Putting People First

Morses Club PLC
Annual Report & Accounts 2018

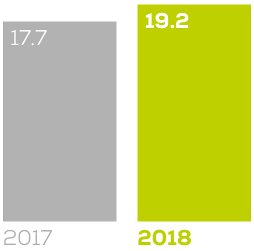
Our purpose
Morses Club PLC is an established, relationship-driven consumer finance provider. We aim to meet the real need for responsible lending in the community across the UK, particularly for customers with a complex credit history.

Our vision
To build the market-leading non-standard credit company in the UK – with the customer at the heart of our business.

Contents

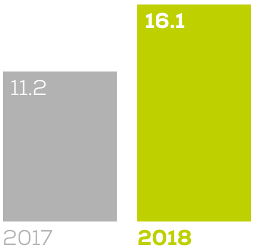
Highlights

Adjusted profit[1] (Before Tax)



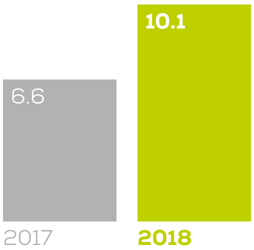
£19.2m
+8.5%

Reported profit (Before Tax)



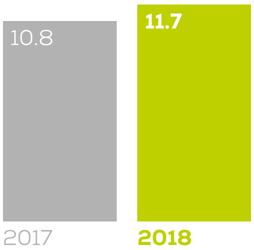
£16.1m
+43.8%

Basic earnings per share (p)



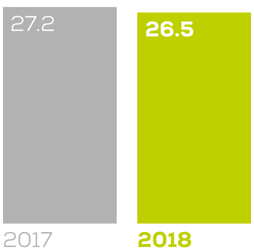
10.1p
+53.0%

Adjusted earnings per share (p)



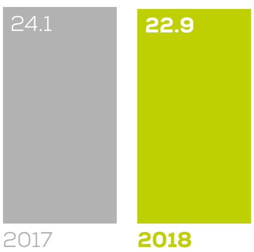
11.7p
+8.3%

Return[1] on equity (%)



26.5%

Return[1] on assets (%)



22.9%

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Financial Highlights

- Continued strong performance with revenue up 17.1% to £116.6m (FY17: £99.6m)
- Adjusted profit before tax[1] increased by 8.5% to £19.2m (FY17: £17.7m); reported profit before tax increased by 43.8% to £16.1m (FY17: £11.2m)
- Total credit issued[1] increased by 21% to £174.4m (FY17: £144.1m), driven primarily by new territory builds
- Net loan book growth of 19% to £72.8m (FY17: £61.2m)
- Impairment as a percentage of revenue[1] for the period was 26.1% (FY17: 24.4%), remaining within our target range
- A 6% increase in customer numbers to 229,000 (FY17: 216,000)
- Secured additional funding in August 2017 to increase overall revolving facility from £25m to £40m
- Adjusted EPS increased by 8% to 11.7p (FY17: 10.8p); Basic EPS increased by 53% to 10.1p (FY17: 6.6p)
- Proposed final dividend of 4.8p (FY17: 4.3p)

Operational Highlights

- Recruitment of c.600 agents and managers during the year, which translated into 463 territory builds in FY18
- 21,000 Morses Club Card customers, with £10.6m in loan balances (FY17: £3.9m)
- Technology continues to enhance Morses Club's offering, improving customer experience, driving efficiencies and productivity gains and supporting diversification into complementary product areas
- Received full Financial Conduct Authority ('FCA') authorisation

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs used is set out in the glossary at the back of the statement on pages 98 to 99.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

At a Glance

Built on trusted relationships with customers and agents throughout the UK, community lending is at the heart of our business.

What we do

We provide loans, typically of a few hundred pounds, to customers who need affordable credit to help them with household outgoings or one-off items of expenditure.

Our model is based on a face to face loan issue and collection process via self-employed agents who typically live and operate in the same communities as our customers.

Customers value the simple, fixed payment weekly collections model and the fact that no charges are levied for arrangement or if payments are missed. We ensure that customers are supported through any short-term difficulties as part of our approach to forbearance. The majority of our borrowers are repeat customers, and customer satisfaction is consistently high, with scores of 95% or above[1].

We are committed to treating customers fairly and providing them with excellent customer service in person, over the phone and online.

1 Independent market research (Mustard) 2017/18

Who we are

With a history dating back 130 years, Morses Club PLC is the result of the combination in 2015 of two established brands, Morses Club and Shopacheck Financial Services.

Listed on AIM since 2016, we are the second largest UK home collected credit provider, and serve customers throughout the UK from our network of 98 branches (FY17: 98) and 2,030 (FY17: 1,826) self-employed agents.

SELF-EMPLOYED AGENTS

2,030

CUSTOMERS

229k

UK HCC PROVIDER

Nº.2

YEARS OF HCC EXPERIENCE

130+

98

BRANCHES

Where we operate

Morses Club operates through a series of local branches based all over the UK.

Location of agents

1 Northern Ireland	**6** Midlands
2 Scotland	**7** London & South East
3 North East	**8** Wales & South West
4 Yorkshire	**9** South Yorkshire & East Midlands
5 North West	**10** Merseyside

Investment Case

We are well positioned to capitalise on opportunities in this growing and fragmented market.

Strong market position

#2

HOME COLLECTED CREDIT COMPANY IN THE UK, AND GAINING MARKET SHARE

6%

229,000 CUSTOMERS ACROSS THE UK, UP BY 6%

HIGH LEVELS OF CUSTOMER SATISFACTION

Read more on page 14

Scalable infrastructure

463

NEW TERRITORY BUILDS

IT

SCALABLE, HIGHLY INVESTED IT PLATFORM

WIDENING PRODUCT OFFERING

Read more on page 7

Well positioned for growth

c.8m

UNTAPPED MARKET POTENTIAL OF C.8M PEOPLE

ROADMAP OF CUSTOMER INITIATIVES

WELL PLACED FOR CONSOLIDATION IN A FRAGMENTED MARKET

Read more on page 8

Sound risk management

PRUDENT SECTOR CREDIT RISK POLICY, APPLIED THROUGH FACE TO FACE CONTACT BY AGENTS: EVERY CUSTOMER, EVERY LOAN

+/–

STRONG BALANCE SHEET AND FUNDING MODEL

#1

FIRST OF TOP 3 HCC PROVIDERS TO GAIN FULL FCA AUTHORISATION IN MAY 2017

22%

PROPORTION OF LOANS ATTRIBUTABLE TO CUSTOMERS WHO ARE NEITHER PAST DUE NOR IMPAIRED UP BY 22%

Read more on page 87

Proven financial performance

21%

TOTAL CREDIT ISSUED[1] UP 21% TO £174.4M

17%

REVENUE UP BY 17% VS. LAST YEAR

19%

LOAN BOOK GROWTH OF 19%

£

CASH GENERATIVE BUSINESS MODEL THAT ALLOWS FOR A PROGRESSIVE DIVIDEND POLICY

Read more on page 25

Experienced and stable executive team

c.100

YEARS OF HOME CREDIT EXPERIENCE

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Chief Executive Officer's Review

I am very pleased to report that 2018 was an even stronger year for Morses Club, reflecting our continued success in serving our core HCC market, delivering good customer outcomes and careful implementation of our prudent credit policy.

Paul Smith
Chief Executive Officer

93.5%

Likely to recommend us to family and friends[1]

1 Independent market research (Mustard) 2017/18

Our Values

Performance

Performance during the period was strong and in line with market expectations. Revenue grew by 17.1% to reach £116.6m (FY17: £99.6m) and total credit issued[1] increased by 21% to £174.4m, with new territory builds being the principal driver.

Customer numbers reached 229,000, an increase of 6% relative to the previous year (FY17: 216,000). The proportion of our gross receivables represented by our highest performing customers increased by 18.0%, further demonstrating our focus on building a high quality customer base.

At 26.1% of revenue (FY17: 24.4%), our impairments[1] for the period were in line with our original forecasts in spite of the growth we achieved over the period.

The year also saw a reduction in our operating cost ratio[1] relative to last year, driven by technology.

As announced in August 2017, our revolving credit facility increased from £25m to £40m with the addition of a high street lender to sit alongside our existing funder, Shawbrook Bank, and the facility has been extended to August 2020.

Strategic Growth Initiatives

We remain very much focused on our core home collected credit (HCC) business, and serving our customers in the traditional manner via our network of self-employed agents, as we believe this is the most appropriate way to serve customers in this part of the market. We have a 14.6%[2] share of the known traditional market. Our primary objective remains to strengthen our home collected credit business, to make it more efficient and profitable, seeking growth via acquisition as well as by organic means.

In addition, we are looking to grow in attractive areas that are complementary to our core business. Our growth initiatives are built on our thorough understanding of the market, the depth of our experience in home collected credit and our close relationships with customers.

Our strategy is based on a balance between our experience and prudent approach to lending, allied with diversification and technology. Whilst we recognise and respect the heritage of the business, we are striving to balance tradition with the modern-day needs of our customers. Our customer and people-centric approach means that we seek to remain relevant to our customers thus retaining their loyalty.

Territory Builds

We recruited c.600 agents and managers during the year, capitalising on the unique opportunity presented in the market. After filling vacancies, this translated into 463 territory builds in FY18. Despite this attractive opportunity, we did not lose sight of the need to grow in a controlled manner. We applied stringent criteria in our selection of agents, and were careful not to cause operational disruption to the core business.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99
2 Market share based on 1.6 million people who regularly borrow using HCC

Our customers will always be at the heart of everything we do.

We will be direct and transparent in how we deal with everyone.

Our systems and processes will be simple and clear.

We will show forbearance and flexibility, offering our customers products which match their needs.

Chief Executive Officer's Review *continued*

Bringing on new agents with contacts in the communities they serve is the most efficient way to access high quality loan books and loyal customers. This is reflected in the proportion of loans attributable to the best paying customers, which increased by 18% (FY17: 10%).

Initial subsidies to maintain agents' income during their first year means that it can take up to 12 months for territory builds to become profitable as agents build up their loan books. Agents recruited in the financial year primarily joined us in July and August 2017 and are largely performing ahead of expectations.

Product Development

Customer satisfaction is at the heart of our model, critical as it is both to customer retention and word-of-mouth recommendations, an important source of organic growth. We are proud that the customer satisfaction rating independently measured every month was 95% or above. As well as tracking satisfaction and identifying areas to improve, these monthly surveys also yield crucial insights into what customers would like to see as part of our proposition.

Grounded firmly in our core business, we have continued investment to enhance our offer in line with evolving customer needs and to keep Morses Club at the forefront of the HCC and wider non-standard credit sectors.

Launched in 2016 and the only current cashless card in the mainstream sector, the Morses Club Card enables customers to make purchases online as well as on the high street. Interest in the card continues to grow, with over 21,000 customers and over £10.6m in loan balances, an increase of 172% from FY17.

Through our close contact with customers in our regular surveys as well as millions of face-to-face meetings with people at their homes, we have seen an increasing interest in digital communications and digitally based products. The significant investment we have made in our technology platform now enables us to develop our digital offering to give customers the products and communication channels they tell us they want. Initiatives such as digital customer acquisition routes and the recent launch of our customer portal in a test phase are not designed to supplant customer relationships with the agent, but rather are moves to enhance the customer experience in an increasingly digitised world.

In March 2017, we launched our online instalment product, Dot Dot Loans, with a view to testing the market and optimising the proposition for online customers. Dot Dot Loans provides a significant opportunity to access a different segment of the non-standard credit market; the 1.6m people accessing the HCC market, and there are a further 8-9m non-standard credit consumers using other products and services. Following the opportunity to add a large number of territory builds to our business during the year, management decided to prioritise resource to our core business. Attention will turn back to Dot Dot Loans in 2018/19, both for organic growth of the platform and also prospective non-standard credit acquisitions. We are taking a conservative approach to growth, however, and will use this extended test phase to make sure that our solutions work for customers and are in line with our risk appetite.

We see the investment in our customer service platforms and our wider technology as relevant to our strategic journey to serve other parts of the non-standard credit market. We are focused on broadening our offering in areas where our customers have identified a need for more flexible and attractive products. We are continuing to invest in development to take us into these adjacent markets, as well as evaluating suitable acquisition targets to accelerate our journey. Our long-term strategy is based on enhancing the offering to our customers to increase loyalty.

Efficiency Initiatives

Technology has also enabled us to automate processes and eliminate paperwork. This frees up agents to concentrate on customer service and to serve more customers, whilst also enhancing our compliance performance and streamlining our operational cost base. Management data is now integrated onto a single platform, and a full affordability platform was embedded during the year, capturing evidence of income and linked to Credit Reference Agencies, to ensure that any loan offered to a customer is affordable.

We see further scope for technology to provide efficiency gains.

Market Developments

In May 2017, Morses Club received full Financial Conduct Authority (FCA) authorisation, following a period of operating under interim permission. We consider ourselves to be well developed regarding regulatory compliance developments, supported by technology. We believe that smaller home collected credit firms may seek to exit the market as they begin to struggle to keep pace with the FCA demands on technology and auditability, which will create opportunities for us to continue loan book acquisition.

From a regulatory perspective, the FCA has been conducting surveys into home collected credit, as well as the rent-to-own and catalogue sectors, and is evaluating affordability and repeat lending for the review of High Cost Short Term Credit (HCSTC), which is due to be published in May 2018. The technology developments launched in the past year, which will be further enhanced in the coming year, are designed to evidence good customer outcomes. We continue to have open and positive dialogue with the regulator.

In these times of uncertainty surrounding the outcome of ongoing Brexit negotiations, it is worth pointing out that we are based solely in the UK, and our market has been demonstrably recession-proof, as evidenced by the growth we have seen throughout our 130-year history.

People

There have not been any changes at Board or strategic executive level during the period. The team continues to deliver our long-term strategic vision, and comprises a cross-functional skillset from different sectors.

The inherently collaborative approach among senior management extends throughout the culture of the organisation and is a key factor in our increasingly high levels of employee engagement (in our 2017 survey, 75% of employees reported being satisfied with Morses Club, up from 55% in 2015). In addition, we conduct an annual agent satisfaction survey, with overall satisfaction results being 77% (up from 70% in 2016) and our agency vacancy rates are currently trending at less than 3%.

All of our staff members, subject to the qualifying criteria, are eligible to participate in the Company's share bonus scheme, helping to align employee and Company performance.

The strong performance of the business and high levels of customer, agent and employee satisfaction would not be possible without the dedication of all of the people who work for and with Morses Club, who share our vision, values and commitment to treating customers fairly.

Dividend

The Board is delighted to declare a final dividend of 4.8p per share (FY17: 4.3p), subject to shareholder approval. The full year dividend is therefore 7.0p (FY17: 6.4p).

The dividend of 4.8p per share will be paid on 27 July 2018 to ordinary shareholders on the register at the close of business on 29 June 2018.

Outlook

We have had a positive start to our next financial year and as such, we are confident in our outlook, as we seek to further strengthen our position in our core HCC market, whilst also diversifying our offering into complementary areas. Our investment in technology will continue to improve operational efficiencies and allow us to serve our customers in more flexible ways.

We remain well positioned for growth and believe that as the market continues to develop, in light of potential regulatory change and customer demand, this provides opportunities for further acquisitions both in our core HCC market and wider markets.

Paul Smith
Chief Executive Officer
26 April 2018

Our Business Model

Our community lending model, centred on building personal relationships and lending responsibly to people with complex credit histories, delivers positive customer outcomes and value for stakeholders.

1 What we do

DEVELOP PRODUCTS TO MEET CUSTOMER NEEDS

- Loans for those who struggle to find credit elsewhere
- Loans of £100 to £1,000, in cash or on a Morses Club Card

ATTRACT AND RETAIN CUSTOMERS

Marketing channels:

- Customer referrals
- Leaflet delivery
- Customer mailings
- Online

Customer applications:

- Phone
- Online
- Via agent

Proactive retention process

Face-to-face

LEND RESPONSIBLY

- Evaluate suitability of customer against lending criteria
- Conduct credit checks
- Meet customer to understand needs
- Undertake affordability checks in the customer's home
- Issue appropriate loan
- Ensure customer understands terms and conditions
- Agree a weekly repayment schedule
- Agents are paid in commission based on collections, not sales

COLLECT RESPONSIBLY

- Local agents collect repayments weekly
- Identify issues quickly and sensitively through regular contact with agents
- Provide support to customers in short-term difficulty
- Transparent, simple charging structure with no penalty or default fees, accrued interest or hidden charges

Treating the Customer Fairly

Our sources of competitive advantage

INFRASTRUCTURE

Established national infrastructure of 98 branches staffed by 505 employees, with 2,030 self-employed agents.

RELATIONSHIPS

Trusted, reputable brand based on close and enduring relationships with customers.

2 How we create value

We use retained earnings and lower cost debt facilities to lend to our customers at a margin, and control the lending risks and costs in order to deliver consistent shareholder returns.

3 How we share value with stakeholders

CUSTOMERS

98%
CUSTOMER SATISFACTION WITH AGENT SERVICE

INVESTORS

7.0p
DIVIDEND

AGENTS

77%
AGENT SATISFACTION

EMPLOYEES

80%
EMPLOYEE ENGAGEMENT

TECHNOLOGY

Efficient and scalable technology.

COMPLIANCE

Robust compliance and controls.

VALUES

Customer-focused culture and values.

TEAM

Experienced management team with a clear understanding of the dynamics of non-standard lending.

SCALE

Economies of scale from a loyal customer base of c.229,000.

Our Strategy

Firmly grounded in our core HCC business, our strategy includes considered, close-to-home diversification to offer existing and new customers a wider range of services.

Our vision is to build the market-leading non-standard credit company in the UK – with the customer at the heart of our business.

STRATEGIC PRIORITY	PROGRESS AND KPIS	FOCUS FOR 2018/19
Recruit new agents to add territories	We recruited 463 agents to commence territory builds since February 2017, as well as a further 117 to fill vacancies in existing territories.	Following exceptional growth in 2017/18 on account of the unprecedented market opportunity, we anticipate reverting to a more normal rate of growth of c.100 territories per year.
Enhance offer to HCC customers	Having been launched in February 2016, the Morses Club card had been adopted by 21,000 customers by February 2018. Offering greater security than cash and allowing online transactions, it has proved particularly popular among customers aged between 18 and 35 and accounted for £10.6m of gross loan balances as at February 2018.	We are looking to develop additional value-added products of relevance to our core customer base.
Grow online offer to grow size of addressable market	Our online lending activities were accelerated with the acquisition of Shelby Finance Limited in January 2017. The low-cost, low-risk, soft launch in March 2017 (under the new Dot Dot Loans brand) focused primarily around building the right IT infrastructure, linkages and risk models. Allowing us to offer an online credit option to a wider section of customers in the non-standard credit market, Dot Dot Loans had issued 2,000 loans at the end of the financial year.	The normalisation of our territory build programme will allow greater focus on the continued roll-out and refinement of the Dot Dot Loans proposition as it moves from customer test phase to the next development phase.
Increase efficiency and scalability through investment in IT infrastructure	Significant investment has resulted in an IT platform that has increased efficiency, supported underwriting controls and meets the challenge of future growth opportunities. This investment has resulted in increased automation, reduced overheads, increased agent productivity and more efficient compliance processes.	The IT infrastructure is focussed around ensuring that integration of the platform, mobility and digitised services operate to support a more complex customer offering.
Continue to work responsibly and ethically	Training and development are central to embedding compliant lending. All managers and agents receive a thorough induction and everyone in the organisation – from the CEO to the newest starter – participates in compliance and conduct related training every month.	Regulatory training provides the core skills for our teams and agents, with continual refresh of knowledge central to our learning culture. Development of people skills to ensure we deliver great customer outcomes is key to our strategic progress.

To complement our organic growth initiatives and accelerate our strategy, we continue to seek to make selected acquisitions in Home Collected Credit and the wider non-standard finance markets.

There were no acquisitions in the period, partly on account of market conditions and also our focus on territory build agents.

We believe that the Company is well placed to capitalise on sector consolidation opportunities, and this continues to be a key part of our growth strategy.

Satisfied Customers

We are proud to receive monthly customer satisfaction ratings that are consistently above 95%*

Customer satisfaction research

CUSTOMER SATISFACTION RATE WITH AGENT SERVICE

98%

LIKELY TO RECOMMEND US TO FAMILY AND FRIENDS

95%

LIKELY TO CONSIDER USING MORSES CLUB IN THE FUTURE

98%

"I have been with them for years and they have always been good with me.

They're reliable and honest. Every time we take out a loan we get a letter and our Agent always explains everything. She's friendly and professional at the same time."

* Based on independent customer market research surveys (Mustard).

Satisfied Agents

We are proud that more than 80% of agents feel that Morses Club helps them deliver great customer service*

Agent satisfaction research July 2017

AGENT SATISFACTION 2017

77%

OF AGENTS FIND TABLETS USEFUL FOR THEIR BUSINESS

87%

OF RESPONDENTS ARE PROUD TO BE MORSES CLUB AGENTS

80%

OF AGENTS FEEL MORSES CLUB HELPS THEM DELIVER GREAT CUSTOMER SERVICE

82%

OF AGENTS UNDERSTAND THE IMPORTANCE OF TREATING CUSTOMERS FAIRLY

97%

" The support from my manager is exceptional.
I receive excellent regular training."

* Based on annual independent satisfaction surveys (Mustard).

Satisfied Team

We are proud that our employee satisfaction ratings increased by 20 percentage points since 2015*

Employee satisfaction research July 2017

EMPLOYEE SATISFACTION 2017

75%

OF EMPLOYEES FEEL ENGAGED WITH MORSES CLUB

80%

OF EMPLOYEES ARE PROUD TO WORK FOR MORSES CLUB

77%

OF EMPLOYEES UNDERSTAND THE IMPORTANCE OF TREATING CUSTOMERS FAIRLY

99%

" Morses Club is a very professional company, I feel valued and appreciated."

* Based on annual independent satisfaction surveys (Mustard).

Market Context

Home collected credit is a relatively resilient part of the non-standard finance market.

Regulated by the Financial Conduct Authority (FCA), non-standard consumer finance is a large segment of the UK's financial services market. Licensed lenders provide secured and unsecured credit to the estimated 20% of borrowers that fail to meet the lending requirements of mainstream financial institutions. These customers may be deemed 'non-standard' on account of being over-indebted, young or first-time borrowers with little or no credit history, or having impaired credit history.

NON-STANDARD FINANCE CUSTOMERS

c.10m

HOME COLLECTED CREDIT CUSTOMERS

1.6m

Since the financial crisis, there have been significant changes to the market environment:

- **UK regulation has become more stringent.** The FCA adopted a proactive stance, scrutinising areas such as product suitability, Treating Customers Fairly (TCF), affordability, forbearance, and interest rate caps. This has had far-reaching implications for some segments, notably payday lenders.

- **The supply of non-standard credit altered markedly.** Constraints on wholesale funding led to the exit of high street and other lenders from the segment. Non-standard customers are now served by specialist providers that typically focus on a very narrow proposition, although collectively they offer a much more diverse range of credit products compared with what 'standard' customers are offered.

- **There has been an increase in the pace of innovation.** Enabled by technology, there have been significant developments in relation to products as well as distribution channels, with the shift from traditional brokers to online an inexorable trend. Product innovations include the introduction of guarantor loans and the use of starter interrupt devices in motor finance. Technology and data analytics have also transformed underwriting and operational processes.

Within the non-standard finance market is the home collected credit (HCC) segment. Loans are typically small, unsecured cash loans, often taken out to finance events such as birthdays and Christmas. These are delivered to customers' homes by self-employed agents, and repayments of fixed amounts are collected in person during weekly follow-up visits. For these customers on low incomes and tight budgets, face-to-face relationships with agents are crucial both for assessment of affordability and application of forbearance measures. UK HCC demand is considered to be stable. Approximately 3 million people use the services of UK HCC lenders, of which between 1.5 million and 2 million are regular borrowers.

There are three sizeable providers of home credit, with Morses Club holding the second largest share. Aside from the three larger operators, the market is fragmented, with over 375 home collect credit lenders registered with the Consumer Credit Association.

In an adjacent segment of the HCC market, providers offer online small-sum, short-term credit that is repaid in instalments. Payday lenders are among the companies operating in this part of the market, although regulation around payday lending, including the interest rate cap introduced by the FCA in 2015, resulted in a shake-out of participants.

Demand for credit is unlikely to wane in light of the squeeze on incomes from rising inflation, taxes and falling real wages and the lack of savings of many consumers. A 2016 study by the Money Advice Service found that more than 16m people have savings of less than £100, and that in five areas of the country more than half the adults have savings below that level. Data from the Office of National shows that the level of savings as a percentage of disposable income has reduced significantly since 2017 and is now below 2008 levels (see chart 1).

Bank of England data indicates that unsecured consumer credit – through credit cards, store cards, loans and overdrafts – grew from £193bn to £207bn between December 2016 and December 2017, driven by factors including low wage growth, government cutbacks on welfare and public services which has forced millions to borrow to buy essentials (see chart 2).

Chart 1 – Household savings ratio (% of disposable income)

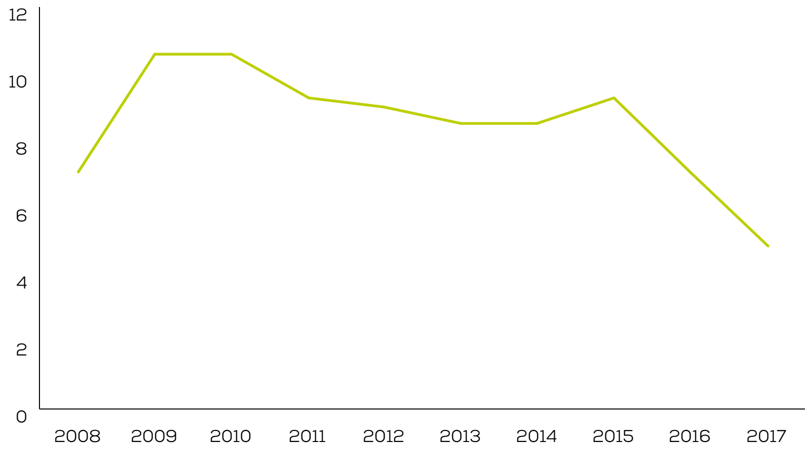
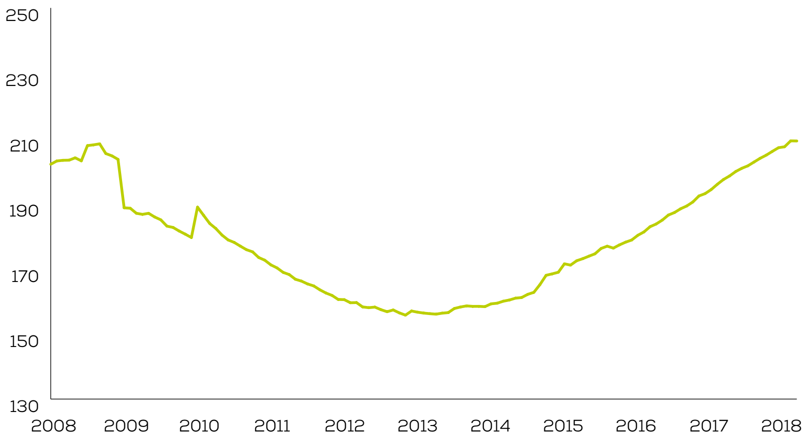


Chart 2 – Bank of England Unsecured Consumer Credit



Chief Financial Officer's Operational and Financial Review

The Group has been able to maximise the opportunity created by structural changes in the UK Home Collected Credit market leader. This has helped to achieve a careful balance between customer and lending growth, investment in the future business with increased profits and asset returns as a result.

Andy Thomson
Chief Financial Officer

Overview

The results for the Group for the 52 weeks ended 24 February 2018 continue to demonstrate how we are able to grow the business, invest in the up-front costs of building new territories and still deliver improved earnings. As a result we delivered year on year sales growth[1] of 21.0%, revenue growth of 17.1% and an increase in adjusted profit before tax[1] of 8.5%. Statutory profit before tax grew by 43.8%.

The impairment charge as a percentage of revenue[1] for the year was 26.1%. This is higher than the 24.4% reported for last year but still within our guidance range of 22% to 27%, and lower than the 26.6% reported at the half year. Our guidance range was set in 2016 for lower levels of sales growth[1], and the fact that the impairment figure remains within the range despite 21% growth in credit issued[1] demonstrates the priority we continue to place on quality of lending.

Net tangible assets (net assets less intangible assets arising from acquisitions) increased by 12.8% to £61.5m with net receivables increasing by 19.0% to £72.8m.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

£'m (unless otherwise stated)	**52-week period ended 24 February 2018**	52-week period ended 25 February 2017
Customer Numbers ('000s)	**229**	216
Period end receivables	**72.8**	61.2
Average receivables	**66.4**	58.2
Revenue	**116.6**	99.6
Impairment	**(30.4)**	(24.3)
Agent Commission	**(28.0)**	(22.4)
Gross Profit	**58.2**	52.9
Administration expenses, including depreciation (pre-exceptional, restructuring and non-recurring costs and amortisation of acquisition intangibles)	**(37.6)**	(34.3)
Operating Profit before exceptional costs, restructuring and non-recurring costs and amortisation of acquisition intangibles	**20.6**	18.6
Exceptional Income/(Costs)	**0.1**	(2.2)
Restructuring and non-recurring costs	**(1.0)**	(0.6)
Amortisation of acquisition intangibles	**(2.1)**	(3.7)
Operating Profit	**17.6**	12.1
Funding costs	**(1.5)**	(0.9)
Reported Profit Before Tax	**16.1**	11.2
Tax	**(3.0)**	(2.6)
Profit after Tax	**13.1**	8.6
Basic EPS	**10.1p**	6.6p

Reconciliation of Reported PBT to Adjusted PBT[1]		
Reported PBT	**16.1**	11.2
Exceptional (Income)/Costs	**(0.1)**	2.2
Restructuring and other non-recurring costs	**1.0**	0.6
Amortisation of acquisition intangibles	**2.1**	3.7
Adjusted Profit Before Tax	**19.2**	17.7
Tax	**(4.0)**	(3.7)
Adjusted Profit After Tax	**15.2**	14.0
Adjusted EPS	**11.7p**	10.8p

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Chief Financial Officer's Operational and Financial Review *continued*

Group Results

Sales to customers for the year increased by 21.0% to £174.4m (FY17: £144.1m), with this growth attributable to the increased level of new territory builds, as no acquisitions were made during the period. In light of the territory build opportunity, we reduced spend on other lead sources for the recruitment of home collected credit customers to maximise the investment opportunity. We estimate that this change in focus reduced credit issued[1] on a like for like basis by £2.8m and resulted in up to 3,500 fewer customers at the year end. However, we believe that the resulting cost savings and lower impairments more than offset any reduction in income.

Revenue increased by 17.1% to £116.6m (FY17: £99.6m), with gross profit increasing by 10.0% to £58.2m (FY17: £52.9m). Agent commission as a percentage of revenue[1] reduced from 21.3% in FY17 to 20.2% in FY18, reflecting changes in the operating model.

Whilst impairment increased from 24.4% of revenue in FY17 to 26.1% in FY18, this remains within our guidance range of 22% to 27%. The guidance range was set with a lower level of growth in credit issued[1] in mind, which is relevant because the faster a loan book and lending increases, the more adverse the impact is likely to be on impairment as a percentage of revenue[1]. Encouragingly, impairment in the second half year was down to 25.6% from the 26.6% reported in the first half of the year as debt repayment performance exceeded our projections. Impairment as a percentage of credit issued was 17.4% in FY18, a slight uplift on the 16.9% reported for FY17.

Gross profit before territory build subsidies increased by 15.9% from £54.1m in FY17 to £62.7m in FY18. Territory builds increased to 463 in FY18 compared to 186 in FY17, with the cost of the agent subsidies increasing to £4.5m in FY18 from £1.2m in FY17. In addition, 25 of the FY17 territory builds occurred in the last two weeks of that year and so the majority of their costs were incurred in FY18.

After the territory build subsidies are taken into account, gross profit increased by 10.0% to £58.2m (FY17: £52.9m).

	FY2018		FY2017	
	£'m	**% of rev**	£'m	% of rev
Revenue	**116.6**		99.6	
Agent commission excluding territory build subsidy	**(23.5)**	**20.2%**	(21.2)	21.3%
Impairment	**(30.4)**	**26.1%**	(24.3)	24.4%
Gross profit before territory build subsidy	**62.7**	**53.8%**	54.1	54.3%
Territory build subsidy	**(4.5)**	**3.9%**	(1.2)	1.2%
Reported gross profit	**58.2**	**49.9%**	52.9	53.1%

Administration expenses increased from £34.3m in FY17 to £37.6m in FY18, reflecting not only the increased field infrastructure to support the business growth but also the costs associated with the development of the Dot Dot Loans online product, increased investment in our IT infrastructure and additional compliance costs. However, the administration expenses as a percentage of revenue fell from 34.4% in FY17 to 32.3% in FY18, an efficiency gain of 6.1%, driven by the productivity gains achieved from the implementation of technology improvements.

The adjusted profit before tax[1] increased to £19.2m from £17.7m last year, an improvement of 8.5%. The statutory profit before tax improved to £16.1m from £11.2m last year, an increase of 44.6%. This increase was boosted by the reduced amortisation of acquisition intangibles, and non-recurrence of the £2.2m IPO costs recognised in FY17.

A table of adjustments between reported profit before tax and adjusted profit before tax[1] is shown over the page.

For illustrative purposes, the table also shows the improvement in the core home collected credit business excluding the development costs in Dot Dot Loans and the investment costs in the new territory builds. On this basis the underlying performance of the core home collected credit business improved by 29.1%.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Group Results continued

£'m	FY18	FY17	Increase
Statutory PBT	**16.1**	**11.2**	**43.8%**
Amortisation of acquisition intangibles	2.1	3.7	
Cost of flotation on AIM	(0.1)	2.2	
Restructuring and other non-recurring costs	1.0	0.6	
Adjusted PBT[1]	**19.2**	**17.7**	**8.5%**
Territory build subsidies	4.5	1.2	
Dot Dot Loans development costs	0.8	–	
Adjusted PBT (Underlying HCC)[1]	**24.4**	**18.9**	**29.1%**

The amortisation of intangible assets reflects the unwinding of intangibles in connection with acquisitions. This reduction is a result of both the lack of acquisitions in the current year and reduced levels of amortisation in connection with prior year acquisitions. Intangible assets are amortised over the asset's useful economic life, which is based on the expected life of the acquired customer relationships. Due to the behavioural profile of our customers, this will naturally result in a greater amortisation charge in the early years with a corresponding reduction in later years.

Other non-operating costs relate primarily to non-recurring restructuring costs of the business and were higher in FY18 as a result of restructuring costs in operations.

Earnings Per Share

The adjusted earnings per share for FY18 is 11.7p, an increase of 8% relative to the 10.8p for FY17.

The reported earnings per share for FY18 is 10.1p compared to 6.6p for FY17, an increase of 53%.

Dividend

Subject to shareholder approval at the Annual General Meeting on 26 June 2018, the Board proposes to pay a final dividend of 4.8p per Ordinary Share (FY17: 4.3p) payable on 27 July 2018 to shareholders on the register at the close of business on 29 June 2018.

This payment is in addition to the interim dividend already paid of 2.2p per Ordinary Share, making a total dividend for the year of 7.0p (FY17: 6.4p). The continued high level of dividend payments reflects the Board's confidence in the business prospects, particularly the opportunity to create further growth from historic territory builds, and our commitment to provide a strong income yield to our shareholders.

Net Margin

The adjusted net margin[1], which excludes amortisation of intangibles on acquisitions, the one-off costs of the IPO and other non-operating costs, decreased to 16.5% from 17.8% last year, due to the impact of the cost of the territory builds. The cost of the territory builds impacted margins by 3.9% in FY18 against only 1.2% in FY17. Without this 2.7% adverse impact, the adjusted net margin[1] would have shown a favourable improvement of 1.4% rather than the decline of 1.3%.

The net margin for the period increased to 13.9% from 11.2% last year, driven by several factors: the non-recurrence of the one-off IPO costs of £2.2m, the reduction in the amortisation of intangibles on acquisitions charge (which reduced to £1.9m from £3.7m last year as a result of there being no new acquisitions in FY18) and the lower write downs on prior year acquisitions. These favourable movements more than offset the adverse movement in the adjusted net margin[1].

Acquisitions and Goodwill

There were no new acquisitions in the current accounting period, reflecting our focus on embedding the agents that joined us during the year. However the Group will continue to evaluate acquisitions in both the home collected credit market and other related non-prime sectors.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Chief Financial Officer's Operational and Financial Review *continued*

Funding

We were pleased to announce in August 2017 that we had increased our debt facility from £25m to £40m, with a major high street bank joining the existing facility we had in place with Shawbrook Bank. The expiry date of the facility was also extended from March 2019 to August 2020.

The current facility is sufficient to meet our immediate strategic objectives, with the peak drawdown this year being £28.0m in December 2017. We remain focussed on seeking to increase our gearing in order to maximise equity returns, but not to a degree that we feel that we are putting the Group at a significantly higher level of financial risk.

Balance Sheet

The total equity for the Group increased by 7.2% from £61.4m to £66.5m, reflecting the proportion of profits that we retain for future expansion.

The main asset of the Group is our loan book, which on a net basis increased by 19% from £61.2m last year to £72.8m in FY18. This increase was in part funded by our closing debt position, which increased to £16.0m from £10.0m over the same period. This increase of 19% was greater than the increase in gross loan book of 12% due to the improved quality of our customers reducing the relative impairment provision.

IFRS 9

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. The standard has been applied prospectively and prior year comparatives will not be restated.

IFRS 9 requires the recognition of impairment on customer receivables through an expected loss model. Impairment provisions are therefore recognised on inception of a loan based on the probability of default and the typical loss given default. This differs from the current incurred loss model under IAS 39, where the requirement is that impairment provisions are only reflected when there is objective evidence of impairment.

However, for home collected credit businesses (HCC) the application of IAS 39 was conceptually difficult as the nature of our product is that customers will, from time to time, miss a payment and, up to a level, we are comfortable with this. Indeed, we apply no additional charges associated with missed payments and are proud of this aspect of forbearance in our products.

The Group has performed a preliminary assessment of the potential impact of adopting IFRS 9 based on the financial instruments as at the date of initial application of IFRS 9 (25 February 2018). IFRS 9 prescribes: (i) classification and measurement of financial instruments; (ii) expected loss accounting for impairment; and (iii) hedge accounting.

No changes are expected to the classification and measurement of the Company's assets, liabilities or equity nor does the company adopt hedge accounting. The only area which materially affects the Group is expected loss accounting for impairment. Under this approach, greater impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss given default.

Provisions are calculated based on an unbiased outcome which take into account historic performance and considers the outlook for macro-economic conditions.

The impairment approach under IFRS 9 differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This will result in a one-off adjustment to receivables, deferred tax and reserves on adoption and will result in delayed recognition of profits.

Based on current estimates, the adoption of IFRS 9 results in a reduction in the net loan book as at 24 February 2018 of between 4% and 6%.

Despite the adjustments required to receivables and net assets, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The Group's underwriting and scorecards will be unaffected by the change in accounting, the ultimate profitability of a loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The Group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time they were set.

Cash Flow

The simplified cash flow statement below demonstrates the healthy levels of cash generated by the business prior to re-investment in the loan book asset of £22.9m (FY17: £15.7m).

It also shows how loan book growth in FY18 was primarily through the organic territory builds £11.6m (FY17: £7.6m) whereas last year's growth was a mix of organic growth and acquisitions.

Summary cash flow

£'m	FY18	FY17
Cash from operations excluding investment in loan book	**22.9**	15.7
Cash from funding	**6.0**	1.0
Total cash sources	**28.9**	16.7
Increase in net loan book	**(11.6)**	(1.9)
Acquisitions	**–**	(5.7)
Capital expenditure	**(2.0)**	(1.2)
Corporation tax	**(4.6)**	(4.1)
Interest paid	**(1.4)**	(0.9)
Dividends paid	**(8.4)**	(2.7)
Total cash uses	**(28.0)**	(16.5)
Cash movement	**0.9**	0.2

Andy Thomson
Chief Financial Officer
26 April 2018

Risk Management

Principal risks are a risk or a combination of risks that, given the Group's current position, could seriously affect the performance, future prospects or reputation of the Group.

They include those risks that could materially threaten our business model, performance, solvency or liquidity, or prevent us from delivering our strategic objectives.

The Board has overall responsibility for ensuring that risk is managed appropriately across the Group. The Board has established the Group's risk appetite and strategy, and approved its frameworks, methodologies, policies, and roles and responsibilities.

The Group has a Head of Internal Audit who reports to the Audit Committee Chairman. The priorities of the Head of Internal Audit have been agreed by the Board's Audit Committee and Risk & Compliance Committee, and focus on (i) high residual risks and (ii) those risks which have been significantly reduced by Group actions and procedures.

The Group's approach to risk management is underpinned by the 'Three Lines of Defence' model which is summarised in the diagram below.

Responsibility for the First Line of Defence resides with the front-line business divisions and functions (e.g. operations and finance). Line managers are directly accountable for identifying and managing the risks arising in their functional or business areas.

The Second Line of Defence comprises the Group's central and independent risk management and compliance functions with responsibility for oversight, compliance monitoring and reporting, and financial crime to the Board's Risk & Compliance Committee and the Executive Risk Committee. This is led by the Risk and Compliance Director, who reports to the Chairman of the Risk & Compliance Committee and to the CEO.

The Third Line of Defence includes the Head of Internal Audit, who reports to the Chairman of the Audit Committee and is independent of the First and Second Lines of Defence. In addition, external accountants undertake a quarterly audit on behalf of the Group's external lenders.

During the year, the Group has enhanced its risk management oversight as a result of increasing the department's resources.

	1 FIRST LINE OF DEFENCE	2 SECOND LINE OF DEFENCE	3 THIRD LINE OF DEFENCE
ROLE	Hold direct responsibility for the performance and monitoring of front-line control activities across the business	Support and challenge the business via control activities Independently review the effectiveness of front-line control activity Manage fraud	Independently assess and assure: Internal control framework Risk management effectiveness
FUNCTIONS	Field operations – divisional managers, regional managers, area managers and business managers Central operations Banking and finance	Compliance, risk and financial crime	Internal audit Use of third-party specialists to assist the internal auditor Use of third-party internal auditors and legal specialists

The Group maintains a risk register covering the entire business. Risks are rated according to the probability of occurrence and potential impact.

Each risk is assigned to an appropriate individual and all mitigation and action plans are recorded.

The Group operates only in the UK financial services sector and the Directors believe that whatever form Brexit may take, it is not a material risk to the business. The principal risks faced by the business by risk category are as shown on pages 30 and 31.

The Directors consider the Group's viability as part of their continuing programme of monitoring risk.

For the purpose of assessing the future prospects of the Group, the Directors have selected a three-year timeframe. This timeframe was selected as it corresponds with the Board's strategic planning horizon.

The assessment has been made with reference to the Group's current position and prospects, the Group's strategy, the Board's risk appetite and the Group's principal risks and uncertainties and how these are identified, managed and mitigated (as shown on pages 30 and 31).

The strategy for the Group is included on pages 12 to 13 and its business model is on pages 10 and 11. Home Collected Credit (HCC) is a long established offering, and parts of the Group have been undertaking this business for more than 80 years.

The Directors review and renew the three-year strategic plan at least annually. Progress against the strategic plan is reviewed every month by the Board through presentations from the Executive Management Team on the performance of their respective business units, the assessment of market opportunities, and the consideration by the Board of its ability to fund its strategic ambitions.

In addition to standard internal governance, the Group is also monitored against key financial covenants tied in with current funding facilities. These are produced and submitted on a monthly basis with key schedules included in the monthly board papers.

The Group is profitable and cash generative. It currently has a debt facility in the form of a £40m revolving facility secured by a debenture on the assets of the business. This facility expires in August 2020 and it is the Group's policy to renew such a facility well in advance of this date.

Due to the short-term nature of its products, the Group is well placed to react promptly to any changes in its liquidity requirements.

Based on the above, the Board confirms that it has a reasonable expectation that the Group will continue to operate and meet its liabilities, as they fall due, for the next three years.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Company's performance. The Company's principal risks are:

Type of Risk	Definition	Mitigation
CONDUCT RISK	The risk of poor outcomes for customers, for example by: • Offering inappropriate products. • Failing to assess affordability. • Failing to identify vulnerable customers. • Failing to show forbearance if customers struggle with their repayments.	Treating Customers Fairly is a fundamental part of the Company's culture. Comprehensive and verifiable training and oversight of agents and staff is undertaken. First and second-line quality assurance operates alongside an automated, mobile technology-based sales & collections process.
REGULATORY RISK	The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements. This also includes the risk that new regulation(s) or changes to the interpretation or implementation of existing regulation(s) may affect the Group's operations and cost base.	A gap analysis is undertaken when any rules change. Governance, risk and compliance are independently and externally reviewed. We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated.
CREDIT RISK	The risk of default on a debt may arise from a borrower failing to make the necessary payments. The primary risk lies with the lender and includes lost principal and interest, disruption to cash flow, and increased collection costs.	Group policy prescribes business oversight and control. Weekly management information allows the Group to monitor the effects of lending decisions. Regular reviews of policies and outcomes are undertaken by the Credit Risk Committee.
REPUTATIONAL RISK	The risk of a loss due to damage to, or a decline in, the Group's reputation, for example through poor customer outcomes resulting in a high level of complaints.	Effective corporate governance provides business oversight and control. We undertake independent monitoring, for example market surveys and mystery shopping. The number and nature of complaints are closely monitored.
STRATEGIC AND BUSINESS RISK	The risk arising from poor business decisions, substandard execution of decisions, inadequate resource allocation, and/or from failure to adapt sufficiently to changes in the business environment. Examples could include: • Acquisitions stretching resources beyond capability. • Failure to maintain the Company's competitiveness in its markets. • Inadequate corporate governance.	The recruitment process for additional staff is highly automated and efficient. Detailed strategic planning and oversight are implemented alongside horizon scanning. A full committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual two-day strategy planning meeting. We are involved in lobbying through our trade associations.

Type of Risk	Definition	Mitigation
OPERATIONAL RISK	The risk of loss arising from inadequate or failed procedures, systems or policies, employee errors, system failure, fraud, other criminal activity – indeed any event that disrupts business processes.	All agents and staff participate annually in a personal safety review and follow our home/remote working policy. The Group ensures that effective recruitment, retention and incentive programmes are in place. The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision.
LIQUIDITY RISK	The risk of the Company being unable to meet its current and future financial obligations on time.	The Group currently has a debt facility in the form of a £40m revolving facility, secured by a debenture on the assets of the business. This facility expires in August 2020 and it is the Group's policy to renew such a facility well in advance of this date. This is sufficient to fund planned business growth.
IT RISK	The risk of business disruption from cyber crime or system failures. IT/Cyber risks include: • IT systems and networks can be damaged and/or information can be lost owing to third party actions. • Data protection/information security issues occur or there is a failure to meet the requirements of data protection regulation/legislation (e.g. GDPR). • Strategy and architecture risk arising from inadequate requirements gathering and business analysis. • Business continuity plan fails to maintain customer service. • Outsourced supplier risk arising from the use of external IT platforms. Major change impacts on daily business and/or results in poor quality delivery.	The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. A comprehensive business continuation policy and procedure is in place. Disaster recovery tests are performed periodically on critical systems. The Group's cyber insurance cover has been increased in consultation with the Group's insurers. The business change team closely monitors demand and resource plans. There is robust due diligence and monitoring, with third party contracts based on externally provided contract templates.

This Strategic Report was approved by the Board on 26 April 2018 and signed on its behalf by:

Paul Smith
Chief Executive Officer
26 April 2018

Corporate Governance

Board of Directors

Paul Smith
Chief Executive Officer

Date of Appointment
20 January 2015

Background and Career
Paul has experience in mobile payment technology as Managing Director of EZ-Pay Limited, a pre-paid MasterCard organisation. Beginning his career in the global software market, he later joined Phones4U in 1998, where he became MD and was an integral member of the management team until the firm's sale for £1.4 billion in 2006.

Areas of Expertise
Paul has been responsible for growing the Company organically and by acquisition. His expertise in software and technology has been invaluable in driving efficiencies while maintaining excellent customer service levels.

Stephen Karle
Chairman and Non-Executive Director

Date of Appointment
20 January 2015

Background and Career
Stephen is a Director of Karle & McCleery Limited, a strategic advisory and executive coaching business operating across and beyond the financial services sector. For four years to 2015 he served as Chairman of BCRS Business Loans Limited, an SME lending company supporting regional business growth. He is a former CEO of West Bromwich Building Society and a (non-practising) solicitor.

Areas of Expertise
Stephen's financial services sector experience includes executive, general management and Board roles. He represents Morses Club PLC on the Executive Committee of the Consumer Credit Association.

Andy Thomson
Chief Financial Officer

Date of Appointment
1 March 2009

(Non-Executive Finance Director),
1 March 2016 (CFO)

Background and Career
After graduating from Warwick University (accounting and financial analysis) and qualifying as a chartered management accountant at Cadbury-Schweppes and Tesco, Andy held a variety of senior finance roles in SMEs where he has been the most senior finance professional continuously since 1996. Involved in the RCapital acquisition of Morses Club in March 2009, he remained on the Board as a Non-Executive Director with responsibility for financial management. Andy led the finance function during the acquisition and integration of Shopacheck Financial Services in 2014/15, before his appointment as full-time CFO in 2016.

Areas of Expertise
Instrumental in shaping the Morses culture to focus on growth controlled by debt quality, Andy's analytical skills are key in the rapid identification of, and response to, financial challenges.

Patrick Storey
Independent Non-Executive Director

Date of Appointment
14 April 2016

Background and Career
Patrick is a chartered accountant and founding member and former senior partner of Grant Thornton's Financial Services Group. Before retiring from partnership in 2016, Patrick had accumulated 30 years' experience with Grant Thornton focussing principally on regulation, governance and culture in the financial services sector. Patrick is a Non-Executive Director of Arch Insurance Europe, ActivTrades Plc, and Think Money Group.

He is also a member of the Financial Markets Tribunal in Dubai, and is on the Quality Assurance Review Committee for Chartered Accountants Ireland.

Areas of Expertise
Patrick is a recognised specialist in helping financial services firms to achieve their strategic goals by embedding robust and sustainable management, governance and culture frameworks while complying with financial regulations and delivering good outcomes for customers.

Sir Nigel Knowles
Senior Independent Director

Date of Appointment
14 April 2016

Background and Career
Sir Nigel is a solicitor and Chairman of global legal business DWF.

He is former Global Co-Chairman and Senior Partner of DLA Piper, having served as Global Co-CEO and Managing Partner for nearly twenty years before. He is credited with DLA Piper's remarkable growth, leading the firm through a series of mergers and taking the firm from its regional origins to the global firm it is today.

He received a knighthood in 2009 in recognition of his services to the legal industry.

Areas of Expertise
Sir Nigel has immense experience of building and leading a worldwide regulated services business. Since retiring as a partner of DLA Piper, Sir Nigel has taken on a small and complementary portfolio of non-executive appointments. He is the Chairman of Sheffield City Region Local Enterprise Partnership (LEP) and a Trustee of The Prince's Trust.

Joanne Lake
Independent Non-Executive Director

Date of Appointment
14 April 2016

Background and Career
A chartered accountant with over 30 years' experience in accountancy and investment banking, Joanne has worked at Panmure Gordon, Evolution Securities, Williams de Broe and Price Waterhouse. She is Chairman of wealth management and employee benefits specialists, Mattioli Woods PLC, Deputy Chairman of main market listed Henry Boot PLC, and a Non-Executive Director of Gateley (Holdings) PLC and Accrol Group Holdings PLC.

Areas of Expertise
Joanne's financial services experience includes Board level roles focussing on strategy and governance, as well as lead advisory corporate finance roles on listings, other public market transactions and continuing obligations.

Peter Ward
Non-Executive Director

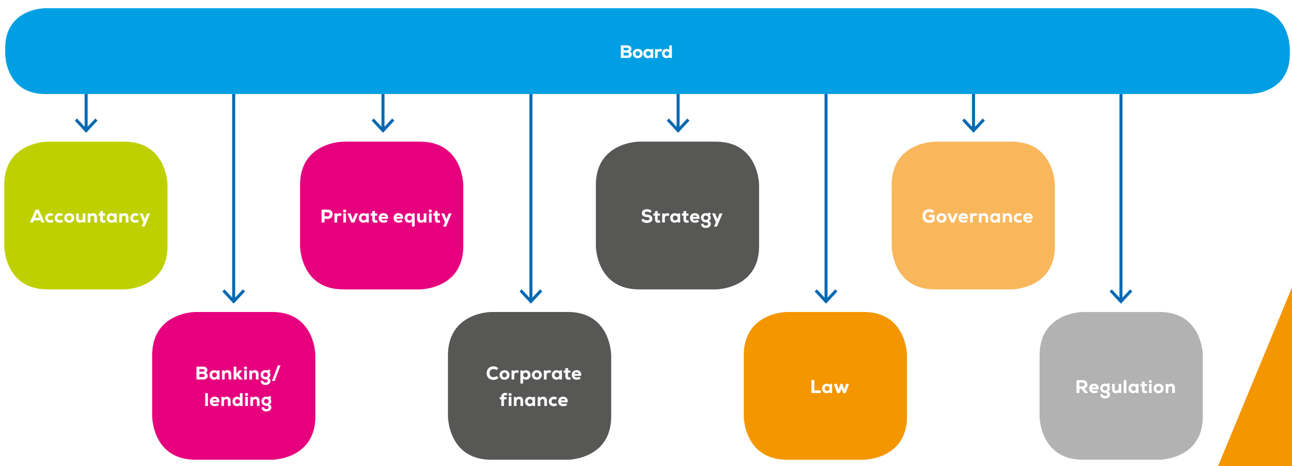
Date of Appointment
1 March 2015

Background and Career
Peter is the Co-Founder of RCapital Partners LLP and retired as an active Partner in 2016. In 2001 he co-founded his own corporate advisory business, Three V Corporate Venturing LLP, to provide fundraising and interim management services. He had previously held senior management positions within the UK commercial and banking division of Royal Bank of Scotland Group for 23 years.

Areas of Expertise
Peter has extensive experience of working with management teams across a broad range of business sectors.

EXPERTISE

The Board and its committees are considered to have an appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. The Directors have a wide range of backgrounds with a variety of skills and experience.



Chairman's Introduction to Governance

Dear Shareholder,
I am pleased to present our 2018 Corporate Governance report for the Group which includes reports from the Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations and Disclosure Committees on pages 38 to 57.

Stephen Karle
Chairman

The Board is committed to applying the highest standards of corporate governance and has adopted the main principles of the UK Corporate Governance Code (the Code), although as an AIM-listed company, we are not required to comply. The only exceptions are the Directors' Remuneration Report which has been prepared in accordance with AIM Rule 19 and the membership on the Board's committees of one Director who is not deemed to be independent. The Directors believe that this general approach is a firm foundation for good governance and clarifies not only the appropriate allocation of duties, authority and responsibilities but also the way the Group meets its legal and regulatory obligations.

Culture

The strapline of Morses Club PLC is 'putting you first'. During the year, the Board has been active in ensuring that this reflects reality and is not merely an aspiration. During late 2017, the Board commissioned an internal review of the Group's adherence to S172 of the Companies Act 2006 on how Directors have performed their duties to promote the long-term success of the Company. This review demonstrated that the Company has a culture of looking after its customers, employees and the community, while maintaining positive relationships with its suppliers and creditors.

Examples of Board activity in stakeholder engagement included:

- Monitoring customer satisfaction levels.
- Reviewing employee satisfaction surveys, with other updates from the HR team featuring prominently at meetings.
- Looking at trends relating to customer complaints and health & safety.
- The introduction of an employee-wide share option scheme, for which all staff with a minimum of one year's service are eligible.
- Reviewing engagement with the Company's shareholders, and asking for feedback from such meetings.
- Providing advice to the Executive Team concerning relations with the Regulator.

Board of Directors

Much work was done during 2016 to establish a Board equipped with the experience and expertise to drive forward the Group's future direction, strategy and culture prior to the Company's admission to AIM. The Board membership has remained stable and unchanged during the two years since three new Non-Executive Directors were appointed in April 2016. The Board currently comprises five Non-Executive Directors and two Executive Directors, whose biographies are presented on pages 34 and 35, All five Non-Executive Board members were recommended to the Board for an extension of their appointments for a further two years after an initial one-year term of office, and were re-elected at the Annual General Meeting in June 2017.

As independent Chairman, I carried out a formal Board evaluation process between November 2017 and February 2018. The performance of the other Non-Executive Directors was assessed against the quality of the discharge of their supervisory and stewardship roles. Their personal contributions at Board, in Committee and more widely were considered, and the collective performance of the entire Board was reviewed and personal development areas identified.

My conclusion was that the Group has a Board which is engaged, has a wide variety of relevant experience, and is focussed on outcomes – for customers, investors, employees, self-employed agents and other stakeholders.

The Board operates on a unitary basis, and we value the views of the Executive Management team whose members attend Board meetings to provide specialist knowledge and experience.

I look forward to another year where the Group continues to grow and develop, with a strong and experienced Board at its heart.

Stephen Karle
Chairman
26 April 2018

Corporate Governance Report

Application of the UK Corporate Governance Code

From the date of the Initial Public Offering in May 2016, the Directors have generally adopted the principles and provisions of the April 2016 edition of the UK Corporate Governance Code, although, being AIM listed, the Group is not obliged to comply with this. The only exceptions are (i) the Directors' Remuneration Report, which has been prepared in accordance with AIM Rule 19; (ii) the inclusion of a Director on the Remuneration & Corporate Social Responsibility Committee and the Audit Committee who is not deemed to be independent; and (iii) when, excluding the Chairman, the Remuneration & Corporate Social Responsibility Committee did not have two Directors who are deemed to be independent.

At its meeting on 20 March 2018, the Nominations Committee unanimously agreed to retain the non-independent Director as a member of the Audit and Remuneration & Corporate Social Responsibility Committees owing to his experience and much-valued contribution. At the Nominations Committee meeting on 20 March 2018, a second independent Director was appointed to the Remuneration & Corporate Social Responsibility Committee. As a result, all of these Committees now have a majority of independent members, excluding the Chairman of the Board.

Leadership

Role of the Board
The Company is headed by an effective Board which is collectively responsible for the long-term success of the Company.

The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance.

The Board has established a sub-committee structure comprising Nominations, Risk & Compliance, Audit, Disclosure and Remuneration & Corporate Social Responsibility Committees, and has appointed a Senior Independent Director, Sir Nigel Knowles.

The Executive Management Committee comprising all of the Executive Managers and the Executive Directors, reports to the Board.

Division of responsibilities

There is a clear division of responsibilities at the head of the Company between the running of the Board and the responsibility of the Executives for the running of the Company's business. In this way, no individual has unfettered powers of decision.

The Board has a formal schedule of matters reserved to it and is scheduled to hold seven formal meetings each year. In addition, two teleconferences are convened each year in order to agree the final and interim results and dividend. The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the business. This includes its code of conduct, annual budgets, progress towards achievement of those budgets and capital expenditure programmes.

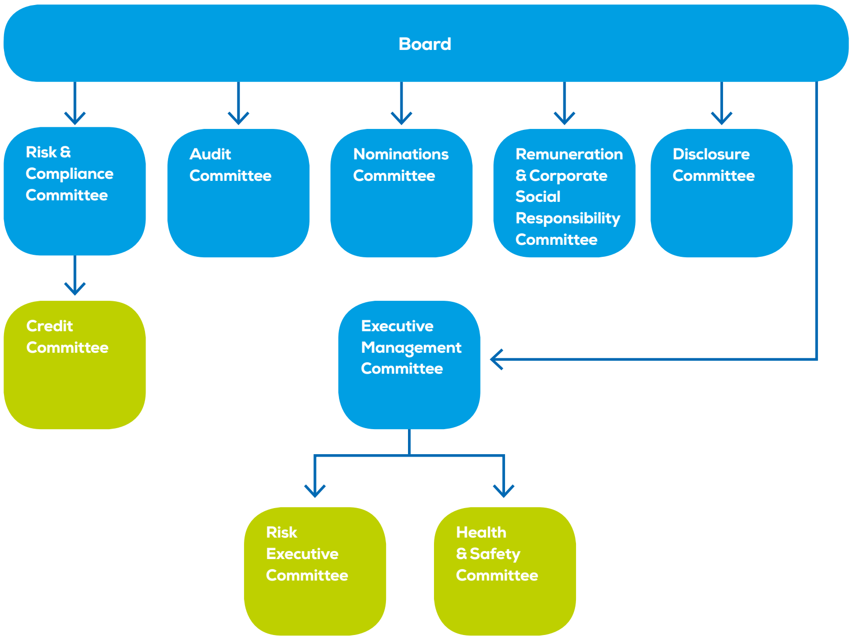
The Board meeting agenda normally comprises a review of management financial statements and operational performance, a CEO review of activity, reports from the executive team, a review of potential acquisitions and other growth opportunities, a review of relevant Board sub-committee minutes and reports, together with an update on the progress of the Company's other strategic objectives.

The April Board meeting covers the approval of the preliminary results and the year-end financial statements, whilst a meeting in October approves the interim results. The November meeting is dedicated to annual strategy and is held in partnership with the Executive Management Team.

The Chairman
The Chairman is mainly responsible for the leadership of the Board and ensuring its effectiveness on all aspects of its role. His duties include ensuring that all Directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Chairman regularly reviews the contents of the information pack sent out prior to Board meetings in order to ensure that important issues are prioritised and each pack is kept to a manageable size.

Non-Executive Directors
As part of their role as members of a unitary board, Non-Executive Directors are active at providing constructive challenge and helping develop proposals on strategy.

BOARD STRUCTURE



The Board has established a sub-committee structure comprising Nominations, Risk & Compliance, Audit, Disclosure, and Remuneration & Corporate Social Responsibility Committees, and has appointed a Senior Independent Director, Sir Nigel Knowles.

The Executive Management Committee, comprising all of the Executive Managers and the Executive Directors, reports to the full Board.

Corporate Governance Report *continued*

Effectiveness

Composition of the Board
The Board currently comprises five Non-Executive Directors and two Executive Directors, whose biographies are presented on pages 34 and 35.

The Board considers three of the Non-Executive Directors (Joanne Lake, Patrick Storey and Sir Nigel Knowles) to be independent in character and judgement because while each owns shares in the Company, they all have significant other business interests and activities. The Chairman was also considered to be independent upon his appointment as Chairman in 2015. The Board as a whole considers the Non-Executive Directors' minor shareholdings in the Company to be advantageous to shareholders, since in addition to meeting their fiduciary duties, their interests are aligned with shareholders in general. Non-Executive Directors are not entitled to share options and there are no cross-directorships between Executive and Non-Executive Directors.

Peter Ward has been appointed by Hay Wain Group Limited (formerly Perpignon Limited) and so is not considered to be independent. Sir Nigel Knowles has been appointed as the Senior Independent Director.

Appointments to the Board
There have been no appointments to the Board since April 2016. The Nominations Committee will oversee a formal, rigorous and transparent procedure for the appointment of new Directors, as and when the need arises. This will include the use of an independent search firm supplemented by open advertising as appropriate.

Commitment
All Directors have been able to allocate sufficient time to the company to discharge their responsibilities effectively. Their record of attendance at meetings is shown on page 42, and they have also demonstrated their commitment by the work and advice provided throughout the year.

Gender diversity
The Board and its committees are considered to have an appropriate balance of skills, experience, independence and knowledge to enable them to discharge their respective duties and responsibilities effectively. The Directors have a wide range of backgrounds and extensive knowledge of a variety of areas of expertise.

Development
The Board also ensures that Directors receive relevant training upon appointment and then subsequently as appropriate. During the last 15 months, Directors have received specific briefings on corporate governance and the new General Data Protection Regulations (GDPR) that are highly relevant to the business.

Information and support
The Board considers that it is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Our Non-Executive Directors receive full updates on Company progress and relevant issues and bring their experience and sound judgement to bear on matters arising.

The Company Secretary is available to provide advice and services to all Board members and is responsible for ensuring Board procedures are followed. All Directors are also able to take independent advice in furtherance of their duties if necessary.

Board evaluation
Our CEO is appraised every six months by the Chairman. During this first full year as an AIM-listed company, the Chairman has additionally undertaken a formal internal Board evaluation.

This evaluation concluded that the whole Board is consistently engaged, bringing a wide range of perspectives and experiences to discussions. The Non-Executive Directors are able to reflect on insights gained from their other activities and bring valuable input to meetings.

The Chairman's performance was evaluated by the Non-Executive Directors and led by the Senior Independent Director, Sir Nigel Knowles, with input from the Executive Team.

As part of the Board evaluation, it was acknowledged that the Board agenda and management information should be reviewed continually in order to ensure that the most appropriate information is available to the Directors. Key performance indicators have been revised during the year in order to focus attention on the most important factors within the business.

Re-election of Directors
At the Company's first AGM in June 2017, all of the Directors were elected to the Board. In line with both its Articles of Association and the Corporate Governance Code, the Company's Directors will submit themselves for re-election during the next three years, commencing with Stephen Karle, Patrick Storey and Peter Ward at the 2018 AGM.

Accountability

Financial and business reporting

The Board believes that it is presenting a fair, balanced and understandable assessment of the Company's position and prospects.

Reviews of the performance and financial position of the Group are included in the Strategic Report within pages 1 to 31, and present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities in respect of the financial statements are described on page 61 and those of the auditor on page 68.

Risk management and internal control

The Board acknowledges that it is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Group maintains sound risk management and internal control systems and these are described in the Risk Management section on pages 28 to 31. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Group's overall business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

The Group's internal control systems, including financial, operational and compliance controls, are reviewed regularly with the aim of continuous improvement. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built into the process.

The Board discharges its duties in this area through:

- the review of financial performance including budgets, KPIs and forecasts on a monthly basis;
- the receipt of regular reports which provide an assessment of key risks and controls and how effectively they are working;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- the receipt of reports from senior management on the risk and control culture within the Group;
- the presence of a clear organisational structure with defined hierarchy and clear delegation of authority; and
- ensuring that there are documented policies and procedures in place.

Through the Risk & Compliance Committee, the Board reviews the risk management framework and the key risks facing the business. The finance department is responsible for preparing the Group financial statements and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

The Board, with advice from the Audit and the Risk & Compliance Committees, is satisfied that a system of internal controls and risk management is in place which enables the company to identify, manage and evaluate risks. The report of the Audit Committee on pages 44 to 47 demonstrates how the Board has established formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's auditor.

These processes have been in place for the year under review and up to the date of approval of the report and financial statements. They are regularly reviewed by the Board and accord with the guidance in the UK Corporate Governance Code.

The Board intends to keep its risk control procedures under constant review particularly as regards the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement which come to the attention of management and the Board.

Audit Committee and auditors

The Board is required to establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

The report of the Audit Committee on pages 44 to 47 demonstrates how the Board has established formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the Company's auditor.

Corporate Governance Report *continued*

Dialogue with Shareholders

The Board is responsible for ensuring that there is a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Group communicates with institutional and private investors and responds quickly to all queries received verbally or in writing. All shareholders will have at least 20 working days' notice of the Annual General Meeting (AGM) at which all Directors will be present and available for questions. The Board is aware of the importance of maintaining close relations with investors and analysts for the Group's market rating. Twice-yearly road shows are conducted by the CEO and CFO when the performance and future strategy of the Group are discussed with larger shareholders. Queries from all shareholders are dealt with by the CFO. In addition, members of the Board receive regular feedback from major shareholders and discuss this at Board meetings. The CEO and CFO met more than 80% of investors (by shareholding) during the year. The Chairman and the Senior Independent Director are also named and available, should an investor wish to express any views to them.

Constructive use of the AGM
The Group's successful engagement with its shareholders during the year and at the time of the AGM can be demonstrated by the results of the 2017 AGM, at which 97.5% of its shareholders voted, with a minimum of 99.99% of votes being cast in favour of the resolutions proposed by the Board.

Board Committees

The terms of reference of all of the Board committees are available from the Group's registered office and on its website at www.morsesclubplc.com.

Copies of the service contracts and letters of agreement of each of the Directors are available at the Group's registered office during business hours and will be available for inspection at the AGM for at least 15 minutes prior to and until the conclusion of the AGM.

During the year, the Board has continued its policy that all Non-Executive Directors should participate in the Audit, Risk & Compliance, Nominations and Disclosure Committees in order to maintain a full appreciation and understanding of the Company.

The Group appreciates the benefits which are brought by a Board with a range of business backgrounds, and recognises that its members must be able to dedicate sufficient time to the Group. The Board is satisfied that each Non-Executive Director has sufficient capacity to undertake their required duties for the Group.

Details of attendance at Board and Committee meetings during the year are shown below:

			Committees				
		Board	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations Committee	Disclosure Committee
Meetings		8	5	4	4	1	–
Stephen Karle	Non-Executive Chairman	8	5	4	3	1	
Paul Smith	Chief Executive Officer	8	4				
Andy Thomson	Chief Financial Officer	8	5				
Sir Nigel Knowles	Senior Independent Director	8	3	2		1	
Joanne Lake	Non-Executive Director	8	4	3	3	1	
Patrick Storey	Non-Executive Director	8	5	4		1	
Peter Ward	Non-Executive Director	7	4	3	4	1	

Board Committees continued

Membership of committees during the year

C = Chairman
M = Member

	Position	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations Committee	Disclosure Committee	Considered Independent
Stephen Karle	Non-Executive Chairman	M	M	M	C	C	✓
Paul Smith	Chief Executive Officer	M				M	
Andy Thomson	Chief Financial Officer	M				M	
Sir Nigel Knowles	Senior Independent Director	M	M		M	M	✓
Joanne Lake	Non-Executive Director	M	M	C	M	M	✓
Patrick Storey	Non-Executive Director	C	C		M	M	✓
Peter Ward	Non-Executive Director	M	M	M	M	M	

On 20 March 2018, Sir Nigel Knowles was appointed a member of the Remuneration & Corporate Social Responsibility Committee.

Remuneration & Corporate Social Responsibility Committee

During the year, the Remuneration & Corporate Social Responsibility Committee comprised three Non-Executive Directors, including the Chairman. Joanne Lake is independent. The members of the Committee are:

- Joanne Lake (Chairman);
- Stephen Karle; and
- Peter Ward.

On 23 March 2018, Sir Nigel Knowles was appointed to the Committee in order to comply with the Corporate Governance Code's requirement that a Remuneration Committee should consist of a minimum of two independent directors (not including the Board Chairman).

The Remuneration & Corporate Social Responsibility Committee meets at least twice a year and on other occasions as deemed appropriate by the Committee's Chairman.

The Committee Chairman is appointed by the Board on the recommendation of the Nominations Committee.

A full Remuneration & Corporate Social Responsibility Committee report appears on pages 51 to 54. The Directors' remuneration report on pages 51 to 54 forms part of these financial statements.

Audit Committee

Committee members	Regular attendees
• Patrick Storey (Chairman)	Chief Executive Officer[1]
• Stephen Karle	Chief Financial Officer[1]
• Sir Nigel Knowles	Finance Director[1]
• Joanne Lake	Head of Internal Audit[1]
• Peter Ward	Risk & Compliance Director[1]
	Representatives from Deloitte, the external auditor[1]
	Company Secretary

1 By invitation

Both Patrick Storey and Joanne Lake are Chartered Accountants. Patrick Storey, Stephen Karle, Joanne Lake and Peter Ward have all had extensive experience within the financial services sector, whilst Sir Nigel Knowles is the Chairman of global legal business DWF, having been a managing partner at the global law firm DLA Piper for nearly 20 years.

What does the Committee do?

The key objective of the Committee is to provide assurance to the Board as to the effectiveness of the Company's internal controls and the integrity of its financial records and externally published results.

The Committee monitors and reviews the Group's financial reporting from information provided by management and the auditor. The Committee reports to the Board on the Group's full and half year results, having examined the accounting policies on which they are based and ensured compliance with relevant accounting standards.

The Committee's terms of reference are available on the Group's website.

The Committee was in place throughout the year and held four meetings.

Dear Shareholder

As Chairman of the Audit Committee, I am pleased to present my report for the year ended 24 February 2018.

The report provides insight into the composition of the Committee and the work that it undertakes. In essence, we ensure the integrity of the financial reporting, the robustness of internal operational and financial controls and the independence of the external auditor.

The Committee acknowledges and embraces its role in protecting the interests of shareholders and is committed to monitoring the integrity of the Group's reporting. The Committee performed reviews of the full year, interim and trading update announcements, and the annual report and accounts and half-yearly financial statements. The Committee has satisfied itself that controls over the accuracy and consistency of information that has been presented are robust.

Audit Committee *continued*

Composition and governance

In addition to my role as Chairman of the Audit Committee, I am also Chairman of the Risk & Compliance Committee. As Chartered Accountants, the Board considers that both Joanne Lake and I have recent and relevant financial experience. All of the Non-Executive Directors are members of this Committee, and have been since the Group's IPO in May 2016. This was reviewed by the Nominations Committee in November 2017, and seen to be appropriate for what is still a comparatively young listed organisation. The Board believes that the current members have sufficient skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference.

The Chief Executive Officer, the Chief Financial Officer, the Finance Director, the Risk & Compliance Director, the Head of Internal Audit and senior representatives of the external auditor attend Committee meetings by invitation in order to ensure that all relevant information is available to the Committee.

The Committee meets with the external auditor without the presence of Executive Management at least once each year to discuss matters relating to its remit and any issues relating to the audit. The Committee also meets the Head of Internal Audit and the Risk & Compliance Director annually without the presence of other Executive Management. The Committee has direct and unrestricted access to both internal and external audit functions. As the Chairman, I also have regular contact with the external auditor, the Chief Financial Officer, the Risk & Compliance Director, and the Head of Internal Audit outside the formal meetings to ensure that any areas for discussion are dealt with in a timely manner.

How the Committee discharged its responsibilities

The Audit Committee met four times during the year in alignment with its terms of reference and with the Group's financial reporting timetable.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. Following this review, the time allocated to these meetings has been increased to ensure that it remains appropriate for the issues being raised. In addition, following the updating of the Committee's terms of reference in February 2018, a formal rolling agenda is being introduced for the 2018/19 financial year.

Significant areas of judgement

The external auditor has scoped the audit appropriately and subjected significant areas of judgement to robust challenge.

Significant areas of judgement considered by the Committee included:

1. Impairment
The Group makes judgements in relation to identifying objective evidence of impairment and calculates the provision by reference to historical payment performance to estimate the amount and timing of expected future cash flows. The Committee regularly challenges the appropriateness of management's judgements and assumptions underlying the impairment provision calculations and concluded that the provisions held against the loan book are reasonable.

2. Revenue Recognition
Under IAS 39 interest income should be recognised on the shorter of the expected life or the contractual life of the loan. The Committee has judged that interest income should be recognised over the contractual life of the loan based on historical loan book performance.

3. IFRS 9
From 25 February 2018, the Group is required to adopt IFRS 9, which governs the classification and measurement of financial instruments. In association with the Group's internal finance team and its external auditor, the Committee has reviewed the Group's proposed treatment of its financial instruments under IFRS 9, and the resulting key judgements and impacts are set out in Note 1.

In previous years, there were other key areas where judgements had been made, for example business acquisitions, which were highlighted in last year's report, but there has been no new activity in this, or any other area, during FY2018.

Meetings of the Committee

The work undertaken by the Committee included the following activities:

- a review of the full-year results including the Annual Report and Accounts, preliminary results and the external auditor's report. In reviewing these documents and determining whether they were fair, balanced and understandable, the Committee also considered the work and recommendations of management;
- an interim results review;
- a consideration of the appropriateness of accounting policies and critical accounting estimates and judgements, including a review of information from the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements in the financial statements;
- a consideration of the level of non-audit work carried out for the Group by the external auditor and the seeking of assurances from the auditor that it maintains suitable policies and processes to ensure independence. During the year, the Committee updated a non-audit work policy;
- overseeing the activities of the Group's internal audit function, including its resourcing, its planning and the output of its audit work;
- reviewing the adequacy and effectiveness of the Group's internal audit function and the robustness of the Group's internal operational and financial controls; and
- a review of the going concern assumptions when considering interim and final results statements and long-term viability in the case of the final results statement, taking into account internal financial projections.

External audit

The Group's external auditor is Deloitte LLP.

The Committee is responsible for reviewing the objectivity, independence and cost effectiveness of the external auditor.

The Committee also reviews the performance of the auditor taking into account the services and advice provided to the Group and the fees charged for these services. Details of the auditor's total fees for the year can be found on page 82.

During the year, the Committee updated a non-audit work policy which is designed to mitigate any risks threatening, or appearing to threaten, the external auditor's independence and objectivity.

Consequently, we monitor the level of non-audit work carried out by the external auditor. During the year to 24 February 2018, the level of audit fees amounted to £224k (FY17: £156k), and non-audit fees amounted to £26k (FY17: £588k). The ratio of audit fees to non-audit fees was 11.6% (FY17: 376.9%). The non-audit costs in FY17 consisted primarily of one-off costs related to the Company's Initial Public Offering in May 2016. The non-audit work carried out during FY18 related to the review of the interim results. The Committee considers it standard practice for the external auditor to undertake the review of the interim results.

Deloitte LLP was first appointed as auditor of Morses Club Limited with effect from 1 March 2009 as a result of a competitive audit tender. Since then, Morses Club Limited acquired Shopacheck Financial Services and the resulting Group was listed on AIM as Morses Club PLC in May 2016. During this period of change, the Group has valued the continuity of the existing auditor's appointment.

The Committee is satisfied that the Group has received good service from Deloitte LLP. The service the Committee has received has been exemplary, and the management team have confirmed that they are very content with the competence and performance of the team at Deloitte. We are also aware that in the coming year the Group will need to adopt IFRS 9, the biggest single change in accounting standards for this industry in many years. Deloitte have significant experience and expertise within the Home Collected Credit market and have been working pro-actively with management on this matter. The Committee will review whether it wishes to put the external audit service out to tender after IFRS 9 has been successfully implemented.

On this basis, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the forthcoming Annual General Meeting. Deloitte has indicated its willingness to continue in office. The Committee confirms that there are no contractual obligations that restrict the Committee's choice of external auditor in the future.

After the completion of the 2018 audit, Matt Perkins, the current partner from the external auditor will be rotating off the Morses Club audit after eight years of service. On admission to AIM in May 2016, Morses Club became an 'other listed entity' and according to s3.14 of the Financial Reporting Council's Ethical Standards, Matt was able to continue as the audit partner for a maximum of two further years. A new partner has already been introduced to the Group. The Committee wishes to record its sincere gratitude for the skill, commitment and expertise that Matt has brought to the statutory audit over the past eight years.

Internal audit function

The Group has an internal audit function headed by a suitably qualified and experienced Head of Internal Audit who reports directly to me, as Audit Committee Chairman. The internal audit function objectively reviews the Group's internal control processes using a risk-based internal audit plan and audit charter approved annually by the Committee. The plan is based primarily on output from the risk management process, but it is flexible and may include ad-hoc investigations and other assurance work agreed by the Committee. Specialist technical knowledge and resources are sourced externally when required.

One of the largest reviews carried out by the internal audit department during the year was in the area of information security. This is seen as a high priority for the Group; indeed, the Head of Technology, Resilience & Cyber at the FCA highlighted that it is the FCA's view that it is vital for firms to protect their critical information, detect attempts to breach protective controls and respond quickly and effectively. The Committee has reviewed the results of the internal audit review and the Group's response to the findings, and will continue to do so.

The Committee closely reviews the reports of the internal audit function. Its work is primarily risk-based, using the Group's risk register to identify key risks which are then prioritised. The Committee has found the reports to be both incisive and timely, presented in a way that is well articulated. During the year, with my agreement, the Head of Internal Audit was promoted from his previous position of Internal Audit Manager, and the Committee agreed to invite the Head of Internal Audit to attend the whole of its meetings. This demonstrates the high regard that the Committee places on the Group's internal audit function and its Head.

FRC Corporate Reporting Review team

There was no interaction with the FRC's Corporate Reporting Review team during the year.

Approval

On behalf of the Audit Committee

Patrick Storey
Chairman
26 April 2018

Risk & Compliance Committee

Committee members	Regular attendees
• Patrick Storey (Chairman)	Finance Director[1]
• Stephen Karle	Company Secretary
• Sir Nigel Knowles	
• Joanne Lake	
• Peter Ward	
• Paul Smith (CEO)	
• Andy Thomson (CFO)	
• Ian Cooper (Risk & Compliance Director)	
• Barrie Grimshaw (IT & Business Change Director)	

1 By invitation

What does the Committee do?

The principal purpose of the Risk & Compliance Committee is to assist the Board in its oversight of risk within the Group with particular focus on risk appetite, risk profile and the effectiveness of the Group's internal controls and risk management systems.

The Committee's terms of reference are available on the Group's website.

The Committee was in place throughout the year and held five meetings.

Dear Shareholder

As Chairman of the Risk & Compliance Committee, I am pleased to present our report for the year ended 24 February 2018.

The report provides insight into the composition of the Committee and the work that it undertakes to ensure that the Group's risk management policies and procedures are fit for purpose and that the Group's risk management framework is operating effectively.

Composition and governance

In addition to my role as Chairman of the Risk & Compliance Committee, I am also Chairman of the Audit Committee. All of the Non-Executive Directors are members of this Committee, and have been since the Group's IPO in May 2016.

The Chief Executive Officer, the Chief Financial Officer, the Risk & Compliance Director, and the IT & Business Change Director are also members of this Committee. The Finance Director attends Committee meetings by invitation.

The composition of the Committee was reviewed by the Nominations Committee in November 2017, and considered appropriate for what is still a comparatively young listed organisation.

How the Committee discharged its responsibilities

The Committee held four scheduled meetings during the year in alignment with its terms of reference. The Committee also held a fifth meeting which was convened solely to review the Group's plans for territory builds, following the unexpected opportunity presented by an unprecedented number of agents leaving the Group's largest competitor.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. The time allocated to these meetings has been reviewed and recently increased to ensure that it remains appropriate for the issues being raised. Following the Committee's review and updating of its terms of reference in February 2018, a revised formal rolling agenda has been introduced for the new financial year.

The Group's Credit Risk Committee reports to this Risk & Compliance Committee.

The Morses Club strapline is 'Putting You First': customers are at the heart of the Group's culture, vision and values. In recent years, the level of public and regulatory scrutiny of the Group's marketplace has grown. The Board recognises the importance to the business of risk and compliance, and the need to devote time and energy to these vital areas.

The Committee is responsible for reviewing and reporting to the Board on a number of topics, including:

- the Group's risk appetite (the extent and categories of risk regarded by the Board as acceptable for the Group to bear);
- the Group's risk management and internal controls framework (its principles, policies, methodologies, systems, processes, procedures and people);
- the arrangement for the identification, assessment, monitoring, management and oversight of risk with regard to processes and procedures;
- the effectiveness of the Group's internal controls, compliance monitoring and risk management systems; and
- the Group's procedures for preventing and detecting money laundering and fraud.

Risk & Compliance Committee *continued*

The Committee has a schedule for matters to be discussed at the various meetings. These include a regular review of:

- The work done by the Executive Team's Risk Committee.
- The Group's assessment and management of conduct risk.
- The Group's policies and practices for Treating Customers Fairly and ensuring consistently good customer outcomes.
- The Group's compliance monitoring activities.
- Information and cyber security, including adherence to the new GDPR requirements.
- Customer complaints.
- Financial crime.
- Regulatory matters, including those relating to the FCA.

Activities during the year

During the year, some of the key topics discussed included territory builds, cyber security and data protection, regulatory matters and customer complaints.

Territory builds

During the last year, the Committee held a special meeting with the sole purpose of reviewing the risks presented by an opportunity to materially grow the number of new territory builds. The Committee was determined to scrutinise fully the management team's proposed response to this significant opportunity, prior to its implementation, to ensure that the Group's risk and compliance infrastructure could be grown in tandem with the business.

Cyber security and data protection

Cyber security has also been a major topic for the Committee. During the year, the Group performed both penetration testing and failover testing. It has employed its first information security officer and has encrypted all of its laptops. The Committee has reviewed the Group's extensive preparations for the GDPR regulations being introduced in May 2018.

Regulatory matters

The Committee was delighted that the Group was the first mainstream Home Collected Credit company to receive full FCA authorisation in May 2017, and has been actively involved in the Group's continuing constructive dialogue with the FCA.

We are keen to ensure that the Group keeps abreast of evolving regulation and contributes to that evolution as appropriate.

Customer complaints

Whilst the Group generates excellent customer satisfaction rates and has a very good track record with the Financial Ombudsman Service, the Committee continues to play a part in ensuring that management maintains its clear focus on Treating Customers Fairly and good customer outcomes.

At its meetings, the Committee takes a keen interest in trends of customer complaints and particularly in any 'root cause analysis' performed routinely by management.

A section on the Group risks can be found on pages 28 to 31.

Approval

On behalf of the Risk & Compliance Committee

Patrick Storey
Chairman
26 April 2018

Directors' Remuneration Statement

The approach to Directors' remuneration has been completed taking account of the market, regulatory environment, the need to deliver shareholder return and individual role responsibilities.

The Directors' Remuneration Statement deals with the remuneration for those Directors in place during 2017/18. No changes have been made to any of the Director roles (or within the supporting Executive Management structure).

Remuneration & Corporate Social Responsibility Committee

The Board had appointed a Remuneration Committee ('the Committee') which is chaired by Joanne Lake (Independent NED), and comprises Peter Ward (NED) and Stephen Karle (Chairman). Dave Belmont (Company Secretary) also attends all meetings.

The Committee was established as a direct consequence of the Company's successful listing on the AIM Market in May 2016.

The terms of reference for the Committee are available from the Company's Support Centre in Birstall or online at www.morsesclubplc.com

The Committee has studied Section B of the Best Practice provisions annexed to the Listing Rules of the UK Listing Authority and has voluntarily disclosed the information given below.

This Committee's principal function is to determine the Company's policy on executive remuneration. No Director plays any part in formal decisions about their own remuneration. The HR and Communications Director and Chief Financial Officer provide relevant updates on financial and general Company remuneration matters as invited individuals only. The Committee meets periodically when it has proposals to consider – generally three times a year. In any event, the Committee would meet no less than twice a year.

The Committee's policy aims primarily to attract, retain and motivate high-calibre individuals via a competitive remuneration package designed to suit the market, taking account of regulatory requirements and the need to create an appropriate mix between fixed and variable rewards (both short-and long-term) for Directors. Executives' remuneration comprises basic salary, performance-related bonus, pension benefits, other benefits in kind and a deferred share bonus scheme granted pursuant to the Morses Club PLC Group.

The Remuneration Policy is due for approval at the AGM in 2018, and the Committee will conduct a full annual review of the policy. Remuneration proposals are supported by external benchmarking to determine external market trends and to ensure that Director remuneration is proportionate and in line with individual and business performance.

Executive Remuneration Policy

As the organisation continues to grow and develop, we expect that the remuneration policy will be reviewed. However, the Executive team and the Committee continue to be committed to continued diligence in setting Executive remuneration to ensure market relevance, and the delivery of shareholder value as well as continuing to embed the Company's strategy.

Executive remuneration continues to be balanced against the remuneration of the rest of the organisation.

Our remuneration policy is underpinned by core principles as outlined below.

- Remuneration is determined within the Company's risk appetite, and is subject to oversight and approval by the Remuneration Committee.

Directors' Remuneration Statement *continued*

- Key FCA principles, including the principles of Treating Customers Fairly apply throughout. Although all employees should contribute towards a commercial result, remuneration is designed to drive a 'balanced scorecard' approach, based on responsible lending principles and outstanding individual performance. Delivery of good customer outcomes is central to the Company's remuneration approach.
- Remuneration structures will be developed in line with the appropriate regulatory environment and the Company's values.
- A blend of short-term and long-term incentives will support the long-term security of the Company and its employees.
- For key roles, remuneration will take account of pay structures in the external market. Remuneration structures will reflect the size and the scope of any given role.
- Remuneration will be driven by Company as well as individual performance, with a foundation of fairness and ability to pay.
- We will communicate policies clearly and in a timely manner.

Business Context and Committee Decisions on Remuneration

The Company successfully listed on AIM in May 2016. As detailed in the report, key elements of the Company's business strategy with regard to technology, acquisitions and targeted financial performance have been delivered. We have also made significant progress in developing new products and services for our customers.

Directors' Remuneration 2017/18 (This section is subject to audit)

	Role	Base Salary	Allowance and Benefits	Pension Contribution	Bonus	Deferred Share Bonus Scheme	Expenses	Total
Paul Smith[1]	CEO	262,500	43,329	5,250	106,470	72,191	17,468	507,208
Andy Thomson	CFO	200,833	6,029	12,932	85,176	54,996	10,271	370,237

Directors 2016/17

	Role	Base Salary	Allowance and Benefits	Pension Contribution	Bonus	Deferred Share Bonus Scheme	Expenses	Total
Paul Smith[1]	CEO	212,500	42,725	4,250	75,000	26,223	24,139	384,837
Andy Thomson	CFO	170,000	12,000	2,267	–	19,813	6,870	210,950

Non-Executive Directors 2017/18 (This section is subject to audit)

Name	Role	Base Salary	Supplements	Expenses & Emoluments
Stephen Karle	Chairman	100,000	–	4,904
Sir Nigel Knowles	Senior Independent NED	45,000	7,500	
Joanne Lake	NED and Chair of Remuneration Committee	45,000	7,500	1,148
Patrick Storey	NED and Chair of Audit and Risk & Compliance Committees	45,000	15,000	1,981
Peter Ward	NED	45,000	–	1,423

Non-Executive Directors – 2016/17

Name	Role	Base Salary	Supplements	Expenses & Emoluments
Stephen Karle	Chairman	91,667	–	7,222
Sir Nigel Knowles	Senior Independent NED	37,500	6,250	13,500
Joanne Lake	NED and Chair of Remuneration Committee	37,500	6,250	12,212
Patrick Storey	NED and Chair of Audit and Risk & Compliance Committees	37,500	12,500	1,718
Peter Ward	NED	37,500	–	–

Non-Executive Directors do not participate in any of the Company's share incentive plans, nor do they receive any benefits or pension contributions.

1 Paul Smith is the highest paid Director.

Directors' Remuneration Policy

Service Contracts
All Executive Directors were re-issued with a revised service contract as part of the arrangements for the IPO. Service contracts cover a continuous period (i.e. not a fixed-term) and a notice period of six months applies to both the Company and to individuals. There are no compensation payments for loss of office.

Letters of Appointment
Non-Executive Directors do not have service contracts but are appointed under letters of appointment.

Appointments are intended to be for a three-year term. All new appointments would be made following recommendations by the Nominations Committee. No compensation is payable in the event of early termination except during the notice period.

Salaries and Fees
The level of remuneration for both Executive and Non-Executive Directors in FY17 was reviewed as part of the process of the IPO. This process was completed in May 2016.

Allowances and Benefits
Taxable benefits received in the period include company cars or car allowances, fuel allowances and private medical insurance. These apply to Directors only. The Chairman and Non-Executive Directors do not receive any allowances or benefits.

Housing Allowance
As the CEO relocated to the area to undertake the role, an annualised housing allowance of £14k was made available until 30 April 2017. This allowance lapsed after that date. No other relocation compensation was payable.

Life Assurance
In line with all employees, Executive Directors are entitled to life assurance equivalent to four years' salary.

Holidays
Executive Directors are entitled to 30 days' paid holiday in addition to UK public bank holidays. The holiday year runs from January to December.

Pension
Executive Directors are enrolled into the Company pension scheme. Personal contributions are matched by the Company up to a maximum of 7%.

Annual Bonus
The annual bonus is the value of the bonus earned within the year and can be up to 100% of salary, based on the performance conditions outlined below. Any earned bonus is payable in August following the year end in February, conditional on independent audit and confirmation by the Committee.

The actual bonus paid in the year to 24 February 2018 is outlined in the table on page 52.

Performance Bonus Conditions
The performance bonus is payable if the Executive Director has delivered key objectives, including targeted adjusted profit before tax[1], promoting good-quality customer outcomes (i.e. Treating Customers Fairly), maintenance of headline customer satisfaction score and completing key strategic projects and acquisitions, all underpinned by regulatory compliance.

Deferred Share Plan (This section is subject to audit)

Executive Directors may participate in a deferred share plan, a three-year plan (commencing 2016/17) awarded through an annual deed of grant, subject to the discretion of the Remuneration Committee. There have been no variations to the terms and conditions or performance criteria for share options during the financial year. Awards under the DSP may be in the form of:

- A conditional right to acquire Ordinary Shares at no cost to the participant, or an option to acquire Ordinary Shares at no cost to the participant or a right to receive a cash amount relating to the value of a certain number of notional Ordinary Shares.
- Share awards will be subject to performance conditions which are: delivery of targeted adjusted profit before tax[1], total shareholder return (measured over a period of one year satisfactory audits, compliance training, and individual executive performance.
- Awards will be granted on an annual basis.
- The issue price of the shares in May 2017 was £1.26. The maximum earnings from the deferred share bonus scheme are outlined in the table below.

Name	Role	Percentage of Salary	Share Award
Paul Smith	CEO	100	213,400
Andy Thomson	CFO	100	163,600

The table below details the maximum earnings from the deferred share bonus scheme in 2016/17. The issue price of the shares was £1.08.

Name	Role	Percentage of Salary	Share Award
Paul Smith	CEO	100	208,333
Andy Thomson	CFO	100	157,407

Awards will vest on the third anniversary following the grant date (unless determined otherwise by the Remuneration Committee). Awards will lapse should an individual leave employment, and are not transferable. None of the above have been exercised.

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 98 to 99

Directors' Remuneration Statement *continued*

Directors' Shareholdings

The table below details the shareholdings and other share interests of the directors as at 24 February 2018.

Name	Role	Ordinary Shares	Percentage Shareholding
Paul Smith	CEO	327,420	0.25
Andy Thomson	CFO	3,038,171	2.75
Stephen Karle	Chairman	227,991	0.18
Peter Ward	NED	400,000	0.31
Sir Nigel Knowles	Ind NED	35,148	0.03
Joanne Lake	Ind NED	23,148	0.02
Patrick Storey	Ind NED	23,148	0.02

All Employee Remuneration

In setting the Remuneration Policy for Directors, the pay and conditions of other employees are considered along with any increases in salary. The Committee is provided with data on the remuneration structure for those management level tiers below the Executive Directors; it uses this information to ensure a consistent approach to remuneration throughout the Company.

There is no formal consultation with employees regarding the remuneration of Executive Directors.

All employees have the opportunity to participate in our key benefits such as life assurance, private health and the Company pension scheme.

Relative Importance of Spend on Pay

The total pay, (including performance bonuses), for all Morses Club PLC employees for FY18 is £20,060,506 compared to £17,500,504 for FY17.

Corporate Social Responsibility

The Company has not undertaken any significant CSR programmes during FY18. Based on our business model as a community lender, we are now planning our approach for FY19.

Nominations Committee

Committee members	Regular attendees
• Stephen Karle (Chairman)	Company Secretary
• Patrick Storey	
• Sir Nigel Knowles	
• Joanne Lake	
• Peter Ward	

What does the Committee do?

The Committee is responsible for:

1. Ensuring that the Board has a formal and transparent appointments procedure and that the balance of Directors on the Board remains appropriate as the Group develops in order to ensure that the business can compete effectively in the marketplace;
2. Identifying and nominating candidates to fill Board vacancies as and when they arise;
3. Evaluating the balance of skills, knowledge, experience and diversity of the Board in order to ensure an optimum mix; and
4. Considering the succession planning for Directors, executives and senior managers to ensure that any succession is managed smoothly.

The Committee comprises all of the Group's Non-Executive Directors.

The Committee's terms of reference are available on the Group's website.

The Committee was in place during the year and held one meeting.

Prior to the Group's IPO in May 2016, a wide-ranging search was undertaken in order to appoint three additional Non-Executive Directors with the skills and experience required to ensure that the Board was well-placed to address the future needs of the business for the foreseeable future.

Since then, both the Board and the Executive Management Team have remained unchanged. For this reason, the Committee has not been required to fill any vacancies amongst the Group's Directors or senior executives.

The Committee has agreed a process whereby any future search for a Non-Executive Director will be conducted by an independent search firm, supplemented by open advertising as appropriate.

Diversity

The Group recognises the importance of diversity both at Board level and throughout the whole organisation. The Board remains committed to increasing diversity. Consequently, diversity is taken into account during each recruitment and appointment process, working to attract outstanding candidates with diverse backgrounds, skills, ideas and culture.

Nominations Committee *continued*

Activities during the year

During the year, the Committee has:

- Reviewed the membership of the Board and its sub-committees;
- Initiated a formal internal evaluation process for both the Chairman and the Board as a whole;
- Concluded that the Board works effectively, both as a group and in its individual committees, bringing a wealth of relevant experience to the Company;
- Reviewed the retirement and re-election arrangements for the Directors and agreed that three Directors will stand for re-election at the AGM in June 2018, with two doing so in each of 2019 and 2020;
- Agreed, as part of the discussion concerning the re-election of Directors, that the following should not stand for re-election in the same year: (i) the Chairman and CEO; (ii) the CFO and the Audit Committee Chairman; (iii) the Board Chairman and the Senior Independent Director; or (iv) both Executive Directors;
- Considered succession planning for the Executive team; and
- Reviewed and updated the Committee's terms of reference.

Matters after the financial year

At its meeting on 20 March 2018, the Nominations Committee unanimously agreed to retain the non-independent Director as a member of the Audit and Remuneration & Corporate Social Responsibility Committees owing to his experience and much-valued contribution. At the Nominations Committee meeting on 20 March 2018, a second independent Director was appointed to the Remuneration & Corporate Social Responsibility Committee. As a result, all of these committees now have a majority of independent members, excluding the Chairman of the Board.

Approval

On behalf of the Nominations Committee

Stephen Karle
Chairman
26 April 2018

Disclosure Committee

Committee members	Regular attendees
• Stephen Karle (Chairman)	Company Secretary
• Patrick Storey	
• Sir Nigel Knowles	
• Joanne Lake	
• Peter Ward	
• Paul Smith (CEO)	
• Andy Thomson (CFO)	

The Company is required to make timely and accurate disclosure of all information required to meet the legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange under the Market Abuse Regulations.

The Disclosure Committee exists to help the Company meet these requirements. The Committee's responsibilities include determining the timely disclosure of material information, and assisting in the design, implementation and periodic evaluation of disclosure controls and procedures.

The Committee did not hold a meeting during the financial year. The Committee met subsequently, on 20 March 2018.

Approval

On behalf of the Disclosure Committee

Stephen Karle
Chairman
26 April 2018

Executive Committee

The Company has established an Executive Committee which is chaired by the Chief Executive Officer and meets each week on which there is not a Board meeting. The Executive Committee is accountable to the Board and its responsibilities include the day-to-day management of the Group's affairs. Members of the Executive Committee are invited to attend all plenary Board meetings.

The Executive Committee has two long-standing sub-committees, a Health & Safety Committee and a Risk & Compliance Executive Committee in order to assist its supervision of these important areas. The Credit Risk Committee reports directly to the Board's Risk & Compliance Committee.

Directors' Report

The Directors present their report and audited consolidated financial statements for the year ended 24 February 2018.

The Corporate Governance Statement set out on pages 32 to 61 forms part of this report.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 23 to the financial statements.

Dividend

The Directors have declared their intention to pursue a progressive dividend policy. Subject to shareholder approval at the Annual General Meeting on 26 June 2018, the Board proposes to pay a final dividend of 4.8p per Ordinary Share payable on 27 July 2018 to shareholders on the register at close of business on 29 June 2018. This would represent a total dividend of 7.0p per Ordinary Share for 2018.

Directors

The Directors of the Company who served during the year ended 24 February 2018, and up to the date of this report, are:

Stephen Karle
Non-Executive Chairman

Sir Nigel Knowles
Senior Independent Director

Joanne Lake
Independent Non-Executive Director

Patrick Storey
Independent Non-Executive Director

Peter Ward
Non-Executive Director

Paul Smith
Chief Executive Officer

Andy Thomson
Chief Financial Officer

Details of the remuneration, service agreements and interests in the share capital of the Company of the Directors are given in the Remuneration Report on pages 51 to 54.

Biographical details of the current Directors are given on pages 34 and 35. These include the details for Stephen Karle, Patrick Storey and Peter Ward, who are standing for re-election at the forthcoming Annual General Meeting.

Capital structure

Details of the authorised and issued share capital, together with details of any movements in the Company's issued share capital during the year, are shown in note 19.

As at 24 February 2018, the Company had 129,500,000 Ordinary Shares of one pence each in issue (2017: 129,500,000).

The Company's issued Ordinary Share capital comprises a single class of Ordinary Shares which carry no right to fixed income. The rights attached to the Ordinary Shares are set out in the Articles of Association. Each share carries the right to one vote at general meetings of the Company.

With regard to the appointment and replacement of Directors, the Company is governed by its Articles of Association, the Companies Act and related legislation. The Articles themselves may be amended by special resolution of the shareholders. The powers of Directors are described in the Main Board Terms of Reference, copies of which are available on request, and the Corporate Governance Statement on page 38.

Information contained in other sections

The Company's principal risks and uncertainties and future developments, which are required to be included within the Report of the Directors, can be found within the Strategic Report on pages 30 to 31.

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Group arising from the Bribery Act 2010 continue to be assessed as low, all parts of the business are required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Every staff member receives regular and relevant training on Bribery and Corruption using the Company's internal training system. Compliance is regularly monitored by the Executive Risk & Compliance Committee and is subject to periodic review by the Group internal audit function.

Directors' and officers' insurance

The Company has maintained throughout the year Directors' and Officers' liability insurance for the benefit of the Company, the Directors and its officers. During January 2018, the Company offered qualifying third party indemnity arrangements for the benefit of all its Directors in a form and scope which comply with the requirements of the Companies Act 2006. These arrangements are currently in force for all Directors.

Important events since the end of the financial year (24 February 2018)

There have been no important events since the end of the financial year.

Employees

It is our policy to make adequate provision for the wellbeing, health and safety of our employees and self-employed agents. We are committed to offering equal opportunities for all employees, irrespective of age, gender, ethnicity, race, religion, belief, sexual orientation, disability, marital status and civil partnership. All employees are treated fairly and equally.

Morses Club treats applications for employment from disabled persons in the same way as those from non-disabled applicants and selects on the basis of individual ability, experience and role requirements. Where existing employees become disabled, we endeavour to offer them continuing suitable work within the Company, offering retraining where necessary.

We encourage our employees to engage with the development of our organisation. To promote this, the Chief Executive Officer and the executive team publish regular updates on important or topical issues and highlight these via roadshow presentations, management meetings, informal briefings and our intranet. We regard employee involvement as essential to the healthy development of the business.

On 19 October 2017, the Group introduced an unapproved share option scheme and awarded share options to all of its employees who had been employed for a minimum of 12 months at 1 October 2017. Subject to the Group achieving its profitability targets, the Group intends to award further grants of unapproved share options to its employees on an annual basis.

Substantial Interests in Shares

As at 16 April 2018, the Company has been notified of the following substantial interests of 3% or more in its Ordinary Shares:

	Number of shares	% issued capital
Hay Wain Group Limited (formerly Perpignon Limited)	47,683,640	36.82%
Woodford Investment Management	11,985,704	9.26%
Miton Investment Management	9,672,489	7.47%
Artemis Investment Management	9,000,000	6.95%
J O Hambro Capital Management	8,729,250	6.74%
Majedie Asset Management	6,915,548	5.34%
BlackRock Investment Management	5,590,649	4.32%
Legal & General Investment Management	4,174,375	3.22%

Directors' Report *continued*

Relationship with our controlling shareholder

As a result of the IPO on 5 May 2016, the shareholding of the controlling shareholder in the Company, Hay Wain Group Limited (formerly Perpignon Limited), reduced from 100% to 51%.

On 21 February 2018, Hay Wain Group Limited sold 14.2% of the shares in the Company and at 16 April 2018 held 36.8% of the shares in the Company. Hay Wain Group Limited has entered into a relationship agreement which contains provisions to ensure that, inter alia, there is no interference with the independent operation of the Board and that the Company's transactions with Hay Wain Group Limited are effected at arm's length and on a normal commercial basis. Hay Wain Group Limited can, subject to applicable laws and regulation, appoint one Director to the Board for as long as it holds more than 20% of the rights to vote at a general meeting of the Company. The first such Director appointed under this right is Mr Peter Ward. The Board confirms that, since the admission of the Company's shares on to AIM, the Company has complied with the independence provisions included in the relationship agreement and that, so far as the Company is aware, Hay Wain Group Limited and its associates have also complied with such provisions.

Political donations

The Company made no political donations in 2018 (2017: £nil).

Going concern

The Directors have considered the appropriateness of the going concern basis in preparation of these financial statements. They are satisfied that the Group has sufficient resources to continue its operations for the foreseeable future. They therefore continue to adopt a 'going concern' approach in preparing the condensed financial statements. A separate viability statement is contained in the Strategic Report on page 29.

Disclosure of information to the auditor

The Directors confirm that:

- so far as each Director is aware, the auditor is aware of all relevant audit information; and
- the Directors have taken all necessary steps that they ought to have taken as Directors in order to make themselves aware of any relevant audit information, and to establish that the auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of S418 of the Companies Act 2006.

Our auditor

Deloitte LLP have expressed their willingness to continue in office as auditor and a resolution will be proposed at the Annual General Meeting to reappoint Deloitte LLP as the Company's auditor and to give the Directors the authority to determine the auditor's remuneration.

AGM notice

The notice convening the Annual General Meeting to be held on 26 June 2018, together with an explanation of the resolutions to be proposed at the meeting, is contained on the Company's website at www.morsesclubplc.com/investors.

By order of the Board,

Dave Belmont
Company Secretary
26 April 2018

Directors' Responsibilities

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

Company law requires the Directors to prepare financial statements for each financial year. Under the law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and have also chosen to prepare the Parent Company financial statements under IFRS as adopted by the EU. Under company law, the Directors must not approve the accounts unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period. In preparing these financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' Responsibility Statement

We confirm that to the best of our knowledge:

a) The financial statements, prepared in accordance with International Financial Reporting Standards as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
b) The strategic 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; and
c) The annual report and financial statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

This responsibility statement was approved by the Board of Directors on 26 April 2018 and is signed on its behalf by:

Paul Smith
Director
26 April 2018

Andy Thomson
Director
26 April 2018

Financial Statements

Independent Auditor's Report

To the Members of Morses Club PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Company's affairs as at 24 February 2018 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of Morses Club PLC (the 'Company') and its subsidiaries (the 'Group') which comprise:

- the Consolidated Income Statement;
- the Group and Company Balance Sheets;
- the Group and Company Statements of Changes in Equity;
- the Group and Company Cash Flow Statements; and
- the related notes 1 to 25.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions 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 the 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 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	The key audit matters that we identified in the current year were: Loan loss provisioning. Revenue recognition.
Materiality	The materiality that we used for the Group financial statements was £970,000 which was determined on the basis of 6% of pre-tax profit.
Scoping	The Group is made up of Morses Club PLC which is the main trading entity and its two subsidiaries being Shopacheck Financial Services Limited and Shelby Finance Limited. All entities in the Group are within our audit scope and the audit procedures for these entities are performed directly by the Group audit team. Separate statutory audits are not required for Shopacheck Financial Services Limited and Shelby Finance Limited due to audit exemptions taken by these entities, as such they are audited to Group materiality.
Significant changes in our approach	No significant changes have been made to our audit approach.

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where:

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

We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included 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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provisioning

Key audit matter description	The assessment of the Group's calculation of the £33.9m (2017: £34.8m) provision for impairment losses against loans and receivables is complex and requires Management to make significant judgements being the identification of loss events (the 'Impairment Trigger'); the estimation of future cash flows used to determine the provision required; and the level of Incurred But Not Reported ('IBNR') risk in the element of the book that has not reached the Impairment Trigger. We have identified the risk of Management bias in these judgements as a potential area of fraud. We have determined our key audit matter to be the estimation of future cash flows used to determine the provision, given the impairment provision is highly sensitive to this assumption and it requires the highest degree of judgement. Management's associated accounting policies are detailed on pages 75 to 80 with detail about judgements in applying accounting policies and critical accounting estimates on page 80 and within the Audit Committee report on page 46.
How the scope of our audit responded to the key audit matter	We first understood Management's process and key controls around impairment provisioning by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the design and implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within impairment provisioning. The modelling approach taken by Management was partly automated in the current year, in relation to the extraction of loan data from the lending system and the application of provisioning rates to loan balances. We used internal IT specialists to review the methods used by Management to extract loan data from the lending system. We specifically challenged the appropriateness of the cash collection curves used to determine the impairment provision, which included a review of the methodology used to construct the curves and an assessment of whether the historic collections data being used by Management is an appropriate basis upon which to predict future recoveries in the current economic environment. We used data analytics to test the mechanical accuracy and completeness of the models on which impairment provisions are calculated by using our IT specialists to recalculate the provision in accordance with the approved provisioning policy. We challenged the appropriateness of the other key assumptions used in the impairment calculations for loans and receivables, including specifically, the identification of impaired accounts and the emergence period used in calculating Management's IBNR provision. This involved analysis of the Group's historical cash collection experience and benchmarking the key assumptions to external economic and industry data. We also tested the previous impairment models which Management have continued to run in parallel with the newly automated models.

Independent Auditor's Report *continued*

Key observations	We concluded that the newly automated impairment models were working as intended and our IT specialists' work around the completeness and accuracy of data identified no issues. We concluded that the estimation of future cash flows within the models were reasonable and thus the impairment provision recorded was appropriate.

Revenue recognition

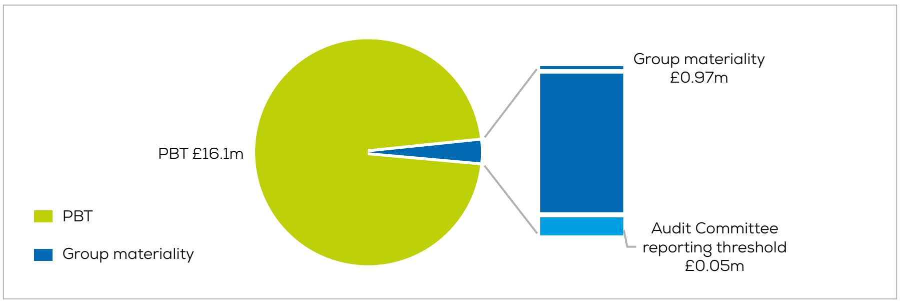
Key audit matter description	Revenue recognition and specifically the application of the requirement in IAS 39 'Financial Instruments' ('IAS 39') to recognise revenue on loans using an effective interest rate method is a complex area. It requires Management to make judgements relating to the expected life of each loan to determine the effective interest rate. Revenue recognition is therefore considered a potential fraud risk area. We have determined our key audit matter to be the accuracy of the effective interest rates applied to each loan, given these are the key judgements underpinning the calculation of the deferred income balance. Management's associated accounting policies are detailed on pages 75 to 80 with detail about judgements in applying accounting policies and critical accounting estimates on page 80 and within the Audit Committee report on page 46.
How the scope of our audit responded to the key audit matter	We first understood Management's process and key controls around revenue recognition by undertaking a walk-through. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the design and implementation of controls that the Group has in place to manage the risk of inappropriate assumptions being used within the effective interest rate model. The modelling approach taken by Management was partly automated in the current year, in relation to the extraction of loan data from the lending system and the application of effective interest rates to gross loan balances. We used internal IT specialists to review the methods used by Management to extract loan data from the lending system. We recalculated the effective interest rates for each type of product and thus independently determined what we considered was the amount of revenue to be deferred in the balance sheet at year end. We tested the mechanical accuracy of the effective interest rate model which is used to determine revenue by agreeing a sample of model inputs back to underlying source data. We challenged Management's key assumptions, including the expected life of each loan by reference to the Group's historical experience, and assessed whether the revenue recognition policies adopted were in compliance with IAS 39.
Key observations	We found the newly automated effective interest rate model to be working as intended. The underlying assumptions applied within the models, specifically in respect of the effective interest rates used in the calculation of the deferred income balance, were found to be reasonable.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Company financial statements
Materiality	£0.97m (2017: £0.95m)	£0.96m (2017: £0.90m)
Basis for determining materiality	6% (2017: 7.5%) of pre-tax profit. This equates to 1.5% of net assets and 0.8% of revenue.	
Rationale for the benchmark applied	Pre-tax profit is used as the basis for materiality because we consider it to be the most appropriate benchmark to assess the performance of the Group. The decrease in basis of pre-tax profit from 7.5% to 6% is consistent with the approach being taken by peers and this change was formally communicated to the Audit Committee. As the majority of the Group's operations are carried out by the Company, we have used the same basis for both the Group and the Company.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £48,400 (2017: £47,500) for the Group, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group is made up of the main trading and parent entity of Morses Club PLC and two subsidiaries being Shopacheck Financial Services Limited and Shelby Finance Limited. These companies account for 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's pre-tax profit. We performed testing over the consolidation which is prepared at the parent entity level only.

All entities in the Group are within our audit scope and the audit procedures for these entities are performed directly by the Group audit team. Separate statutory audits are not required for Shopacheck Financial Services Limited and Shelby Finance Limited due to audit exemptions taken by these entities, as such they are audited to Group materiality.

Independent Auditor's Report *continued*

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report including the Strategic Report and Governance Reports, other than the financial statements and our auditor's report thereon. 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. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.	We have nothing to report in respect of these matters.

Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, 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 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 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.

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

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.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and or the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made.	We have nothing to report in respect of these matters.

Matthew Perkins (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom

26 April 2018

Consolidated Income Statement

For the 52 week period ended 24 February 2018

	Note	52 weeks Ended 24 Feb 18 £'000	52 weeks Ended 25 Feb 17 £'000
Revenue			
Existing operations	1	**116,576**	96,242
Acquisitions during the period		**–**	3,336
		116,576	99,578
Cost of sales		**(58,350)**	(46,695)
Gross profit		**58,226**	52,883
Administration expenses		**(40,637)**	(40,737)
Operating profit before amortisation of intangibles and exceptional items		**19,569**	17,988
Amortisation of acquisition intangibles	11	**(2,051)**	(3,663)
Exceptional income/(Costs)	3	**71**	(2,179)
Operating profit			
Existing operations		**17,589**	10,917
Acquisitions during the period		**–**	1,229
		17,589	12,146
Finance costs	5	**(1,456)**	(927)
Profit before taxation	4	**16,133**	11,219
Taxation	6	**(3,041)**	(2,620)
Profit after taxation		**13,092**	8,599

Earnings per share		24 Feb 18 Pence	25 Feb 17 Pence
Basic	8	**10.11**	6.64
Diluted	8	**10.02**	6.61

All results derive from continuing operations. A Statement of Comprehensive Income is not included as there are no other gains or losses, other than those presented in the Income Statement.

Balance Sheet

As at 24 February 2018
Registered Number: 06793980

	Note	Group 24 Feb 18 £'000	Group 25 Feb 17 £'000	Company 24 Feb 18 £'000	Company 25 Feb 17 £'000
Assets					
Non-current assets					
Goodwill	10	**2,834**	2,834	**2,642**	2,642
Other intangible assets	11	**5,520**	7,058	**3,869**	4,082
Investment in subsidiary	13	**–**	–	**2,611**	2,011
Property, plant & equipment	12	**822**	763	**822**	763
Deferred tax	18	**–**	–	**149**	–
Trade and other receivables	14	**265**	395	**265**	395
		9,441	11,050	**10,358**	9,893
Current Assets					
Trade and other receivables	14	**74,602**	62,852	**74,177**	62,845
Cash and cash equivalents		**4,868**	3,985	**4,795**	3,983
		79,470	66,837	**78,972**	66,828
Total assets		**88,911**	77,887	**89,330**	76,721
Liabilities					
Current liabilities					
Taxation payable		**(1,110)**	(2,153)	**(1,110)**	(2,153)
Trade and other payables	15	**(5,585)**	(3,739)	**(6,529)**	(5,409)
		(6,695)	(5,892)	**(7,639)**	(7,562)
Non-current liabilities					
Trade and other payables	16	**(15,552)**	(10,000)	**(15,552)**	(10,000)
Deferred tax	18	**(144)**	(617)	**–**	(70)
		(15,696)	(10,617)	**(15,552)**	(10,070)
Total liabilities		**(22,391)**	(16,509)	**(23,191)**	(17,632)
Net assets		**66,520**	61,378	**66,139**	59,089
Equity					
Called up share capital	19	**1,295**	1,295	**1,295**	1,295
Group reconstruction reserve	20	**–**	–	**(9,276)**	(9,276)
Retained earnings	20	**65,225**	60,083	**74,120**	67,070
Total equity		**66,520**	61,378	**66,139**	59,089

The Parent Company's profit for the financial period was £14,999,353 (2017: £10,612,965). The consolidated and Company financial statements of Morses Club PLC were approved by the Board of Directors on 26 April 2018.

As permitted by Section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements.

Signed on behalf of the Board of Directors

Paul Smith
Director

Andy Thomson
Director

Statements of Changes in Equity

For the 52 week period ended 24 February 2018

Group	Note	Called up share capital £'000	Retained earnings £'000	Total equity £'000
As at 27 February 2016		1,295	54,074	55,369
Profit for period		–	8,599	8,599
Total comprehensive income for the period		–	8,599	8,599
Deferred tax adjustment	20	–	4	4
Share-based payments charge	20	–	126	126
Dividends paid	7	–	(2,720)	(2,720)
As at 25 February 2017		1,295	60,083	61,378
Profit for period		–	13,092	13,092
Total comprehensive income for the period		–	13,092	13,092
Deferred tax adjustment	20	–	11	11
Research and development credit adjustment	20	–	26	26
Share-based payments charge		–	431	431
Dividends paid		–	(8,418)	(8,418)
As at 24 February 2018		**1,295**	**65,225**	**66,520**

Company	Notes	Called up share capital £'000	Group reconstruction reserve £'000	Retained Earnings £'000	Total Equity £'000
As at 27 February 2016		1,295	(9,276)	59,047	51,066
Profit for the period		–	–	10,613	10,613
Total comprehensive income for the period		–	–	10,613	10,613
Deferred tax adjustment	20	–	–	4	4
Share-based payments charge	20	–	–	126	126
Dividends paid	7	–	–	(2,720)	(2,720)
As at 25 February 2017		1,295	(9,276)	67,070	59,089
Profit for the period		–	–	14,999	14,999
Total comprehensive income for the period		–	–	14,999	14,999
Deferred tax adjustment		–	–	11	11
Research and development credit adjustment		–	–	26	26
Share-based payments charge		–	–	431	431
Dividends paid		–	–	(8,418)	(8,418)
As at 24 February 2018		**1,295**	**(9,276)**	**74,120**	**66,139**

Cash Flow Statements

For the 52 week period ended 24 February 2018

	Note	Group 24 Feb 18 £'000	Group 25 Feb 17 £'000	Company 24 Feb 18 £'000	Company 25 Feb 17 £'000
Net cash inflow from operating activities	1	**7,239**	9,726	**7,733**	10,125
Cash flows used in financing activities					
Dividends paid	7	**(8,418)**	(2,720)	**(8,418)**	(2,720)
Proceeds from additional long-term debt		**6,000**	1,000	**6,000**	1,000
Arrangement costs associated with additional funding		**(448)**	–	**(448)**	–
Interest paid	5	**(1,456)**	(927)	**(1,456)**	(927)
Net cash outflow from financing activities		**(4,322)**	(2,647)	**(4,322)**	(2,647)
Cash flows used in investing activities					
Purchase of intangibles	11	**(1,412)**	(1,029)	**(1,377)**	(930)
Purchase of property, plant and equipment	12	**(622)**	(125)	**(622)**	(125)
Additional investment in subsidiary		**–**	–	**(600)**	(500)
Acquisitions		**–**	(5,695)	**–**	(5,695)
Net cash (outflow) from investing activities		**(2,034)**	(6,849)	**(2,599)**	(7,250)
Increase in cash and cash equivalents		**883**	230	**812**	228

Reconciliation of increase in cash and cash equivalents

	Group 24 Feb 18 £'000	Group 25 Feb 17 £'000	Company 24 Feb 18 £'000	Company 25 Feb 17 £'000
Movement in cash and cash equivalents in the period	**883**	230	**812**	228
Cash and cash equivalents, beginning of period	**3,985**	3,755	**3,983**	3,755
Cash and cash equivalents, end of period	**4,868**	3,985	**4,795**	3,983

Notes to the Consolidated Cash Flow Statement

For the 52 week period ended 24 February 2018

1 Reconciliation of profit before taxation to net cash inflow from operating activities

	Group		Company	
	24 Feb 18 £'000	25 Feb 17 £'000	**24 Feb 18 £'000**	25 Feb 17 £'000
Profit before exceptional costs	**16,062**	13,398	**19,278**	15,904
Exceptional costs	**71**	(2,179)	**(984)**	(2,179)
Profit before taxation	**16,133**	11,219	**18,294**	13,725
Interest paid included in financing activities	**1,456**	927	**1,456**	927
Loss on disposal of intangibles	**–**	134	**–**	134
Depreciation charges	**563**	544	**563**	544
Share-based payments expense	**431**	126	**431**	126
Amortisation of intangibles	**2,950**	4,412	**1,590**	1,948
(Increase) in receivables	**(11,604)**	(1,918)	**(11,185)**	(1,459)
Increase/(Decrease) in payables	**1,846**	(1,640)	**1,120**	(1,742)
	(4,358)	2,585	**(6,025)**	478
Taxation paid	**(4,536)**	(4,078)	**(4,536)**	(4,078)
Net cash inflow from operating activities	**7,239**	9,726	**7,733**	10,125

2 Reconciliation of liabilities arising from financing activities

	Long-term borrowings £'000	Short-term borrowings £'000	Total £'000
At 28 February 2016	9,000	–	9,000
Cash flows:			
– Repayments	–	–	–
– Proceeds	1,000	–	1,000
Non-cash movements:			
– Reclassification	–	–	–
At 25 February 2017	10,000	–	10,000
Cash flows:			
– Repayments	–	–	–
– Proceeds	6,000	–	6,000
– Arrangement costs associated with additional funding	(448)		(448)
Non-cash movements:			
– Reclassification	–	–	–
At 24 February 2018	**15,552**	**–**	**15,552**

Notes to the Consolidated Financial Statements

For the 52 week period ended 24 February 2018

1. Accounting policies

General information
The Company is a public limited company incorporated and domiciled in the UK. The address of its registered office is Kingston House, Centre 27 Business Park, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD.

Accounting convention
The financial statements have been prepared under International Financial Reporting Standards (IFRS) adopted by the European Union and therefore the Group financial statements comply with Article 4 of the EU IAS Regulation. The Company financial statements have also been prepared in accordance with IFRS endorsed by the European Union. These financial statements have been prepared under the historical cost convention. The consolidated financial statements incorporate the financial statements of the Company and its subsidiaries for the period ended 24 February 2018.

The amendments to IAS 7 'Statements of Cash Flows', effective 1 January 2017, require the Group to provide disclosures about the changes in liabilities from financing activities. The Group categorises those changes into changes arising from cash flows and non-cash changes with further sub-categories as required by IAS 7.

The adoption of these amendments has not resulted in any impact on the financial performance or financial position of the Group.

New and amended standards adopted by the Group and Company

IAS 7	Disclosure Initiative
IFRS 2014-2016 Cycle	Annual Improvements
IAS 12	Recognition of Deferred Tax Assets for Unrealised Losses

At the date of authorisation of these financial statements the following Standards and interpretations which have not been applied in these financial statements were in issue and effective:

IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

At the date of authorisation of these financial statements the following Standards and interpretations which have not been applied in these financial statements were in issue but not yet effective:

IFRS 2	Classification and Measurement of Share-based Payment Transactions amendments
IFRS 16	Leases
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The implementation of all other standards are not expected to have a material impact on the Group's financial statements other than:

Implementation of IFRS 16, Leases
IFRS 16, 'Leases', replaces IAS 17, 'Leases' and provides a model for the identification of lease arrangements and the treatment in the financial statements of both lessees and lessors. The standard distinguishes leases and service contracts on the basis of whether an identified asset is controlled by the customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and are replaced by a model where a right-of use asset and a corresponding liability are recognised for all leases by lessees, except for short-term assets and leases of low value assets.

The right of use asset is initially measured at cost and subsequently measured at cost less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others.

The classification of cash flows will also be affected as under IAS 17 operating lease payments are presented as operating cash flows; whereas under IFRS 16, the lease payments will be split into a principal and interest portion which will be presented as financing and operating cash flows respectively. The Group and Company are in the process of assessing the impact of the standard and will adopt it from 24 February 2019, the beginning of the next financial year.

Notes to the Consolidated Financial Statements *continued*

1. Accounting policies continued

Implementation of IFRS 9, Financial Instruments

IFRS 9 'Financial instruments' is effective from 1 January 2018 and replaces IAS 39 'Financial instruments: Recognition and measurement'. The standard has been applied prospectively and prior year comparatives will not be restated.

IFRS 9 requires the recognition of impairment on customer receivables through an expected loss model. Impairment provisions are therefore recognised on inception of a loan based on the probability of default and the typical loss given default. This differs from the current incurred loss model under IAS 39, where the requirement is that impairment provisions are only reflected when there is objective evidence of impairment.

However, for home collected credit businesses (HCC) the application of IAS 39 was conceptually difficult as the nature of our product is that customers will, from time to time, miss a payment and, up to a level, the Group is comfortable with this. Indeed, the Group applies no additional charges associated with missed payments and are proud of this aspect of forbearance in our products.

The Group has performed a preliminary assessment of potential impact of adopting IFRS 9 based on the financial instruments and hedging relationships as at the date of initial application of IFRS 9 (25 February 2018). IFRS 9 prescribes: (i) classification and measurement of financial instruments; (ii) expected loss accounting for impairment; and (iii) hedge accounting.

No changes are expected to the classification and measurement of the Company's assets, liabilities or equity nor does the company adopt hedge accounting. The only area which materially affects the group is expected loss accounting for impairment. Under this approach, greater impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss given default.

Provisions are calculated based on an unbiased outcome which take into account historic performance and considers the outlook for macro-economic conditions.

The impairment approach under IFRS 9 differs from the current incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of impairment, typically a missed payment. The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This will result in a one-off adjustment to receivables, deferred tax and reserves on adoption and will result in delayed recognition of profits.

IFRS 9 requires the recognition of 12 month expected credit losses (the lifetime credit losses from default events that are expected within 12 months of the reporting date) if credit risk has not significantly increased since initial recognition (stage 1) and lifetime expected credit losses for financial instruments for which the credit risk has increased significantly since initial recognition (stage 2) or which are credit impaired (stage 3).

When determining whether the risk of default has increased significantly since initial recognition the Group considers both quantitative and qualitative information based on the Group's historical experience.

Definition of default and credit impaired assets
- Quantitative criteria: the customer has missed more than two payments in the last 13 weeks.
- Qualitative criteria: indication that there is a measureable movement in the estimated future cash flows from a group of financial assets. For example, proposed legislation deemed to impact the collection performance of customers.

Based on current management estimates, the adoption of IFRS 9 results in a reduction in the net loan book as at 24 February 2018 of between 4% to 6%.

Despite the adjustments required to receivables and net assets, it is important to note that IFRS 9 only changes the timing of profits made on a loan. The group's underwriting and scorecards will be unaffected by the change in accounting, the ultimate profitability of loan is the same under both IAS 39 and IFRS 9 and more fundamentally the cash flows and capital generation over the life of a loan remain unchanged. The group's bank covenants are unaffected by IFRS 9, as they are based on accounting standards in place at the time they were set.

Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures, 'APMs', which are not defined or specified under the requirements of IFRS.

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets.

Each of the APMs used is set out on pages 98 to 99 including explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant.

The Group makes certain adjustments to the statutory measures in order to derive APMs where relevant. The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group.

Basis of consolidation
The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 24 February 2018.

Revenue recognition
Interest income is recognised in the income statement for all loans and receivables measured at amortised cost using the effective interest rate (EIR) method. The EIR is the rate that exactly discounts estimated future cash flows of the loan back to the present value of the advance. Under IAS 39 credit charges on loan products continue to accrue at the EIR on all impaired capital balances throughout the life of the agreement irrespective of the terms of the loan and whether the customer is actually being charged arrears interest. This is referred to as the gross up adjustment to revenue and is offset by a corresponding gross up adjustment to the loan loss provisioning charge to reflect the fact that this additional revenue is not collectable. This treatment is prescribed by IAS39.

Under IFRS9 there is no gross up adjustment as impairment provisions are recognised on inception of a loan based on the probability of default and the typical loss given default.

See *Critical accounting judgements and key sources of estimation uncertainty* for more information.

Net Loan Book
All customer receivables are initially recognised at the amount loaned to the customer. After initial recognition the amounts receivable from customers are subsequently measured at amortised cost.

The Directors assess on an ongoing basis whether there is objective evidence that a loan asset or group of loan assets is impaired and requires a deduction for impairment. A loan asset or a group of loan assets is deemed to be impaired only if there has been a trigger event. A trigger event is defined as when the cumulative amount of two or more contractual weekly payments have been missed in the previous 13 weeks. Impairment is calculated using models which use historical payment performance to calculate the estimated amount and timing of future cash flows from each arrears stage. Impairment is then calculated by estimating the future cash flows for such impaired loans, discounting the cash-flows to a present value using the original EIR and comparing this figure with the balance sheet carrying value. All such impairments are charged to the income statement. For all accounts which are not impaired, a further incurred but not reported provision (IBNR) is calculated and charged to the income statement based on management's estimates of the propensity of these accounts to default from conditions which existed at the balance sheet date.

Key assumptions in ascertaining whether a loan asset or group of loan assets is impaired include information regarding the probability of any account going into default and information regarding the likely eventual loss including recoveries. These assumptions and assumptions for estimating future cash flows are based upon observed historical data and updated as management considers appropriate to reflect current and future conditions. All assumptions are reviewed regularly to take account of differences between previously estimated cash flows on impaired debt and the eventual losses.

See *Critical accounting judgements and key sources of estimation uncertainty* for more information.

Business combinations
Acquisitions are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value. At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:
- deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

Goodwill
Goodwill arising on the acquisition of business combinations, representing any excess of fair value of the consideration given over the fair value of the identifiable assets and liabilities acquired, is capitalised and reviewed for impairment at least annually.

Gains on acquisition arising on the purchase of a business are recognised directly in the income statement.

Notes to the Consolidated Financial Statements *continued*

1. Accounting policies continued

Other intangibles assets
Other intangible assets include acquisition intangibles in respect of customer relationships and agent networks as well as software, servers and licences.

The fair value of customer relationships on acquisition has been estimated by discounting the expected future cash flows from the relationships over their estimated useful economic lives of 10 years, such estimate being based on previous experience of similar acquisitions. The assets will be amortised over their estimated useful lives in line with the realisation of their expected benefits. Due to the behavioural profile of our customers, this will naturally result in a greater amortisation charge in the early years with a corresponding reduction in later years.

The fair value of agent networks on acquisition is calculated based on the estimated cost of developing a similar network organically. The assets are amortised over their estimated useful economic lives of 10 years, such estimate being based on previous experience of similar acquisitions, in line with the realisation of their expected benefits arising from the customer relationships associated with the agent network.

Software, servers and licences are stated at cost, net of amortisation and any provision for impairment. Amortisation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Software	– 20% on cost
Servers and licences	– 20% on cost

Amortisation is included within administration expenses.

Property, plant and equipment
Tangible fixed assets are stated at cost or valuation, net of depreciation and any provision for impairment. Depreciation is provided at the following annual rates in order to write off the cost less estimated residual value of each asset over its estimated useful life.

Computers and PDAs	– 20%-33% on cost
Fixtures & fittings	– 20% on cost

Investments in subsidiaries
Subsidiaries are entities over which the Company has power to govern the financial and operating policies so as to obtain benefits from its activities. Subsidiaries are consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date on which control ceases.

Investments in subsidiaries are stated at cost less any provision for impairment. The investments in subsidiaries are considered for impairment on a bi-annual basis.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand. Bank overdrafts are presented in current liabilities to the extent that there is no right of offset with cash balances.

Pension costs and other post-retirement benefits
The Group operates a defined contribution pension scheme. Contributions payable to the Group's pension scheme are charged to the income statement in the period to which they relate.

Going concern
The Directors have considered the appropriateness of adopting the going concern basis in preparation of these financial statements.

The Group has prepared a three year business plan which is a continuation of its strategy of generating growth through organic and acquisitive means.

In addition to standard internal governance the Group is also monitored against key financial covenants tied in with the current funding facilities. These are produced and submitted on a monthly basis, with key schedules included in the monthly Board Papers.

The Group is subject to a number of risks and uncertainties which arise as a result of the current economic environment. In determining that the Group is a going concern these risks, which are described in the principal risks and uncertainties section, have been considered by the Directors. The Directors have considered these risks in the Group's forecasts and projections which highlight continued profitability for the foreseeable future.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the financial statements.

Taxation
Current tax, including UK corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax is valued at the prevailing rates at which it is expected to unwind.

Deferred tax liabilities are generally recognised for all taxable temporary differences.

Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Leases
Rentals under operating leases are charged on a straight-line basis over the lease term, even if the payments are not made on such a basis.

Finance costs
Finance costs comprise the interest expense on external borrowings which are recognised in the income statement in the period in which they are incurred and the funding arrangement fees which were prepaid and are being amortised to the income statement over the length of the funding arrangement.

Leasehold
Costs incurred in refurbishing or fitting out leasehold properties are capitalised and depreciated over the length of the relevant lease. At period end these assets had a £nil carrying value having been fully depreciated during the period.

Share-based payments
The Company operates two equity-settled share-based compensation schemes for Directors, and one for employees.

The fair value of the share options granted is recognised over the vesting period to reflect the achievement of performance conditions over time. The charge relating to grants to employees of the Company is recognised as an expense in the profit or loss account.

The fair value of the share options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, principally Monte Carlo simulation. The probability of meeting non-market vesting conditions, which include profitability targets, is used to estimate the number of share options which are likely to vest.

Exceptional items
Exceptional items are items that are unusual because of their size, nature or incidence and which the Directors consider should be disclosed separately to enable a full understanding of the Group's results. Exceptional costs are recognised in the profit or loss accounts in the period they are incurred.

Notes to the Consolidated Financial Statements *continued*

1. Accounting policies continued

Segment Reporting
IFRS 8 Operating Segments requires segments to be identified on the basis of internal reports that are regularly reviewed by the Chief Operating Decision Maker ('CODM'). The Chief Operating Decision Maker is the Executive Committee ('ExCo').

All results are viewed as one segment by the CODM for the purposes of management decisions. This is because all operations are conducted within the UK and all material operations are of the same nature and share the same economic characteristics including a similar customer base and nature of products and services (i.e. consumer credit). As a result, the Group only has one reportable segment being consumer credit.

Due to the size of Shelby Finance Limited relative to the Group, it is not considered to be a separate Cash Generating Unit (CGU) in the current period. Shelby Finance Limited is an instalment loan business and so is not integrated within the operations of the Company.

Critical accounting judgements and key sources of estimation uncertainty
The following areas are the critical judgements and key sources of estimation uncertainty that the Directors have made in applying the Group's accounting policies:

Critical accounting judgements
There are no critical accounting judgements.

Key Sources of estimation uncertainty
Impairment
Once a loan is deemed to be impaired, the Group is required to estimate the quantum and timing of cash flows that will be recovered, which are discounted to present value based on the EIR of the loan. Receivables are impaired when the cumulative amount of two or more contractual weekly payments have been missed in the previous 13 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly. Impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. Management use a combination of historical cash performance curves to estimate future cash flows. These estimations are revised annually and approved by management. In addition to this provision a further provision is made for receivables that have not yet missed two or more payments in the previous 13 weeks but may have the propensity to become impaired in the near future.

The impairment provision is a key estimation that is calculated based on collection curves derived from a five-year average of actual performance.

To the extent that the net present value of estimated future cash flows differs by +/- 5% based on reasonably expected outcomes over the next 12 months, it is estimated that the amounts receivable from customers would be approximately £2.4m (2017: £2.3m) higher/lower.

The Group reviews its portfolio of loans and receivables for impairment at each balance sheet date. For the purpose of assessing the impairment of customer loans and receivables, customers are categorised into arrears stages as this is considered to be the most reliable indication of payment performance. The Group makes an assessment to determine whether there is objective evidence, a 'trigger event', which indicates that there has been an adverse effect on expected future cash flows.

To the extent that the trigger event increases by one week it is estimated that the amounts receivable from customers would be approximately £1.4m (2017: £1.6m) higher.

Revenue Recognition
Under IAS 39 interest income should be recognised on the shorter of the expected life or the contractual life of the loan. Under IAS 39 the Group has made an assessment that interest income should be recognised over the contractual life of the loan based on historical loan book performance.

If the expected life of the loans shortens by two weeks, is it estimated that revenue would be approximately £1.6m (2017: £1.4m) higher.

2. Staff costs

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Wages and salaries	**17,345**	15,218
Social security costs	**2,290**	1,892
Other pension costs (note 21)	**426**	391
	20,061	17,501

The average monthly number of employees during the period was as follows:

	52 weeks ended 24 Feb 18	52 weeks ended 25 Feb 17
Management	**144**	138
Clerical & field staff	**379**	490
	523	628

Redundancy costs total £1,019,034 (2017: £283,188). These are a combination of post-acquisition integration costs and business as usual restructuring costs. The table above excludes the network of self-employed agents.

3. Exceptional (income)/costs

	52 weeks ended 24 Feb 18 £'000	52 weeks Ended 25 Feb 17 £'000
Flotation costs	**(71)**	2,179
Total Exceptional (Income)/Costs	**(71)**	2,179

4. Profit before tax

Profit before tax is stated after charging:

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Depreciation – Owned assets	**563**	544
Amortisation of intangibles	**2,950**	4,412
Operating lease rentals – Motor vehicles	**1,581**	1,967
Operating lease rentals – Property	**1,093**	1,110
Restructuring costs	**1,019**	283
Directors' remuneration (including key management personnel)	**1,014**	858
Directors' pension contributions to money purchase schemes	**18**	8
The number of Directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**2**	6

Notes to the Consolidated Financial Statements *continued*

4. Profit before taxation continued

Information regarding the highest paid Director is as follows:

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Emoluments	**412**	330
Pension contributions to money purchase schemes	**5**	4

The analysis of auditor's remuneration is as follows:

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Fees payable to the Company's auditor for the audit of the Group's:		
– Financial statements	**224**	156
Fees payable to the Company's auditor and their associates for other services to the Group:		
– Subsidiary audit fee	**–**	–
Total audit fees	**224**	156
Audit related assurance services	**26**	25
Taxation compliance services	**–**	42
Corporate finance services	**–**	517
Other services	**–**	4
Total non-audit fees	**26**	588

5. Finance costs

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Other interest payable	**1,456**	927
Total interest payable	**1,456**	927

6. Taxation

Analysis of the tax charge

The tax charge/(credit) on profit before tax for the period was as follows:

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Current tax:		
UK corporation tax	**3,526**	3,499
Adjustment in respect of prior periods	**(23)**	–
Deferred tax:		
Origination and reversal of timing differences	**(440)**	(1,562)
Adjustment in respect of prior periods	**(22)**	654
Effect of change of tax rates	**–**	29
Total deferred tax	**(462)**	(879)
Tax on profit on ordinary activities	**3,041**	2,620

Factors affecting the tax charge
The tax assessed for the period is lower (2017: higher) than the standard rate of corporation tax in the UK. The difference is explained below:

	52 weeks ended 24 Feb 18 £'000	52 weeks ended 25 Feb 17 £'000
Profit on ordinary activities before tax	**16,133**	11,219
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2017: 20%)	**3,065**	2,244
Effects of:		
Ordinary expenses not deductible for tax purposes	**(12)**	70
IPO Exceptional expenses not deductible for tax purposes	**–**	436
Effect of changes in tax rate	**25**	30
Movement in amounts not provided in deferred tax	**8**	8
Adjustment in respect of prior periods	**(45)**	(167)
Tax on profit on ordinary activities	**3,041**	2,620

The standard rate of corporation tax applicable for the period ended 24 February 2018 is 19% (2017: 20%).

Finance Bill 2016 provides that the tax rate will reduce to 17% with effect from 1 April 2020. The effect of this proposed tax rate reduction will be reflected in future periods.

7. Dividend per share

Dividend per share	**52 weeks ended 24 Feb 18**	52 weeks ended 25 Feb 17
Dividends paid (£'000)	**8,418**	2,720
Weighted average number of shares ('000s)	**129,500**	129,500
Dividend per share (pence)	**6.50**	2.10

Subject to shareholder approval at the Annual General Meeting on 26 June 2018, the Board proposes to pay a final dividend of 4.8p per Ordinary Share payable on 27 July 2018 to all shareholders on the register at the close of business on 29 June 2018.

8. Earnings per share

	52 weeks ended 24 Feb 18	52 weeks ended 25 Feb 17
Earnings (£'000)	**13,092**	8,598
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**129,500**	129,500
Effect of dilutive potential Ordinary Shares through share options ('000s)	**1,133**	598
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	**130,633**	130,098
Basic earnings per share amount (pence)	**10.11**	6.64
Diluted earnings per share amount (pence)	**10.02**	6.61

Diluted earnings per share calculates the effect on earnings per share assuming conversion of all dilutive potential Ordinary Shares. Dilutive potential Ordinary Shares are calculated for awards outstanding under performance related share incentive schemes such as the Deferred Share Plans. The number of dilutive potential Ordinary Shares is calculated based on the number of shares which would be issuable if the performance targets have been met.

Notes to the Consolidated Financial Statements
continued

9. Profit of parent company

As permitted by Section 408 of the Companies Act 2006, the income statement of the Parent Company is not presented as part of these financial statements. The Parent Company's profit for the financial period was £14,999,353 (2017: £10,612,965).

10. Goodwill

	Group Goodwill £'000	Company Goodwill £'000
Cost		
At 27 February 2016	1,659	1,659
Additions	1,508	1,316
At 25 February 2017 and 24 February 2018	**3,167**	**2,975**
Impairment		
At 27 February 2016	(333)	(333)
Impairment charge for the period	–	–
At 25 February 2017	(333)	(333)
Impairment charge for the period	–	–
At 24 February 2018	**(333)**	**(333)**
Net book value		
At 24 February 2018	**2,834**	**2,642**
At 25 February 2017	2,834	2,642
At 27 February 2016	1,326	1,326

Allocation of goodwill to cash generating units
Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (CGUs). Upon acquisition the activities of the acquired entities are closely aligned to those of the Company and are deemed to have been integrated rather than remain as separate CGUs.

Key assumptions used in goodwill impairment review
Determining whether goodwill is impaired requires an estimation of the discounted future cash flows of the Company using a discount rate of 11% and a terminal value based on a minimum future growth rate of 2%. The Group has conducted a sensitivity analysis on the goodwill impairment assessment and believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying value of goodwill exceeding the recoverable amount. The recoverable amount has been calculated using the value in use method. Goodwill is tested for impairment annually or more frequently if there are indications that goodwill might be impaired. The key assumptions used in the value in use calculation are the growth rates and the discount rates adopted. The growth rates are based on the most recent financial budgets approved by the Group Board for the next three years. The discount rates which reflect the time value of money and the risks specific to the financial services sector are sourced from an independent third party.

11. Other intangible assets

Group	Software, Servers, & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
At 27 February 2016	4,156	19,309	784	24,249
Additions	1,029	1,457	66	2,552
Disposals	(144)	–	–	(144)
At 25 February 2017	5,041	20,766	850	26,657
Additions	1,412	–	–	1,412
At 24 February 2018	**6,453**	**20,766**	**850**	**28,069**
Accumulated amortisation				
At 27 February 2016	1,404	13,250	543	15,197
Charge for period	749	3,517	146	4,412
Disposals	(10)	–	–	(10)
At 25 February 2017	2,143	16,767	689	19,599
Charge for period	898	1,973	79	2,950
At 24 February 2018	**3,041**	**18,740**	**768**	**22,549**
Net book value				
At 24 February 2018	**3,412**	**2,026**	**82**	**5,520**
At 25 February 2017	2,898	3,999	161	7,058
At 27 February 2016	2,752	6,059	241	9,052

Company	Software, Servers, & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
At 27 February 2016	4,156	1,757	64	5,977
Additions	930	1,457	66	2,453
Acquisitions	(144)	–	–	(144)
At 25 February 2017	4,942	3,214	130	8,286
Additions	1,377	–	–	1,377
At 24 February 2018	**6,319**	**3,214**	**130**	**9,663**
Accumulated amortisation				
At 27 February 2016	1,404	829	34	2,267
Charge for period	749	1,150	48	1,947
Disposals	(10)	–	–	(10)
At 25 February 2017	2,143	1,979	82	4,204
Charge for period	874	689	26	1,590
At 24 February 2018	**3,017**	**2,668**	**108**	**5,794**
Net book value				
At 24 February 2018	**3,302**	**544**	**22**	**3,869**
At 25 February 2017	2,799	1,235	48	4,082
At 27 February 2016	2,752	928	31	3,710

Notes to the Consolidated Financial Statements *continued*

12. Property, plant & equipment

Group	Computers & PDAs £'000	Fixtures & fittings £'000	Leasehold £'000	Totals £'000
Cost				
At 27 February 2016	1,730	113	3	1,846
Additions	95	30	–	125
At 25 February 2017	1,825	143	3	1,971
Additions	597	25	–	622
At 24 February 2018	**2,422**	**168**	**3**	**2,593**
Depreciation				
At 27 February 2016	627	34	3	664
Charge for period	480	64	–	544
At 25 February 2017	1,107	98	3	1,208
Charge for period	543	20	–	563
At 24 February 2018	**1,650**	**118**	**3**	**1,771**
Net book value				
At 24 February 2018	**772**	**50**	**–**	**822**
At 25 February 2017	718	45	–	763
At 27 February 2016	1,104	78	–	1,182

Company	Computers & PDAs £'000	Fixtures & fittings £'000	Totals £'000
Cost			
At 27 February 2016	1,322	102	1,424
Additions	95	30	125
At 25 February 2017	1,417	132	1,549
Additions	597	25	622
At 24 February 2018	**2,014**	**157**	**2,171**
Depreciation			
At 27 February 2016	219	23	242
Charge for period	480	64	544
At 25 February 2017	699	87	786
Charge for period	543	20	563
At 24 February 2018	**1,242**	**107**	**1,349**
Net book value			
At 24 February 2018	**772**	**50**	**822**
At 25 February 2017	718	45	763
At 27 February 2016	1,104	79	1,182

13. Investment in subsidiaries

	Company £'000
Cost	
At 27 February 2016	1,321
Additions – Shelby share issue	690
Impairment	–
At 25 February 2017	2,011
Additions – Shelby share issue	600
At 24 February 2018	**2,611**

The Company owns 100% of the Ordinary Share capital of the following subsidiary undertakings, which are included in the Group's consolidation:

- Shopacheck Financial Services Limited (SFS), a Company registered in England and Wales (Company number: 07067456) with Registered Office, Kingston House, Centre 27, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD, whose principal activity was the provision of consumer credit and is currently non-trading.
- Shelby Finance Limited, a Company registered in England and Wales (Company number: 08117620) with Registered Office, Kingston House, Centre 27, Woodhead Road, Birstall, Batley, West Yorkshire, WF17 9TD, whose principal activity is the provision of consumer credit.

Shopacheck Financial Services Limited and Shelby Finance Limited both qualify for an exemption to audit under the requirements of Section 479A of the Companies Act 2006. As such, no audit has been conducted for these companies in the current financial year.

14. Trade and other receivables

	Group		Company	
	24 Feb 18 £'000	25 Feb 17 £'000	**24 Feb 18 £'000**	25 Feb 17 £'000
Amounts falling due within one year:				
Net receivable from advances to customers	**72,563**	60,833	**72,335**	60,833
Amounts falling due after one year:				
Net receivable from advances to customers	**265**	395	**265**	395
Net loan book	**72,828**	61,228	**72,600**	61,228
Other debtors	**429**	489	**429**	489
Prepayments	**1,610**	1,530	**1,413**	1,523
	74,867	63,247	**74,442**	63,240

Amounts receivable from customers

	Group 24 Feb 18 £'000	**Company 24 Feb 18 £'000**	Group and Company 25 Feb 17 £'000
Amounts receivable from customers	**72,828**	**72,600**	61,228
Analysis by future date due			
– due within one year	**72,563**	**72,335**	60,833
– due in more than one year	**265**	**265**	395
Amounts receivable from customers	**72,828**	**72,600**	61,228
Analysis by security			
Other loans not secured	**72,828**	**72,600**	61,228
Amounts receivable from customers	**72,828**	**72,600**	61,228
Analysis of overdue			
Neither Past due Nor impaired	**52,544**	**52,432**	42,990
Past Due not Impaired	**231**	**231**	224
Impaired	**20,053**	**19,937**	18,014
Amounts receivable from customers	**72,828**	**72,600**	61,228

Notes to the Consolidated Financial Statements *continued*

14. Trade and other receivables continued

The credit risk inherent in amounts receivable from customers is reviewed under impairment as per note 1 and under this review the credit quality of assets which are neither past due nor impaired was considered to be good. The above analysis of when loans are due is based upon original contractual terms which are not rescheduled. The carrying amount of amounts receivable from customers whose terms have been renegotiated that would otherwise be past due or impaired is therefore £nil (2017: £nil).

An analysis of movements on loan loss provisions is provided below:

	Group £'000	Company £'000
At 27 February 2016	36,086	36,086
Charge for period	21,058	21,058
Amounts written off during period	(22,526)	(22,526)
Unwind of discount	(2,601)	(2,601)
Provision subsequently recognised for customers acquired during the period	2,737	2,737
At 25 February 2017	34,754	34,754
Charge for period	24,452	24,327
Amounts written off during period	(24,946)	(24,812)
Unwind of discount	(351)	(485)
At 24 February 2018	**33,909**	**33,784**

There has been no material change in the average effective interest rate used for consumer credit during the period to 24 February 2018.

15. Trade and other payables: amounts falling due within one year

	Group		Company	
	24 Feb 18 £'000	25 Feb 17 £'000	**24 Feb 18 £'000**	25 Feb 17 £'000
Trade creditors	**1,504**	1,054	**1,466**	952
Amounts owed to group undertakings	**–**	–	**1,002**	1,776
Social security and other taxes	**441**	451	**441**	451
Other creditors	**745**	550	**745**	451
Accrued expenses	**2,895**	1,684	**2,875**	1,679
Deferred consideration	**–**	–	**–**	100
	5,585	3,739	**6,529**	5,409

16. Trade and other payables: amounts falling due after one year

	Group and Company	
	24 Feb 18 £'000	25 Feb 17 £'000
Bank loans	**16,000**	10,000
Unamortised arrangement fees	**(448)**	(211)
	15,552	9,789

In August 2017, the Company signed a £15,000,000 loan facility to bring its total revolving credit facilities to £40,000,000. The bank loan is a revolving credit facility held with Shawbrook Bank Limited and a major high street bank. Under the terms of the loan covenant, the loan book is held as collateral against the funds borrowed.

17. Operating lease commitments

The following operating lease payments are committed to be paid as follows:

	Group and Company			
	Other operating leases		Land & buildings	
	24 Feb 18 £'000	25 Feb 17 £'000	**24 Feb 18 £'000**	25 Feb 17 £'000
Existing:				
Within one year	**1,063**	1,236	**415**	422
Between one and five years	**1,756**	2,063	**108**	208
	2,819	3,299	**523**	630

Land and building operating lease commitments relate to the future rental payments until first break of the head office property at Kingston House, Birstall and the network of regional offices.

Other operating lease commitments relate to the fleet of company cars.

18. Deferred tax

	Group		Company	
	24 Feb 18 £'000	25 Feb 17 £'000	**24 Feb 18 £'000**	25 Feb 17 £'000
Fixed asset temporary differences	**(161)**	(123)	**(161)**	(123)
Other temporary differences	**305**	740	**12**	193
Deferred tax liability/(asset)	**144**	617	**(149)**	70

	Group £'000	Company £'000
Balance as at 27 February 2016	1,879	840
Credit for the period	(714)	(222)
Arising on acquisition	274	274
Adjustment in respect of prior periods	(822)	(822)
Balance as at 25 February 2017	617	70
Credit for the period	(451)	(197)
Adjustment in respect of prior periods	(22)	(22)
Balance as at 24 February 2018	**144**	**(149)**

19. Called up share capital

Authorised, allotted, issued and fully paid:

Number:	Class	Nominal Value	**24 Feb 18 £'000**	25 Feb 17 £'000
129,500,000	Ordinary	£0.01	**1,295**	1,295
			1,295	1,295

Notes to the Consolidated Financial Statements *continued*

20. Reserves

Group	Retained earnings £'000	Total £'000
At 27 February 2016	54,074	54,074
Profit for the period	8,599	8,599
Deferred tax adjustment	4	4
Share-based payment charge	126	126
Dividends paid	(2,720)	(2,720)
At 25 February 2017	60,083	60,083
Profit for the period	13,092	13,092
Deferred tax adjustment	11	11
Research and development credit adjustment	26	26
Share-based payment charge	431	431
Dividends paid	(8,418)	(8,418)
At 24 February 2018	**65,225**	**65,225**

Company	Group reconstruction reserve £'000	Retained earnings £'000	Total £'000
At 27 February 2016	(9,276)	59,047	49,771
Profit for the period	–	10,613	10,613
Deferred tax adjustment	–	4	4
Share-based payment charge	–	126	126
Dividends paid	–	(2,720)	(2,720)
At 25 February 2017	(9,276)	67,070	57,794
Profit for the period	–	14,999	14,999
Deferred tax adjustment	–	11	11
Research and development credit adjustment	–	26	26
Share-based payment charge	–	431	431
Dividends paid	–	(8,418)	(8,418)
At 24 February 2018	**(9,276)**	**74,120**	**64,844**

21. Retirement benefit schemes

Defined contribution schemes

The Group operates defined contribution retirement benefit schemes for all qualifying employees. The assets of the schemes are held separately from those of the Group in funds under the control of the pension provider. Where there are employees who leave the schemes prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total costs charged of £425,585 (2017: £390,952) represents contributions payable to these schemes by the Group at rates specified in the rules of the plans. Contributions payable to the schemes at the year end were £66,465 (2017: £62,162).

22. Ultimate parent company

Up until 21 February 2018 the Company was a 51% subsidiary of Hay Wain Group Limited (formerly Perpignon Limited). Hay Wain Group Limited's shareholding reduced on 23 February 2018 to 36.8% and as such it no longer holds a controlling interest in the Company. From 24 February 2018 the Directors consider there to be no ultimate Parent Company.

23. Financial instruments

The Group and the Company's principal financial instruments are amounts receivable from customers, cash, bank overdrafts and bank loan.

The Group and the Company's business objectives rely on maintaining a well spread customer base of carefully controlled quality by applying strong emphasis on good credit management, both through strict lending criteria at the time of underwriting a new credit facility and continuous monitoring of the collection process.

As at 24 February 2018 the Company and Group's indebtedness amounted to £16,000,000 (2017: £10,000,000).

Currency risk
The Group has no exposure to foreign currency risk.

Credit risk
Credit risk is the risk that the Group will suffer loss in the event of a default by a customer or a bank counterparty. A default occurs when the customer or bank fails to honour repayments as they fall due.

(i) Amounts receivable from customers
The Group's maximum exposure to credit risk on amounts receivable from customers as at 24 February 2018 is the carrying value of amounts receivable from customers of £72,828,003 (2017: £61,227,412).

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring), policy rules, individual lending approval limits, central underwriting, and a home visit to make a decision on applications for credit.

The loans offered to customers are short-term, typically a contractual period of between 20 and 52 weeks (2017: between 20 and 52 weeks), with an average value of approximately £320 (2017: £300). The loans are underwritten in the customers' home by an agent following a full affordability assessment and eligibility against credit policy. Once a loan has been made, the agent visits the customer weekly to collect repayments. The agent is well placed to identify signs of strain on a customer's income and can moderate lending accordingly. Equally, the regular contact and professional relationship that the agent has with the customer allows them to manage customers' repayments effectively even when the household budget is tight. This can be in the form of taking part-payments, allowing missed payments or occasionally restructuring the debt in order to maximise cash collections.

Agents are paid commission for what they collect and not for what they lend, so their main focus is on ensuring loans are affordable at the point of issue and then on collecting cash. Affordability is reassessed by the agent each time an existing customer is re-served. This normally takes place within 12 months of the previous loan because of the short-term nature of the products.

Arrears management is a combination of central letters, central telephony, and field activity undertaken by field management. This will often involve a home visit to discuss the customer's reasons for non-payment and to agree a suitable resolution.

(ii) Bank counterparties
The Group's maximum exposure to credit risk on bank counterparties as at 24 February 2018 was £4,867,521 (2017: £3,984,553).

Counterparty credit risk arises as a result of cash deposits placed with banks.

Counterparty credit risk is managed by the Board of Directors which ensures that the Group's cash deposits are only made with high-quality counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating.

Liquidity risk
Liquidity risk is the risk that the Group will have insufficient liquid resources available to fulfil its operational plans and/or to meet its financial obligations as they fall due.

Liquidity risk is managed by daily monitoring of expected cash flows and ensuring that the Group maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months. Funding is available through a £40,000,000 revolving asset based credit facility. The Group's liquidity risk is shown in the following tables which measure the cumulative liquidity gap. Most of the Group's financial assets are repayable within one year which results in a positive liquidity position.

Notes to the Consolidated Financial Statements *continued*

23. Financial instruments continued

Group At 24 February 2018	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial Assets	72,563	265	–	–	–	72,828
Other Assets	2,039	–	–	–	9,176	11,215
Cash at bank and in hand	4,868	–	–	–	–	4,868
Total assets	79,470	265	–	–	9,176	88,911
Shareholders' funds	–	–	–	–	(66,521)	(66,521)
Other liabilities	(6,694)	(15,552)	–	–	(144)	(22,390)
Total liabilities and shareholders' funds	(6,694)	(15,552)	–	–	(66,665)	(88,911)
Cumulative Position	**72,776**	**57,489**	**57,489**	**57,489**	**–**	**–**

Group At 25 February 2017	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial Assets	60,833	395	–	–	–	61,228
Other Assets	2,019	–	–	–	10,655	12,674
Cash at bank and in hand	3,985	–	–	–	–	3,985
Total assets	66,837	395	–	–	10,655	77,877
Shareholders' funds	–	–	–	–	(61,378)	(61,378)
Other liabilities	(5,892)	(10,000)	–	–	(617)	(16,509)
Total liabilities and shareholders' funds	(5,892)	(10,000)	–	–	(61,995)	(77,887)
Cumulative Position	60,945	51,340	51,340	51,340	–	–

Company At 24 February 2018	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial Assets	72,335	414	–	–	–	72,749
Other Assets	1,842	–	–	–	9,944	11,786
Cash at bank and in hand	4,795	–	–	–	–	4,795
Total assets	78,972	414	–	–	9,944	89,330
Shareholders' funds	–	–	–	–	(66,139)	(66,139)
Other liabilities	(7,639)	(15,552)	–	–	–	(23,191)
Total liabilities and shareholders' funds	(7,639)	(15,552)	–	–	(66,139)	(89,330)
Cumulative Position	**71,333**	**56,195**	**56,195**	**56,195**	**–**	**–**

Company At 25 February 2017	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial Assets	60,833	395	–	–	–	61,228
Other Assets	2,012	–	–	–	9,498	11,510
Cash at bank and in hand	3,983	–	–	–	–	3,983
Total assets	66,828	395	–	–	9,498	76,721
Shareholders' funds	–	–	–	–	(59,089)	(59,089)
Other liabilities	(7,562)	(10,000)	–	–	(70)	(17,632)
Total liabilities and shareholders' funds	(7,562)	(10,000)	–	–	(59,159)	(76,721)
Cumulative Position	59,266	49,661	49,661	49,661	–	–

Interest rate risk
The Group's activities do not expose it to significant financial risks of changes in interest rates. There is considered to be no material interest rate risk in cash, trade and other receivables or trade and other payables.

Capital risk management
The Board of Directors assess the capital needs of the Group on an ongoing basis and approve all capital transactions.

The Group's policy is to maintain a strong capital base so as to maintain investor and market confidence and to sustain future development of the business. Management monitors the return on equity and return on assets, and strives to deliver a progressive dividend policy for shareholders.

The Board of Directors recognises the balance required between maximising shareholder return and maintaining a prudent balance sheet. To this end the Group has a formal gearing policy. The Group defines gearing as Total Debt/Total Equity and has a preferred average level of gearing of less than 1.0.

The Group's gearing at 24 February 2018 was:

	24 Feb 18 £'000	25 Feb 17 £'000
Gross Debt	**16,000**	10,000
Equity	**66,521**	61,378
Gearing	**0.24**	0.16

Existing Loan facilities are subject to a number of bespoke financial covenants such as Interest cover, which are monitored internally and submitted on a monthly basis to funders. There were no breaches of any of these covenants in the period to 24 February 2018.

Any changes to existing or adding of new loan facilities require the approval of the PLC Board.

Fair values of financial assets and liabilities
The fair values of amounts receivable from customers, bank loans and overdrafts and other assets and liabilities are considered to be not materially different from their book values. Fair values which are recognised or disclosed in these financial statements are determined in whole or in part using a valuation technique based on assumptions that are supported by prices from observable current market transactions in the same instrument (i.e. without modification or repackaging) and based on available observable market data. The fair value hierarchy is derived from Level 3 inputs in accordance with IFRS 13 as the instruments are not traded in an active market and the fair value is therefore determined through discounting future cash flows.

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments set out in IAS 39. Assets and liabilities outside the scope of IAS 39 are shown within non-financial assets/liabilities:

Group 24 February 2018	Loans and receivables £'000	Financial liabilities measured at amortised cost £'000	Non-financial assets/ liabilities £'000	Total £'000
Assets:				
Cash and cash equivalents	4,868	–	–	4,868
Amounts receivable from customers	72,828	–	–	72,828
Trade and other receivables	429	–	1,610	2,039
Property, plant and equipment	–	–	822	822
Goodwill	–	–	2,834	2,834
Other intangible assets	–	–	5,520	5,520
Total assets	**78,125**	**–**	**10,786**	**88,911**
Liabilities:				
Bank and other borrowings	–	(15,552)	–	(15,552)
Trade and other payables	–	(5,585)	–	(5,585)
Current tax liabilities	–	–	(1,110)	(1,110)
Deferred tax liabilities	–	–	(144)	(144)
Total liabilities	**–**	**(21,137)**	**(1,254)**	**(22,391)**

Notes to the Consolidated Financial Statements *continued*

23. Financial instruments continued

Company 24 February 2018	**Loans and receivables £'000**	**Financial liabilities measured at amortised cost £'000**	**Non-financial assets/ liabilities £'000**	**Total £'000**
Assets:				
Cash and cash equivalents	4,795	–	–	4,795
Amounts receivable from customers	72,600	–	–	72,600
Trade and other receivables	429	–	1,413	1,842
Property, plant and equipment	–	–	822	822
Goodwill	–	–	2,642	2,642
Investment in subsidiary	–	–	2,611	2,611
Deferred Tax Asset	–	–	149	149
Other intangible assets	–	–	3,869	3,869
Total assets	**77,824**	**–**	**11,506**	**89,330**
Liabilities:				
Bank and other borrowings	–	(15,552)	–	(15,552)
Trade and other payables	–	(6,529)	–	(6,529)
Current tax liabilities	–	–	(1,110)	(1,110)
Deferred tax liabilities	–	–	–	–
Total liabilities	**–**	**(22,081)**	**(1,110)**	**(23,191)**

Group 25 February 2017	Loans and receivables £'000	Financial liabilities measured at amortised cost £'000	Non-financial assets/ liabilities £'000	Total £'000
Assets:				
Cash and cash equivalents	3,985	–	–	3,985
Amounts receivable from customers	61,228	–	–	61,228
Trade and other receivables	489	–	1,530	2,019
Property, plant and equipment	–	–	763	763
Goodwill	–	–	2,834	2,834
Other intangible assets	–	–	7,058	7,058
Total assets	65,702	–	12,185	77,887
Liabilities:				
Bank and other borrowings	–	(10,000)	–	(10,000)
Trade and other payables	–	(3,288)	–	(3,288)
Current tax liabilities	–	–	(2,604)	(2,604)
Deferred tax liabilities	–	–	(617)	(617)
Total liabilities	–	(13,288)	(3,221)	(16,509)

Company 25 February 2017	Loans and receivables £'000	Financial liabilities measured at amortised cost £'000	Non-financial assets/ liabilities £'000	Total £'000
Assets:				
Cash and cash equivalents	3,983	–	–	3,983
Amounts receivable from customers	61,228	–	–	61,228
Trade and other receivables	489	–	1,523	2,012
Property, plant and equipment	–	–	763	763
Goodwill	–	–	2,642	2,642
Investment in subsidiary	–	–	2,011	2,011
Other intangible assets	–	–	4,082	4,082
Total assets	65,700	–	11,021	76,721
Liabilities:				
Bank and other borrowings	–	(10,000)	–	(10,000)
Trade and other payables	–	(4,958)	–	(4,958)
Current tax liabilities	–	–	(2,604)	(2,604)
Deferred tax liabilities	–	–	(70)	(70)
Total liabilities	–	(14,958)	(2,674)	(17,632)

The tables below summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments.

Group **At 24 February 2018**	**Repayable on demand £'000**	**Less than 1 year £'000**	**More than 1 year but not more than 2 years £'000**	**More than 2 years but not more than 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Trade and other payables	–	2,690	–	–	–	2,690
Tax liabilities	–	1,110	–	–	144	1,254
Accruals and deferred income	–	2,894	–	–	–	2,894
Bank loans	–	–	–	15,552	–	15,552
At 24 February 2018	**–**	**6,694**	**–**	**15,552**	**144**	**22,390**

Company **At 24 February 2018**	**Repayable on demand £'000**	**Less than 1 year £'000**	**More than 1 year but not more than 2 years £'000**	**More than 2 years but not more than 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Trade and other payables	–	3,654	–	–	–	3,654
Tax liabilities	–	1,110	–	–	–	1,110
Accruals and deferred income	–	2,875	–	–	–	2,875
Bank loans	–	–	–	15,552	–	15,552
At 24 February 2018	**–**	**7,639**	**–**	**15,552**	**–**	**23,191**

Group At 25 February 2017	Repayable on demand £'000	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	–	1,604	–	–	–	1,604
Tax liabilities	–	2,604	–	–	617	3,221
Accruals and deferred income	–	1,684	–	–	–	1,684
Bank loans	–	–	10,000	–	–	10,000
At 25 February 2017	–	5,892	10,000	–	617	16,509

Notes to the Consolidated Financial Statements *continued*

23. Financial instruments continued

Company At 25 February 2017	Repayable on demand £'000	Less than 1 year £'000	More than 1 year but not more than 2 years £'000	More than 2 years but not more than 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	–	3,179	–	–	–	3,179
Tax liabilities	–	2,604	–	–	70	2,674
Accruals and deferred income	–	1,779	–	–	–	1,779
Bank loans	–	–	10,000	–	–	10,000
At 25 February 2017	–	7,562	10,000	–	70	17,632

24. Share-based payments

The Deferred Share Plan (DSP) – Senior Management Team

The Company introduced this share option plan on 26 April 2016 with 1,002,310 share options being issued under the plan on admission to AIM ('Admission'). A further share option plan was granted on 5 May 2017 when 989,700 share options were issued. Subsequent share options are granted to executive directors and senior managers on a rolling annual basis at the discretion of the Remuneration Committee.

The initial Awards granted to the Company's senior management team on Admission are subject to three performance conditions. The first of these conditions was measured over a period of one year from Admission assessing the Company's absolute total shareholder return ('TSR'). 25% of the initial Awards will vest for 7.5% annual TSR growth, rising on a straight-line basis to 100% vesting for 12.6% annual TSR growth, subject to the other performance conditions referred to below.

Notwithstanding the satisfaction of the TSR performance condition referred to above, any vesting of these initial Awards will also be subject to the satisfaction of two further performance conditions measured up to the end of the financial year ending February 2019 (i.e. the full three year performance period). In order for these Awards to vest, the Company will have to achieve the budgeted level of profit before tax for each of the financial years ending in February 2017, 2018 and 2019. The vesting of the initial Awards is also conditional on the Remuneration Committee determining that, over the period finishing at the end of the financial year ending in February 2019:

- the Company's internal and external audits and compliance training delivery have been satisfactory;
- the Company has retained all relevant FCA authorisation for the carrying on of its business; and
- the participant has not been subject to any disciplinary action and their personal performance has been satisfactory.

For any subsequent annual grants, the Remuneration Committee will set any performance conditions by reference to the Company's long-term strategy, which may include total shareholder return and/or financial metrics and/or key strategic goals to support long-term value creation. It is the Remuneration Committee's current intention that the vesting of any Awards granted to the Company's senior management team in respect of the financial years ending February 2018 and 2019 will at least in part be subject to the Company's TSR performance.

Any performance condition may be amended or substituted if one or more events occur which cause the Remuneration Committee to consider that an amended or substituted performance condition would be more appropriate and not materially less difficult to satisfy.

Awards will not be granted to a participant under the DSP over Ordinary Shares with a market value (as determined by the Remuneration Committee) in excess of 100% of salary in respect of any financial year.

As of the balance sheet date, the estimated market value of each share option granted is £1.37 (2017: £1.15). This has resulted in a charge to the profit or loss account of £340,261 (2017: £126,159) during the year.

The market value of the shares at the grant date is calculated using a Monte Carlo simulation. The assumptions used in the calculation are set out below:

	DSP	
Grant date	5 May 2017	8 May 2016
Expected volatility	45%	26%
Expected term	1	1
Risk free rate	0.34%	0.34%
Dividend yield	0%	0%

	Number	Weighted average exercise price (£)
Outstanding at 25 February 2017	1,002,310	–
Awarded/granted	989,700	–
Lapsed	–	–
Exercised	–	–
Outstanding at 24 February 2018	**1,992,010**	**–**
Exercisable as at 24 February 2018	**–**	**–**

For the share options outstanding at 24 February 2018, the weighted average remaining contractual life is 9.2 years (2017: 10.2 years).

The Share Option Plan (SOP) – Employees
On 19 October 2017 the Company introduced its first share option plan that entitles employees to purchase shares in the Company at an exercise price of £0.01 per share. 238,097 share options were issued under the plan and subsequent share options are granted to employees on a rolling annual basis at the discretion of the Remuneration Committee and subject to the Company's profit performance in the previous financial year.

The fair value of the employee share options has been measured using the Black-Scholes valuation method. Service and non-market performance conditions were not taken into account in measuring fair value.

As of the balance sheet date, the estimated market value of each share option granted is £1.37. This has resulted in a charge to the profit or loss account of £20,587 during the year.

The market value of the shares at the grant date is calculated using the Black-Scholes valuation method. The assumptions used in the calculation are set out below:

	SOP
Grant date	19 October 2017
Expected volatility	0.40
Expected term	1
Risk free rate	0.75%
Dividend yield	4.75%

	Number	Weighted average exercise price (£)
Outstanding at 25 February 2017	–	–
Awarded/granted	238,097	0.01
Lapsed	(3,200)	0.01
Exercised	–	–
Outstanding at 24 February 2018	**234,897**	**0.01**
Exercisable as at 24 February 2018	**–**	**–**

For the share options outstanding at 24 February 2018, the weighted average remaining contractual life is 9.6 years.

All options are expected to be equity settled.

Notes to the Consolidated Financial Statements *continued*

25. Related party transactions

Until 21 February 2018 Hay Wain Group Limited (formerly Perpignon Limited) was the immediate parent company of Morses Club PLC. Hay Wain Holdings Limited (formerly FCAP Four Limited) is the immediate parent undertaking of Hay Wain Group Limited.

The Company undertook the following transactions with its former parent and subsidiaries during the period:

	Dividends received/ (paid) £'000	Management fees £'000	Professional fees recharged £'000
52 Weeks ended 24 February 2018			
Hay Wain Holdings Limited	–	–	–
Hay Wain Group Limited	(4,293)	–	–
Shopacheck Financial Services Limited	–	–	–
Shelby Finance Limited	–	–	–
	(4,293)	–	–
52 Weeks ended 25 February 2017			
Hay Wain Holdings Limited	–	–	–
Hay Wain Group Limited	(1,387)	(120)	–
Shopacheck Financial Services Limited	–	–	–
Shelby Finance Limited	–	–	–
	(1,387)	(120)	–

At the period-end the following balances were outstanding:

	24 Feb 18 £'000	25 Feb 17 £'000
Hay Wain Holdings Limited	**–**	–
Hay Wain Group Limited	**–**	–
Shopacheck Financial Services Limited	**(1,321)**	(1,321)
Shelby Finance Limited	**319**	(455)
Amounts owed from/(to) Related Parties	**(1,002)**	(1,776)

Alternative performance measures

This Annual Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this we have included a reconciliation of the APMs we use where relevant and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	Closest Statutory Measure	Definition and Purpose
Income Statement Measures		
Impairment as % of Revenue (%)	None	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business.
Agent Commission as % of Revenue (%)	None	Agent commission, which is included in cost of sales, divided by reported revenue is used to measure the proportion of income generated which is paid to agents.
Cost/Income Ratio or Operating Cost ratio (%)	None	The cost-income ratio is cost of sales and administration expenses, excluding exceptional items, finance costs and amortisation divided by reported revenue.
Credit Issued (£m)	None	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business.
Sales Growth (%)	None	Sales growth is the period-on-period change in Credit Issued.
Adjusted Profit Before Tax (£m)	None	Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Adjusted Profit Before Tax (underlying HCC) (£m)	None	Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles, Territory Build subsidies and losses of Dot Dot Loans.

Reconciliation of statutory PBT to adjusted PBT and adjusted PBT underlying HCC

£'m	FY18	FY17	Increase
Statutory PBT	**16.1**	11.2	43.8%
Amortisation of acquisition intangibles	**2.0**	3.7	
Cost of flotation on AIM	**(0.1)**	2.2	
Restructuring and other non-recurring costs	**1.0**	0.6	
Adjusted PBT	**19.2**	17.7	8.5%
Territory build subsidies	**4.4**	1.2	
Dot Dot Loans development costs	**0.8**	–	
Adjusted PBT underlying HCC	**24.4**	18.9	29.1%
Tax	**(5.1)**	(4.0)	
Adjusted PAT underlying HCC	**19.3**	14.9	

APM	Closest Statutory Measure	Definition and Purpose
Balance sheet and returns measures		
Tangible Equity (£m)	None	Net Assets less intangible assets less acquisition intangibles.
Adjusted Return on Equity (%)	None	Calculated as adjusted profit after tax divided by rolling 12 month average of tangible equity. It is used as a measure of overall shareholder returns adjusted for exceptional items.
Adjusted Return on Assets (%)	None	Calculated as adjusted profit after tax divided by 12 month average Net Loan Book. It is used as a measure of profitability generated from the loan book. Net Loan Book is Amounts owing from customers less provisions for deferred income and impairments.
Tangible Equity/Average Receivables Ratio (%)	None	Net Assets less intangible assets less acquisition intangibles plus divided by 12 months average receivables.
Other Measures		
Customers	None	Customers who have an active loan and from whom we have received a payment of at least £3 in the last 17 weeks.
Agents	None	Agents are self-employed individuals who represent the Group's subsidiaries and are engaged under an agency agreement.
Cash from Operations (excluding investment in loan book) (£m)	None	Cash from Operations (excluding investment in the loan book) is Cash from Operations excluding the growth in the loan book due to either acquisition or movement in the net receivables otherwise. (see reconciliation below).
Adjusted Net Margin	None	Adjusted Profit before tax (which excludes amortisation of intangibles on acquisitions, the one-off costs of the IPO and other non-operating costs) divided by reported revenue. This is used to measure overall efficiency and profitability.
Cash from funding (£m)	None	Cash from Funding is the increase/(decrease) in the Bank Loan balance.

Reconciliation of Cash from operations to Cash from operations (excluding investment in loan book)

	Group	
	24 Feb 18 £'000	25 Feb 17 £'000
Net cash inflow from operating activities	**7,239**	9,726
Add back:		
Movement in net loan book	**11,604**	1,918
Tax paid	**4,536**	4,078
Prepaid loan facility arrangement fee	**(448)**	–
Cash from operations (excluding investment in loan book)	**22,931**	15,722

Morses Club PLC Information for Shareholders

Financial Calendar

2018 – 2019

26 June 2018	Annual General Meeting
28 June 2018	Ex-dividend date
27 July 2018	Final dividend paid
October 2018	Half year results announced
January 2019	Interim dividend payable
May 2019	2018/19 year end results announced

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