4	0.4
Dividends	31	–	–	–	(44.2)	(44.2)
Balance as at 31 December 2020		0.3	–	0.1	59.8	60.2
Profit for the financial year		–	–	–	19.2	19.2
Other comprehensive loss		–	–	(0.1)	–	(0.1)
Total comprehensive income for the year		–	–	(0.1)	19.2	19.1
Transactions with owners in their capacity as owners:						
Equity-settled share-based payment schemes	29	–	–	–	1.1	1.1
Equity-settled share-based payment schemes – deferred tax impact	18	–	–	–	0.3	0.3
Dividends	31	–	–	–	(32.7)	(32.7)
Own shares issued	28	–	1.2	–	(1.2)	–
Own shares acquired	28	–	(4.6)	–	–	(4.6)
Balance as at 31 December 2021		0.3	(3.4)	–	46.5	43.4

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

£m	Note	2021	2020
Cash flows from operating activities			
Profit before tax		23.8	23.2
Net finance costs		0.8	0.7
Share of net loss from joint venture		0.1	–
Operating profit		24.7	23.9
Adjustments:			
Depreciation	6/16/17	2.3	2.2
Amortisation	6/15	0.8	0.8
Share-based payment charge	29	1.5	1.5
Loss on disposal of assets		–	0.1
Movement in provisions	25	–	0.5
Movement in working capital:			
Movement in contract liabilities	23	4.1	(1.9)
Movement in trade and other receivables	20/21	(2.8)	0.6
Movement in trade and other payables (excluding contract liabilities)	23	0.7	2.4
Cash generated from operations		31.3	30.1
Interest element on lease payments	10/24	(0.8)	(0.8)
Income taxes paid	11	(3.8)	(3.8)
Net cash generated from operating activities		26.7	25.5
Cash flows from investing activities			
Purchases of property, plant and equipment	16	(0.3)	(0.2)
Purchases of computer software	15	(0.1)	(0.1)
Payments for internally developed software	15	(0.9)	(0.7)
Investment in joint venture	19	–	(0.3)
Loan to joint venture	19	–	(0.1)
Interest received	10	–	0.1
Net cash used in investing activities		(1.3)	(1.3)
Cash flows from financing activities			
Dividends paid to Company shareholders		(32.7)	(44.2)
Principal element on lease payments	24	(1.9)	(1.7)
Purchase of own shares		(4.6)	–
Cash used in financing activities		(39.2)	(45.9)
Net decrease in cash		(13.8)	(21.7)
Cash and cash equivalents at the beginning of the year	22	37.0	58.8
Effect of foreign exchange rate changes on cash and cash equivalents		(0.1)	(0.1)
Cash and cash equivalents at the end of the year	22	23.1	37.0

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 2021

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 venture, and are presented to the nearest million unless otherwise stated. The change in presentation from thousands to millions has been done to make the financial statements clearer for the users.

The principal activity of the Group is to provide software solutions and consultancy services to the auto and equipment 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 UK-adopted international accounting standards and Company Law. The change in the basis of preparation from 2020 is required by UK Company Law as a result of the UK's exit from the EU on 31 January 2020 and the cessation of the transition period on 31 December 2020. This change does not constitute a change in accounting policy, rather a change in the framework which is required to group the use of IFRS in company law. There is no impact on the recognition, measurement or disclosure between the two frameworks in the period reported.

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, 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 over future economic conditions, 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

The Group applies for the first time the following new standard:

- Amendments to IFRS 16 Leases: COVID 19-Related Rent Concessions (issued on 28 May 2020).

By adopting the above, there has been no material impact on the financial statements.

New standards, amendments and interpretations not yet adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 3 Business Combinations; IAS 16 Property, Plant and Equipment; IAS 37 Provisions, Contingent Liabilities and Contingent Assets; and Annual Improvements 2018-2020 (All issued 14 May 2020, effective from 1 January 2022).

The directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

1. Summary of significant accounting policies continued

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.

In the current period it was concluded that the Group exercises control over the employee benefit trust because it is exposed to, and has a right to, variable returns from this trust and is able to use its power over the trust to affect those returns. Therefore the trust has been consolidated by the Group in the current period. The impact of consolidation of the trust in the prior period was immaterial.

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 splits revenue by type of project but reports operating results on a consolidated basis, as presented to the CODM, along with the required entity wide disclosure.

The Group discloses revenue split by type of project being Subscription, Software and Services.

- a. Subscription revenues include recurring revenues paid on a monthly or annual basis, including subscription licence revenues, maintenance and cloud hosting.
- b. Software revenues include revenues from recognition of customised licence revenue, one-off licence fees and any development revenues.
- c. Services revenues are revenues from any work done for customers including pre-implementation, implementation work, and ongoing services, but excludes any revenue from development work which is disclosed in Software.

To better reflect the nature and type of revenue, changes have been made in 2021 to the classification and allocation of revenue line items. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability. These changes have had no impact on the total revenue or the profit before tax that were disclosed at the end of December 2020.

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.

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 2021 and 2020 below:

	2021		2020	
	Closing	Average	Closing	Average
USD	1.35	1.38	1.37	1.28
EUR	1.19	1.16	1.11	1.13
NZD	1.98	1.95	1.89	1.98
AUD	1.86	1.83	1.77	1.86

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 by type of project being Subscription, Software and Services (as disclosed in note 1.3).

- Subscription revenue which includes the periodic rights to use Alfa Systems, periodic maintenance, subscription (including cloud hosting) and one-off revenue relating to catch-up periodic maintenance;
- Software revenue which includes development revenue (part of the customised licence revenue), options over the right to use Alfa Systems, and one-off licence fees; and
- Services revenue which includes software implementation 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

1. Summary of significant accounting policies continued

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.

When a customer is in the process of implementing the software, the transaction price is allocated to this based on the stand-alone selling prices (derived from standard day rates) and is recognised over time based on the effort incurred, limited to the amount to which Alfa has a right to payment. For customers under the Group's subscription based contracts that are undergoing implementation, revenue for software implementation services is deemed to be distinct from any other performance obligation and is recognised based on a percentage of completion basis.

When the type of services provided are ongoing services, the transaction price is deemed to be the actual day rate, and revenue is recognised at a point in time as the service is provided.

b. Development services and licence services (the customised licence)

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.

During the initial phase of implementing the software, 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 of revenue 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 is tailored to the customer's specific requirements; 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.

Revenue attributable to development services is valued using the residual value method as there are no stand-alone selling prices which are observable as each project is customised. For customers under the Group's subscription based contracts that are undergoing implementation, revenue for development services is deemed to be distinct from any other performance obligation and is recognised based on a percentage of completion basis.

Once the customer is already using the software and the services provided are ongoing development, the transaction price is deemed to be the actual day rate and revenue is recognised at a point in time as the development service is provided.

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 annualise the value of the customised licence performance obligation and compare it to the annual right to use software performance obligation post go live.

The value of this option is built up from the start of the implementation project in line with the percentage-of-completion of development revenue 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

When a customer pays its maintenance fee annually, this performance obligation represents the proportion of this 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.

When a customer pays for its maintenance fee as part of a subscription contract (see section 1.5f below), it will not be treated as a separate performance obligation (and will instead be part of the subscription amount).

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 one or more of 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.

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.

Costs to fulfil contracts

The Group has recognised an asset of £1.1m in relation to employee costs to fulfil its long-term development contracts. These costs relate directly to the contracts, generate or enhance resources to be used to satisfy performance obligations in the future and are expected to be recovered. This asset is presented within prepayments in the Statement of Financial Position. These costs are amortised within cost of sales in line with the percentage of completion of the development project.

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:

- Cost of sales – This includes salaries and other direct costs associated with satisfying customer contracts and for developing software.
- Sales, general and administrative expenses – This includes 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

1. Summary of significant accounting policies continued

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 ten 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

1. Summary of significant accounting policies continued

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 sales, general and administrative 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 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.

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 for recognition. 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

Amortisation is presented within sales, general and administrative expenses.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

1. Summary of significant accounting policies continued

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 or (where they have an exercise price) by using the Black Scholes model. 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.

Own shares

Own shares represent the shares of the parent company Alfa Financial Software Holdings PLC that are held by the employee benefit trust. Own shares are recorded at cost and deducted from equity.

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 (excluding own shares held).

Diluted earnings per share

Diluted earnings per share is calculated in line with the basic earnings per share calculation above except that the weighted average number of shares includes all potentially dilutive options granted by the reporting date as if those options had been exercised on the first day of the accounting period or the date of the grant, if later. 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 customised licence, implementation revenue streams as well as any maintenance fees during this phase, forms one or a number of performance obligations. Since the residual value method is used for the customised licence revenue (as explained in note 1.5), the estimation of fair value of implementation revenue will impact the contract consideration assigned to the customised licence.

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.

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 – Estimates feeding through to the customised licence

The customised licence and its associated material right are both impacted by the following estimates:

- 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;
- Estimating the appropriate life of customer relationship: the Group calculates the material right deferral of the customised licence based on the total customer relationship life. This is also the time over which the material right will be spread; and
- Determining the split of maintenance amount between support efforts and right to use: the Group must estimate what percentage of the total maintenance fee relates to the customised licence.

Management reassesses estimates and applies them to new projects prospectively. A variation of 5% to 10%, or an increase in expected customer life by a year, in the above, results in an impact on revenue for the year ranging between an increase / decrease of £0.4m.

2.3 Other sources of estimation uncertainty

Revenue recognition – Number of forecast implementation and development days

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 implementation and development services revenue and updates estimates at each quarter end accordingly. Therefore, a significant movement in total planned days would result in volatility in implementation and customised licence revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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 and foreign exchange sensitivity	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 upfront 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 5.4.

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 2021 or 31 December 2020.

A 10% increase in the USD:GBP exchange rate in the year ended 31 December 2021 would have increased revenue and profit by 4% and 8% 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 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 2021 or 31 December 2020 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 2021 and 31 December 2020 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

3. Financial risk management continued

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.

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.

£m	31 December 2021					
	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	6.9	6.9	–	–	–	–
Lease liabilities – future lease payments	20.3	1.3	1.4	2.7	7.4	7.5

£m	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	5.6	5.6	–	–	–	–
Lease liabilities – future lease payments	21.1	1.2	1.2	2.4	6.9	9.4

4. Segments and principal activities

4.1 Revenue by stream

The Group assesses revenue by type of activity, being Subscription, Software and Services, as summarised below:

£m	2021	2020 (restated*)
Software	13.6	20.0
Subscription	23.5	18.1
Services	46.1	40.8
Total revenue	83.2	78.9

* To better reflect the nature and type of revenue, changes have been made to the classification and allocation of revenue line items. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability. These changes have had no impact on the total revenue or the profit before tax that were disclosed at the end of December 2020.

4.2 Operating profit

The following tables reconciles profit for the period attributable to equity holders to Operating Profit for the periods presented:

£m	2021	2020
Profit for the year	19.2	20.3
Adjusted for:		
Net income from joint venture	0.1	–
Taxation	4.6	2.9
Finance income	–	(0.1)
Finance expense	0.8	0.8
Operating profit	24.7	23.9

4.3 Non-current assets geographical information

Non-current assets attributable to each geographical market:

£m	2021	2020
UK	42.6	44.0
USA	1.2	0.7
Rest of World	0.6	0.1
Total non-current assets	44.4	44.8

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:

£m	2021	2020
Customer A	10%	12%

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 as follows over time and at a point in time in the following revenue segments:

2021 £m	Services	Software	Subscription	Total revenue
At a point in time – time and materials	25.2	5.6	–	30.8
At a point in time – fixed price	–	2.1	–	2.1
Over time – time and materials	19.8	4.1	–	23.9
Over time – fixed price	1.1	1.8	23.5	26.4
Total revenue	46.1	13.6	23.5	83.2

2020 £m (restated)*	Services	Software	Subscription	Total revenue
At a point in time – time and materials	19.4	5.1	–	24.5
At a point in time – fixed price	0.2	5.7	0.8	6.7
Over time – time and materials	18.8	8.0	–	26.8
Over time – fixed price	2.4	1.2	17.3	20.9
Total revenue	40.8	20.0	18.1	78.9

All goods and services are sold directly to customers.

* To better reflect the nature and type of revenue, changes have been made to the classification and allocation of revenue line items. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability. These changes have had no impact on the total revenue or the profit before tax that were disclosed at the end of December 2020.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

5. Revenue from contracts with customers continued

5.3 Revenue geographical information

Revenue attributable to each geographical market based on where the customer mainly utilises its instance of Alfa, or where the service is rendered, is as follows:

£m	2021	2020
UK	30.0	25.8
USA	28.9	29.2
Rest of EMEA (excl UK)	18.7	21.3
Rest of World	5.6	2.6
Total revenue	83.2	78.9

5.4 Revenue by currency

Revenue by contractual currency is as follows:

£m	2021	2020
GBP	35.9	33.3
USD	30.0	30.4
Euro	11.6	12.6
Other	5.7	2.6
Total revenue	83.2	78.9

5.5 Liabilities from contracts with customers

£m	2021	2020
Contract liabilities – deferred licence	5.3	1.9
Contract liabilities – deferred maintenance	5.7	5.1
Total contract liabilities	11.0	7.0

Contract liabilities – deferred licence

Where a customer purchases a perpetual software licence this is generally invoiced upfront 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 customised licence 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 deferred licence contract liability balance as at 31 December 2021 represents any amounts received in advance for the customised licence 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 deferred licence contract liability. The contract liability relating to the 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 deferred licence 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 deferred licence 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 2021 therefore represents the Group's unsatisfied period maintenance performance obligation for which the revenue has been invoiced in advance.

5.6 Unsatisfied Performance Obligations

During 2020, 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 2021 is £8.4m (2020: £10.6m). We expect to recognise £2.2m in each of the next three 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 2021 that relate to the licence customisation for those customers that have ongoing implementation projects, or implementation projects that commenced in early 2022 and for which contracts were agreed prior to 31 December 2021. 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 2021, the Group also has unsatisfied or partially satisfied performance obligations at 31 December 2021 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. The transaction price allocated to these unsatisfied or partially satisfied performance obligations as at 31 December 2021 is £11.1m (2020: £9.0m). 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 may be 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.

The Group applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about the unsatisfied performance obligations that have original expected durations of one year or less. This includes those performance obligations linked to ongoing services for all project types (i.e. subscription, software and services).

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.

The Group has variable consideration in the form of contract banding for its licence and maintenance volumes. It is included in the transaction price only to the extent that it is highly probable that a significant reversal of revenue will not occur when the uncertainty associated with the variable consideration is subsequently resolved.

6. Operating profit

The following items have been included in arriving at operating profit in the table below:

£m	2021	2020 (restated)
Research and development costs*	1.6	1.5
Depreciation of property, plant and equipment	0.4	0.5
Depreciation of right-of-use lease assets	1.9	1.7
Amortisation of intangible assets	0.8	0.8
Share-based payments (inc. social security contributions)	1.5	1.5

* To better reflect the nature of research and development expenditure and align with capitalised development costs, changes have been made to the classification of expense line items. Research and development costs are now primarily made up of costs incurred as part of the Group's internal research and development activities, where as previously this line item included broader costs. The comparative disclosures for the December 2020 reporting period have also been amended to reflect a fair base for comparability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

7. Personnel related costs

£m	2021	2020
Wages and salaries	31.8	30.0
Social security contributions (on wages and salaries)	3.9	3.4
Pension costs	2.1	2.0
Profit share pay *	3.1	2.7
Share-based payments **	1.5	1.5
Total employment costs	42.4	39.6

* Profit share pay refers to a pool of money (that equates to approximately 10% of the Group's pre-tax profits) which is shared amongst the employees, excluding Directors and some other senior managers, as a percentage of basic salary. The amount disclosed includes the related social security contributions.

** This includes the related social security contributions.

Average monthly number of people employed based on location of home office (including Executive Directors)

	2021	2020
UK	282	255
USA	71	66
Rest of World	30	20
Total average monthly number of people employed	383	341

8. Key management

Key management compensation (including Executive Directors):

£m	2021	2020
Wages, salaries and short-term benefits	3.1	2.6
Social security contributions	0.4	0.3
Post-employment benefits	0.1	0.1
Share-based payments *	0.9	0.2
Total key management compensation	4.5	3.2

* This includes the related social security contributions.

Key management personnel consists of the Company Leadership Team and the Executive Directors. Directors' remuneration is detailed in the Remuneration Report.

9. Auditor's remuneration

The Group obtained the following services from the Group's auditor as detailed below:

£m	2021	2020
Audit fees		
Deloitte LLP		
Audit fees relating to prior year	–	0.1
RSM UK Audit LLP		
Audit of the consolidated financial statements	0.2	0.2
Audit of subsidiaries	0.2	0.2
Total audit fees	0.4	0.5
Audit-related assurance fees		
RSM UK Audit LLP	0.1	0.1
Total audit-related assurance fees	0.1	0.1
Non-audit services	–	–
Total audit and non-audit-related services	0.5	0.6

10. Finance income and expense

£m		2021	2020
Finance income			
Interest income on cash or short-term bank deposits		–	0.1

£m	Note	2021	2020
Finance expense			
Interest on lease liability	24	(0.8)	(0.8)
Total finance expense		(0.8)	(0.8)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

11. Income tax expense

Analysis of charge for the year

£m	2021	2020
Current tax		
Current tax on profit for the year	4.5	4.5
Adjustment in respect of prior years	(0.5)	(1.4)
Foreign tax on profit of subsidiaries for the current year	0.3	0.6
Current tax	4.3	3.7
Deferred tax		
Origination and reversal of temporary differences	(0.1)	(0.3)
Adjustment in respect of prior years	0.6	(0.5)
Effect of changes in tax rates	(0.2)	–
Deferred tax	0.3	(0.8)
Total tax charge in the year	4.6	2.9

The effective tax rate for the year is higher (2020: lower) than the standard rate of corporation tax in the UK. The effective tax rate for the year ended 31 December 2021 was 19.3% (2020: 12.5%). The effective tax rate for the year is impacted by adjustments in respect of prior years totalling £0.1m (2020: favourable adjustment of £1.9m), due to increased tax costs for the prior year of £0.2m, an adjustment in respect to deferred tax on share awards of £0.5m, less the benefit of the UK R&D tax claim for 2020 of £0.6m (2020: predominately due to the benefit of UK R&D tax claims for 2018 and 2019). Excluding the impact of adjustments in respect to prior years, the effective tax rate for the year was 18.9% (2020: 20.7%). The overall tax charge for the year is reconciled as follows:

Analysis of charge for the year

£m	2021	2020
Profit on ordinary activities before taxation	23.8	23.2
Profit on ordinary activities at the standard rate of corporation tax – 19%	4.5	4.4
Tax effects of:		
Effect of different tax rates of subsidiaries operating in other jurisdictions	0.1	0.2
Expenses not deductible for tax purposes	–	0.1
Adjustment in respect of prior years	0.1	(1.9)
Impact of tax rate changes	(0.2)	–
Other	0.1	0.1
Total tax charge for the year	4.6	2.9

12. Earnings per share

	2021	2020
Profit attributable to equity holders of Alfa (£m)	19.2	20.3
Weighted average number of shares outstanding during the year	296,709,610	293,824,145
Basic earnings per share (pence per share)	6.49	6.93
Weighted average number of shares outstanding including potentially dilutive shares	301,505,177	300,069,048
Diluted earnings per share (pence per share)	6.39	6.79

The weighted average number of ordinary shares in issue excludes 3,290,390 (2020: 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 5,470,741 (2020: 6,139,161) potentially dilutive ordinary shares.

13. Financial assets and liabilities

£m	Note	2021	2020
Finance assets			
Financial assets at amortised cost:			
Trade receivables	20	6.0	5.8
Other financial assets at amortised cost	21	7.3	5.8
Cash and cash equivalents	22	23.1	37.0
Total financial assets		36.4	48.6
Finance liabilities			
Financial liabilities at amortised cost:			
Trade and other payables	23	6.9	5.6
Lease liabilities	24	17.1	17.5
Total finance liabilities		24.0	23.1

14. Goodwill

£m	2021	2020
Cost		
At 1 January	24.7	24.7
At 31 December	24.7	24.7

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 pre-tax discount rate of 11% (2020: 11%). Cash flows beyond these periods have been extrapolated using a steady 2% (2020: 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

15. Other intangible assets

£m	Computer software	Internally generated software	Total
Cost			
At 1 January 2020	1.4	1.5	2.9
Additions	0.1	0.7	0.8
At 31 December 2020	1.5	2.2	3.7
Amortisation			
At 1 January 2020	0.5	0.2	0.7
Charge for the year	0.3	0.5	0.8
At 31 December 2020	0.8	0.7	1.5
Net book value			
At 31 December 2020	0.7	1.5	2.2
Cost			
At 1 January 2021	1.5	2.2	3.7
Additions	0.1	0.9	1.0
At 31 December 2021	1.6	3.1	4.7
Amortisation			
At 1 January 2021	0.8	0.7	1.5
Charge for the period	0.1	0.7	0.8
At 31 December 2021	0.9	1.4	2.3
Net book value			
At 31 December 2021	0.7	1.7	2.4

Significant movement in other intangible assets

During 2021, Alfa developed new internally generated software at a cost of £0.9m (2020: £0.7m). This software will be amortised over three to five years.

The total research and product development expense for the period was £1.6m (2020: £1.5m restated – see note 6).

16. Property, plant and equipment

£m	Fixtures and fittings	IT equipment	Total
Cost			
At 1 January 2020	1.2	3.2	4.4
Additions	0.1	0.2	0.3
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 2020	1.2	3.3	4.5
Depreciation			
At 1 January 2020	0.7	2.6	3.3
Charge for the year	0.1	0.4	0.5
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 2020	0.7	2.9	3.6
Net book value			
At 31 December 2020	0.5	0.4	0.9
Cost			
At 1 January 2021	1.2	3.3	4.5
Additions	–	0.3	0.3
Disposals	–	(0.1)	(0.1)
At 31 December 2021	1.2	3.5	4.7
Depreciation			
At 1 January 2021	0.7	2.9	3.6
Charge for the year	0.1	0.3	0.4
Disposals	–	(0.1)	(0.1)
At 31 December 2021	0.8	3.1	3.9
Net book value			
At 31 December 2021	0.4	0.4	0.8

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

17. Right-of-use assets

£m	Motor vehicles	Property	Total
Cost			
At 1 January 2020	0.2	17.9	18.1
Additions	0.1	0.1	0.2
Disposals	(0.1)	(0.1)	(0.2)
At 31 December 2020	0.2	17.9	18.1
Depreciation			
At 1 January 2020	0.1	1.6	1.7
Charge for the year	0.1	1.6	1.7
Disposals	(0.1)	–	(0.1)
At 31 December 2020	0.1	3.2	3.3
Net book value			
At 31 December 2020	0.1	14.7	14.8
Cost			
At 1 January 2021	0.2	17.9	18.1
Additions	0.2	1.3	1.5
At 31 December 2021	0.4	19.2	19.6
Depreciation			
At 1 January 2021	0.1	3.2	3.3
Charge for the year	0.1	1.8	1.9
At 31 December 2021	0.2	5.0	5.2
Net book value			
At 31 December 2021	0.2	14.2	14.4

The Group recognised the following amounts in the consolidated statement of profit or loss and comprehensive income in relation to leases under IFRS 16:

£m	2021	2020
Depreciation	(1.9)	(1.7)
Interest expense	(0.8)	(0.8)
Short-term lease expense	(0.2)	(0.2)

Sub-lease rentals

One of the leased properties is sub-leased to tenants under operating leases, with rentals payable quarterly. Minimum lease payments receivable on these sub-leases of property are as follows:

£m	2021	2020
Within one year	–	0.4
Later than one year but not later than 5 years	–	–
Later than 5 years	–	–
Total sub-lease payments receivable	–	0.4
Income from sub-lease in the year	0.5	0.5

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 accruals and share-based payments.

£m	2021	2020
Balance as at 1 January	1.8	0.6
Effect of changes in tax rates	0.2	–
Adjustments in respect of prior period	(0.6)	0.5
Deferred income taxes recognised in the consolidated statement of profit or loss and comprehensive income	0.1	0.3
Deferred tax on share-based payments recognised in reserves	0.3	0.4
Foreign exchange movements	–	–
Balance as at 31 December	1.8	1.8
Consisting of:		
Depreciation in excess of capital allowances	–	(0.1)
Other timing differences	1.8	1.9
Balance as at 31 December	1.8	1.8

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 £3.4m at 31 December 2021 (2020: £3.1m).

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 auto and equipment finance industry. 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

£m	2021	2020
Carrying amount as at 1 January	0.3	–
Carrying amount as at 6 May 2020 (i.e. on establishment of the joint venture)	–	0.3
Share of net loss from the joint venture	(0.1)	–
Carrying amount as at 31 December	0.2	0.3

Loan to joint venture

£m	2021	2020
Carrying amount as at 1 January	0.1	–
Carrying amount as at 6 May 2020 (i.e. on establishment of the joint venture)	–	0.1
Interest	–	–
Carrying amount as at 31 December	0.1	0.1

The total loss from interest in joint venture is £0.1m (2020: £0.0m) and the total interest in the joint venture is £0.3m (2020: £0.4m).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

20. Trade receivables

£m	2021	2020
Trade receivables	6.0	5.8
Provision for impairment	–	–
Trade receivables – net	6.0	5.8

Ageing of trade receivables

Ageing of net trade receivables £m	2021	2020
Within agreed terms	4.1	5.6
Past due 1-30 days	1.2	0.1
Past due 31-90 days	0.6	–
Past due 91+ days	0.1	0.1
Trade receivables – net	6.0	5.8

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

£m	2021	2020
GBP	4.9	1.8
USD	0.9	3.1
Other	0.2	0.9
Trade receivables – net	6.0	5.8

Trade receivables due from significant customers

Customers with revenue accounting for more than 10% of total revenue in the current year have outstanding trade receivables as follows:

£m	2021	2020
Customer A	0.8	0.6

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

£m	2021	2020
Accrued income	6.3	5.0
Prepayments	3.2	2.1
Other receivables	1.0	0.8
Total other receivables held at amortised cost	10.5	7.9

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 increased by £1.3m. The current year balance represents unbilled professional fees work in progress, as well as £0.5m in relation to subscription and £0.5m of one-off licence revenue items where there is contractual agreement to invoice in subsequent periods.

Prepayments include £1.1m of deferred costs in relation to costs to fulfil contracts – see note 1.5.

22. Cash and cash equivalents

£m	2021	2020
Cash at bank and in hand	23.1	37.0
Cash and cash equivalents	23.1	37.0

Currency of cash and cash equivalents

£m	2021	2020
GBP	14.9	28.5
USD	4.4	4.8
AUD	1.3	1.1
Euro	2.0	2.1
Other	0.5	0.5
Cash and cash equivalents	23.1	37.0

23. Current and non-current liabilities

£m	2021	2020
Trade payables	0.8	0.9
Other payables	8.5	7.2
Corporation tax	1.8	1.3
Contract liabilities – deferred licence	5.3	1.9
Contract liabilities – deferred maintenance	5.7	5.1
Lease liabilities (note 24)	17.1	17.5
Provisions for other liabilities	1.4	1.4
Total current and non-current liabilities	40.6	35.3
Less non-current portion	(16.6)	(17.2)
Total current liabilities	24.0	18.1

Other payables includes amounts relating to other tax and social security of £2.4m (2020: £2.5m).

24. Lease liabilities

The following table sets out the reconciliation of the lease liabilities from 1 January to the amount disclosed at 31 December:

£m	2021	2020
Lease liabilities recognised at 1 January	17.5	19.0
Additions	1.5	0.2
Interest charge	0.8	0.8
Payments made on lease liabilities	(2.7)	(2.5)
At 31 December	17.1	17.5

Additions to lease liabilities include extensions to existing lease agreements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

24. Lease liabilities continued

Below is the maturity analysis of the lease liabilities:

£m	2021	2020
Non-current	15.2	15.8
Current	1.9	1.7
Total lease liabilities	17.1	17.5
No later than one year	2.7	2.4
Between one year and 5 years	10.1	9.3
Later than 5 years	7.5	9.4
Total future lease payments	20.3	21.1
Total future interest payments	(3.2)	(3.6)
Total lease liabilities	17.1	17.5

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. These are the only changes in liabilities arising from financing activities in the year.

25. Provision for other liabilities

£m	
At 1 January 2020	0.7
Provided in the period	0.7
At 31 December 2020	1.4
Provided in the period	0.7
Utilised in the period	(0.1)
Released in the period	(0.6)
At 31 December 2021	1.4

Provisions for other liabilities comprise amounts for office dilapidations, employer taxes on share-based payments and legal matters. It is expected that these will be utilised by as follows: £0.5m in 2022, £0.2m in 2030 and £0.7m over various years.

26. Share capital

	2021		2020	
	Shares	£m	Shares	£m
Issued and fully paid				
Ordinary shares – 0.1 pence	300,000,000	0.3	300,000,000	0.3
Balance as at 31 December	300,000,000	0.3	300,000,000	0.3

No additional shares have been issued or cancelled in the year ended 31 December 2021.

27. Translation reserve

£m	2021	2020
At 1 January	0.1	–
Currency translation of subsidiaries	(0.1)	0.1
At 31 December	–	0.1

28. Own Shares

£m	2021	2020
Balance at 1 January	–	–
Acquired in the year	4.6	–
Issued on exercise of options	(1.2)	–
Balance at 31 December	3.4	–

The own shares reserve represents the cost of shares in Alfa Financial Software Holdings PLC purchased in the market and held by the Group's employee benefit trust to satisfy options under the Group's share options plans (see Note 1.2). The number of ordinary shares held by the employee benefit trust at 31 December 2021 was 2,590,260 (2020: 552,783). As at 31 December 2021, the Group held 0.86% (2020: 0.18%) of its own called up share capital.

29. Share awards

The Group recognised total expenses relating to share-based payment of £1.5m (2020: £1.5m) in the current year. Of this, £1.5m (2020: £1.5m) relates to equity-settled LTIP schemes and £0.0m (2020: £nil) relates to Employee Share Save schemes. See further detail below.

The outstanding share schemes are made up of the following:

Grant date	Plan	Expiry date	Exercise price	Share options 31 December 2021	Share options 31 December 2020
June 2014/2015	LTIP	4 annual tranches from 1 June 2018	0p	–	1,197,503
June 2018	LTIP	June 2021	0p	–	1,378,178
November 2019	LTIP	November 2022	0p	1,113,909	1,205,036
June 2020	LTIP	June 2023	0p	2,322,473	2,358,444
April 2021	LTIP	April 2024	0p	1,121,104	–
November 2021	LTIP	October 2024	0p	60,872	–
November 2021	UK Employee ShareSave	January 2025	1.536p	774,659	–
November 2021	US Employee ShareSave	January 2024	1.670p	77,724	–

The weighted average share price at the date of exercise for share options exercised during the period was 130.4p (2020: 74.3p). The options outstanding at 31 December 2021 had a weighted average exercise price of 24.1p (at 31 December 2020: nil), and a weighted average remaining contractual life of 1.7 years (2020: 2.3 years). The opening weighted average exercise price at 1 January 2021 was nil (1 January 2020: nil). The weighted average exercise price of options forfeited and exercised during the year was nil (31 December 2020: nil).

A. LTIPs

The 2019 LTIP awards granted are conditional on employment only; the fair value of these awards has 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 scheme and, as such, no performance conditions are included in the fair value calculation.

The 2020 LTIP awards granted are conditional on performance conditions, 50% based on EPS performance (non-market condition) and 50% on TSR (market condition) as well as a three-year employment fulfilment. The fair value of these awards has been determined using the Monte Carlo model at the grant date.

On 30 April 2021 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 a 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. The following table lists the inputs to the model used for the awards granted in the year ended 31 December 2021 based on information at the date of grant:

LTIP awards (granted in April)	TSR element	EPS element
Share price at date of grant	136p	136p
Award price	0p	0p
Volatility	60.3%	–
Embedded TSR	6.9%	–
Average correlation	41.1%	–
Life of award	3 years	3 years
Risk-free rate	0.12%	–
Fair value per award	73.6p	136.0p

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

29. Share awards continued

On 30 November 2021, the Group awarded to certain employees an LTIP conditional on employment only. The fair value of these awards is equal to the closing share price on the date of grant (192 pence), discounted by the expected 12-month dividend yield to reflect the lack of dividend accrual over the vesting period (three years). The expected price volatility is based on the historic volatility (based on the remaining life of the scheme), adjusted for any expected changes to future volatility due to publicly available information.

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:

£m	2021	2020
Employee share schemes – value of services	1.1	1.3
Expense in relation to fair value of social security liability on employee share schemes	0.4	0.2
Total cost of employee share schemes	1.5	1.5

Details of the share options outstanding during the year are as follows:

	2021	2020
Outstanding at 1 January	6,139,161	6,482,950
Conditionally awarded in year	2,034,359	2,358,444
Exercised	(2,575,681)	(2,592,919)
Forfeited or expired in year	(127,098)	(109,314)
Outstanding at 31 December	5,470,741	6,139,161
Exercisable at the end of the year	–	–

B. Employee ShareSave Scheme

On 30 November 2021, the Group launched an Employee ShareSave Scheme – the Save As You Earn (SAYE) scheme in the UK and Employee Stock Purchase Plan (ESPP) scheme in the US. Under these schemes, eligible employees can save up to a set limit each month. At the end of the savings period (three years for SAYE and two years for ESPP), employees can choose whether or not they wish to buy the shares at the option price or take back their savings as cash. The option price is the share price at the start of the plan with a 20% discount for the UK scheme and 15% discount for the US scheme. The fair value of these awards have been determined using the Monte Carlo model at the grant date. The expected price volatility is based on the historic volatility (based on the remaining life of the scheme), adjusted for any expected changes to future volatility due to publicly available information.

	31 December 2021			
	SAYE		ESPP	
	Number of share options	Exercise price	Number of share options	Exercise price
Outstanding at beginning of year	–	–	–	–
Granted during the year	774,659	153.6p	77,724	167.0p
Outstanding at the end of the year	774,659	153.6p	77,724	167.0p
Exercisable at the end of the year	–	–	–	–

	SAYE 31 December 2021	ESPP 31 December 2021
Share price	205.0p	205.0p
Exercise price	153.6p	167.0p
Expected volatility	57.5%	57.2%
Expected life	36 months	24 months
Risk-free rate	0.51%	0.45%
Expected dividend yields	2.45%	2.33%

30. Unrecognised items

30.1 Contingencies and commitments

The Group has no capital commitments, no material contingent liabilities and no contingent assets.

30.2 Events occurring after the reporting period

On 18 January 2022 the Group announced the launch of a share buyback programme. Refer to the Company website for more details.

There have been no other reportable subsequent events.

31. Dividends

A 2020 ordinary dividend of 1 pence per share was paid on 2 July 2021 amounting to £3.0m (2020: £nil).

A special dividend of 10 pence per share was paid on 5 November 2021 amounting to £29.7m (2020: £44.2m).

Subject to approval at the Annual General Meeting on 12 May 2022, a 2021 dividend of 1.1 pence per share will be paid on 24 June 2022 to holders on the register on 27 May 2022. The ordinary shares will be quoted ex-dividend on 26 May 2022.

32. Related parties

32.1 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.

32.2 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 2021	Held by Group 2021	Held by Company 2020	Held by Group 2020
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	Lisgar House, Level 3, 32 Carrington Street, 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%	–	51%

Alfa iQ was established in May 2020 – see note 19 for more detail.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

32. Related parties continued

32.3 Transactions with related parties

Full details of the Directors' compensation and interests are set out in the Directors' Remuneration Report on pages 100 to 121.

See note 8 for further detail on monies paid to key management (including Directors).

Dividends to the amount of £21.7m were paid to the Parent (2020: £29.6m).

Dividends of 1 pence and 10 pence per share were paid to all shareholders in 2021 (2020: 15 pence per share). 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 116.

The balances outstanding from the Parent at 31 December 2021 and 2020 were £nil and £nil respectively.

In the prior period the Group invested £0.4m in Alfa iQ consisting of: a capital contribution of £0.3m; and an interest-free loan fair valued at £0.1m. At 31 December 2021 the value of the investment is carried at £0.2m (2020: £0.3m) and the loan fair valued at £0.1m (2020: £0.1m).

In the current period, the Group entered into a rental agreement with CHP Software and Consulting Limited for rental of a meeting room on the 9th floor of Moor Place for £0.03m per annum (2020: £nil) and at 31 December 2021 there was £nil balance outstanding from, or to, the Parent (2020: £nil).

There were no other outstanding receivable balances from related parties at the end of the reporting period.

33. 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 2021 and 31 December 2020 in the consolidated statement of financial position.

31 December 2021 £m	Gross amounts	Amounts offset	Net amounts presented
Accrued income	14.0	(7.7)	6.3
Contract liabilities – deferred licence	(13.0)	7.7	(5.3)
31 December 2020 £m	Gross amounts	Amounts offset	Net amounts presented
Accrued income	12.6	(7.6)	5.0
Contract liabilities – deferred licence	(9.5)	7.6	(1.9)

COMPANY STATEMENT OF FINANCIAL POSITION

£m	Note	2021	2020
Assets			
Non-current assets			
Investment in subsidiary companies	4	427.6	348.7
Total non-current assets		427.6	348.7
Current assets			
Other receivables	5	0.1	0.2
Cash and cash equivalents	6	0.1	0.1
Total current assets		0.2	0.3
Total assets		427.8	349.0
Liabilities and equity			
Current liabilities			
Amounts owed to subsidiaries	7	39.9	0.2
Other payables	8	0.7	0.4
Accruals		0.4	0.4
Total current liabilities		41.0	1.0
Non-current liabilities			
Amounts owed to subsidiaries	7	–	–
Provision	8	0.2	–
Total non-current liabilities		0.2	–
Total liabilities		41.2	1.0
Capital and reserves			
Ordinary shares	9	0.3	0.3
Own shares	10	(3.4)	–
Retained earnings		389.7	347.7
Total equity		386.6	348.0
Total liabilities and equity		427.8	349.0

Retained earnings includes a profit of £74.8m for the 2021 financial year (31 December 2020: £79.8m). 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 173 to 178 were approved and authorised for issue by the Board of Directors on 8 March 2022 and signed on its behalf.

Andrew Denton
Chief Executive Officer

Duncan Magrath
Chief Financial Officer

Alfa Financial Software Holdings PLC
Registered number 10713517

COMPANY STATEMENT OF CHANGES IN EQUITY

£m	Note	Called-up share capital	Own shares	Retained earnings	Total equity
Balance as at 1 January 2020		0.3	–	310.7	311.0
Total comprehensive profit for the period		–	–	79.8	79.8
Employee share schemes – value of employee services	11	–	–	1.4	1.4
Dividends	12	–	–	(44.2)	(44.2)
Balance as at 31 December 2020		0.3	–	347.7	348.0
Total comprehensive profit for the period		–	–	74.8	74.8
Employee share schemes – value of employee services	11	–	–	1.1	1.1
Dividends	12	–	–	(32.7)	(32.7)
Own shares acquired	10	–	(4.6)	–	(4.6)
Own shares issued	10	–	1.2	(1.2)	–
Balance as at 31 December 2021		0.3	(3.4)	389.7	386.6

As at 31 December 2021 £3.4m (2020: £2.3m) 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 2021

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 stress testing in line with FRC guidance.

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 £m.

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.

In the current period it was concluded that the Company exercises control over the employee benefit trust because it is exposed to, and has a right to, variable returns from this trust and is able to use its power over the trust to affect those returns. Therefore the trust has been consolidated by the Company. The impact of consolidation of the trust in the prior period was immaterial.

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.

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

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.

Own shares

Own shares represent the shares of Alfa Financial Software Holdings PLC that are held by the employee benefit trust. Own shares are recorded at cost and deducted from equity.

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 (as a capital contribution). For full details of the Group's share-based payments, refer to note 29 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	2021	2020
Cost		
As at 1 January	348.7	347.4
Capital contributions to subsidiaries	0.9	1.3
Reversal of impairment	78.0	–
As at 31 December	427.6	348.7

The carrying amount of the investment is £427.6m at 31 December 2021 (2020: £348.7m). 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 pre-tax discount rate of 11% (2020: 11%). Cash flows beyond these periods have been extrapolated using a steady 2% (2020: 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 2021 was £569.0m. 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.

As the circumstances that resulted in an impairment charge in 2018 of £78.0m no longer apply, it has been reversed in the current year.

5. Other receivables

At 31 December 2021, other receivables relate to prepayments of £0.0m (2020: £0.2m) and VAT receivables of £0.1m (2020: £0.0m).

6. Cash and cash equivalents

£m	2021	2020
Cash and cash equivalents	0.1	0.1

7. Amounts owed to subsidiaries

£m	2021	2020
Amounts owed to subsidiaries – current	39.9	0.2
Amounts owed to subsidiaries – non-current	–	–
Total amounts owed to subsidiaries	39.9	0.2

Current amounts owed to subsidiaries of £39.9m relate primarily to cash advanced by Alfa Financial Software Limited to the Company for dividend payments (2020: £0.2m).

8. Other payables and provision for other liabilities

Other payables relate to accruals of social security and other taxes of £0.0m (2020: £0.1m), trade creditors of £0.1m (2020: £0.1m) and salary costs of £0.6m (2020: £0.2m).

Long-term provision relates to the employer national insurance contribution of £0.2m of the 2021 and 2020 share grant expense that relates to the employees of the Company (2020: £0.0m).

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	£m
At 31 December 2021	300,000,000	0.3
At 31 December 2020	300,000,000	0.3

10. Own Shares

	2021 £m	2020 £m
Balance at 1 January	–	–
Acquired in the year	4.6	–
Issued on exercise of options	(1.2)	–
Balance at 31 December	3.4	–

The own shares reserve represents the cost of shares in Alfa Financial Software Holdings PLC purchased in the market and held by the Company's employee benefit trust to satisfy options under the Group's share options plans (see Note 1.2 of the Group accounts). The number of ordinary shares held by the employee benefit trust at 31 December 2021 was 2,590,260 (2020: 552,783). As at 31 December 2021, the Company held 0.86% (2020: 0.18%) of its own called up share capital.

11. Employee share schemes

Under the rules of the Company's LTIP plans, on 1 June 2018, 1 November 2019, 2 June 2020, 30 April 2021 and 30 November 2021 selected employees of the Company's subsidiary were granted awards in the form of nil cost options over ordinary shares in Alfa.

On 30 November 2021, employees of the Company's subsidiary that met the set criteria were invited to join a ShareSave Scheme – the SAYE scheme for the UK employees and the ESPP scheme for the US employees. Under these schemes, eligible employees can save up to a set limit each month and at the end of the vesting period can use these savings to buy ordinary shares in Alfa (at a discount) or take these back as cash.

Refer to note 29 of the consolidated accounts for more detail on these schemes. The cost of the share-based remuneration is passed to the relevant subsidiary.

NOTES TO THE COMPANY FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2021 CONTINUED

12. Dividends

A 2020 ordinary dividend of 1 pence per share was paid on 2 July 2021 amounting to £3.0m (2020: £nil).

A special dividend of 10 pence per share was paid on 5 November 2021 amounting to £29.7m (2020: £44.2m).

Subject to approval at the Annual General Meeting on 12 May 2022, a 2021 dividend of 1.1 pence per share will be paid on 24 June 2022 to holders on the register on 27 May 2022. The ordinary shares will be quoted ex-dividend on 26 May 2022.

Refer to note 31 of the consolidated accounts for more detail.

13. 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 121.

14. Events occurring after the reporting period

On 18 January 2022 the Group announced the launch of a share buyback programme. Refer to the Company website for more details. There have been no other reportable subsequent events.

15. 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 32.2 of the Group accounts.

GLOSSARY OF TERMS

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.

Customer concentration: The proportion of group revenues made up by the top 5 or top 10 customers, in each relevant period as stated

DBSP: Deferred Bonus Share Plan.

Directors: The Directors of the Company whose names are set out on pages 74 to 75.

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.

Group: Alfa Financial Software Holdings PLC and its subsidiaries.

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. 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

Alfa Financial Software Holdings PLC

Registered Office
Moor Place
1 Fore Street Avenue
London
EC2Y 9DT

www.alfasystems.com

T+44 (0)20 7588 1800
Registered Number: 10713517
Stock code: ALFA
ISIN: GB00BDHXPG30
LEI: 213800C5UOZHUTNUGA28

Investor relations

ir@alfasystems.com

Media relations

Tulchan Communications LLP

Auditor

RSM UK Audit LLP

Brokers

Barclays Bank plc
Investec Bank plc

Corporate lawyer

White & Case LLP

Remuneration advisors

Ellason LLP
Tapestry Global Compliance LLP

Registrar/shareholder queries

Equiniti Limited
Aspect House,
Spencer Road,
Lancing, West Sussex
BN99 6DA

Telephone 0371 384 2030 and outside the UK +44 (0)121 415 7047

Online: help.shareview.co.uk (from here, you will be able to securely email Equiniti with your enquiry.)

This report is printed on 100% recycled paper, which is certified carbon balanced by World Land Trust Ltd.

Blackdog Digital is a carbon neutral company and is committed to all round excellence and improved environmental performance is an important part of our 'Go Green' strategy.

Luminous are certified in using Carbon Balanced paper for the Alfa Financial Software Holdings PLC Annual Report. This project has balanced through World Land Trust the equivalent of 210kg of Carbon Dioxide. This support will enable World Land Trust to protect 40m² of critically threatened tropical forest.



www.carbonbalancedpaper.com
CBP011490

luminous

Design and production
www.luminous.co.uk



Moor Place
1 Fore Street Avenue
London EC2Y 9DT
UK

+44 (0)20 7588 1800

© Alfa Financial Software Holdings PLC, 2021