Built on relationships

Morses Club PLC
Annual Report & Accounts 2019

Contents

Morses Club PLC is an established, relationship-driven non-standard finance provider.

Our purpose

We aim to meet the real need for responsible lending in the community across the UK, particularly for customers with a complex credit history.

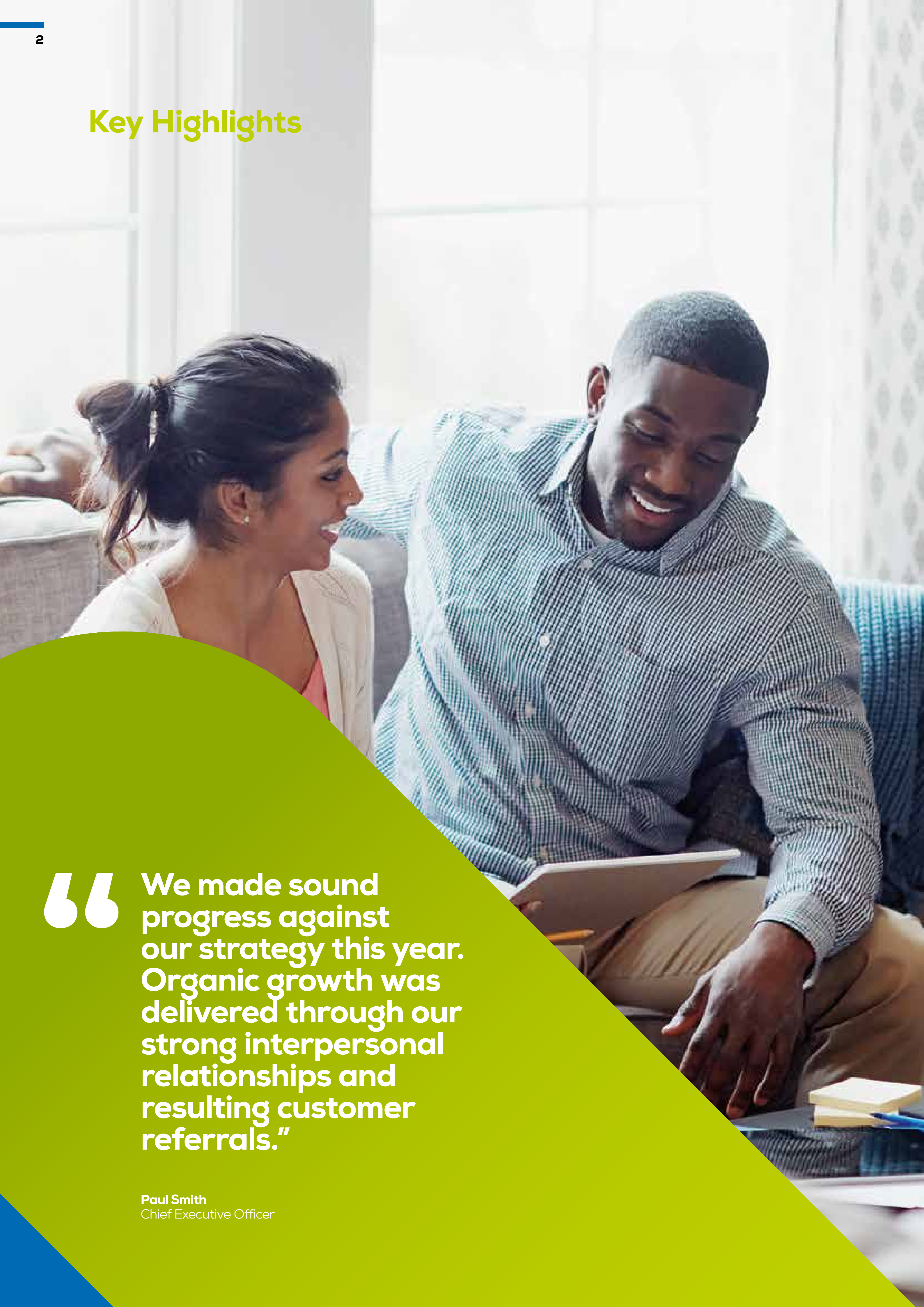
Our vision

To build the market-leading non-standard credit company in the UK – with our customers and our people at the heart of our business.

97%

CUSTOMER SATISFACTION

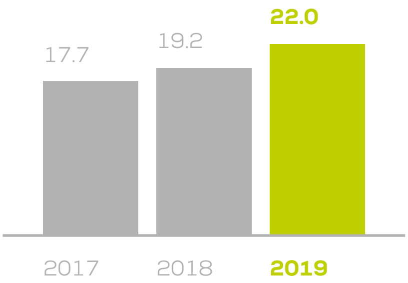
Key Highlights



> "We made sound progress against our strategy this year. Organic growth was delivered through our strong interpersonal relationships and resulting customer referrals."

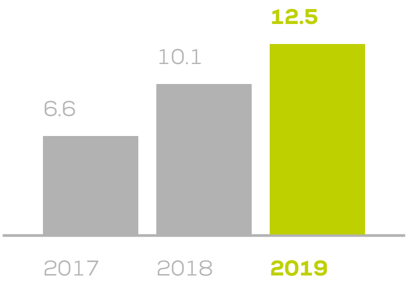
Paul Smith
Chief Executive Officer

Adjusted profit[1] (Before Tax)



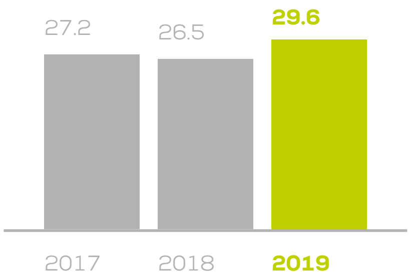
£22.0m
+14.6%

Basic earnings per share (p)



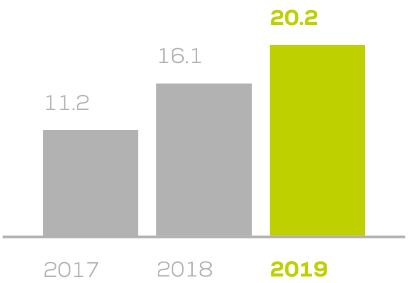
12.5p
+23.8%

Adjusted return[1] on equity (%)



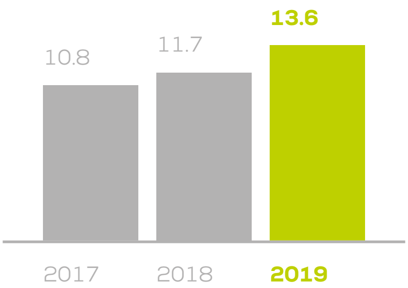
29.6%
+11.9%

Reported profit (Before Tax)



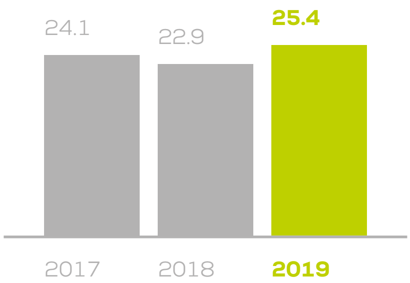
£20.2m
+25.5%

Adjusted earnings per share (p)



13.6p
+16.2%

Adjusted return[1] on assets (%)



25.4%
+10.9%

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 105 to 107

Operational highlights

- The purchase of the loan books of two well-established Home Collected Credit (HCC) regional businesses in line with our strategy
- 30,000 Morses Club Card customers, an increase of 42.8%, with £15.5m in loan balances (FY18: £10.6m)
- Technology continues to enhance Morses Club's offering, with a new Customer Portal launched during the year, which complements the agent relationship by providing a digitally enabled, end-to-end customer journey
- Introduction of Good Customer Outcomes surveys, with an overall result of 97%, as well as continued high levels of customer, agent and employee satisfaction
- Post-period end, completed the acquisition of the business and certain assets of CURO Transatlantic Limited, a provider of online loans in the non-standard credit market

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 105 to 107.

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.

Company Overview

Responsible community lending is at the heart of our business.

What we do

We provide small, short-term loans to customers who need affordable credit to cover income shortfalls and unexpected household expenditure and are often unable to access High Street lending.

Our model is based on a face to face loan issue and collection process via agents that typically live 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 rates are consistently above 97%[1].

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

SELF EMPLOYED AGENTS

2,050

CUSTOMERS

235,000

LOAN BOOK

£73.0m

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 95 branches and 2,050 self-employed agents.

UK HOME COLLECTED CREDIT PROVIDER

#2

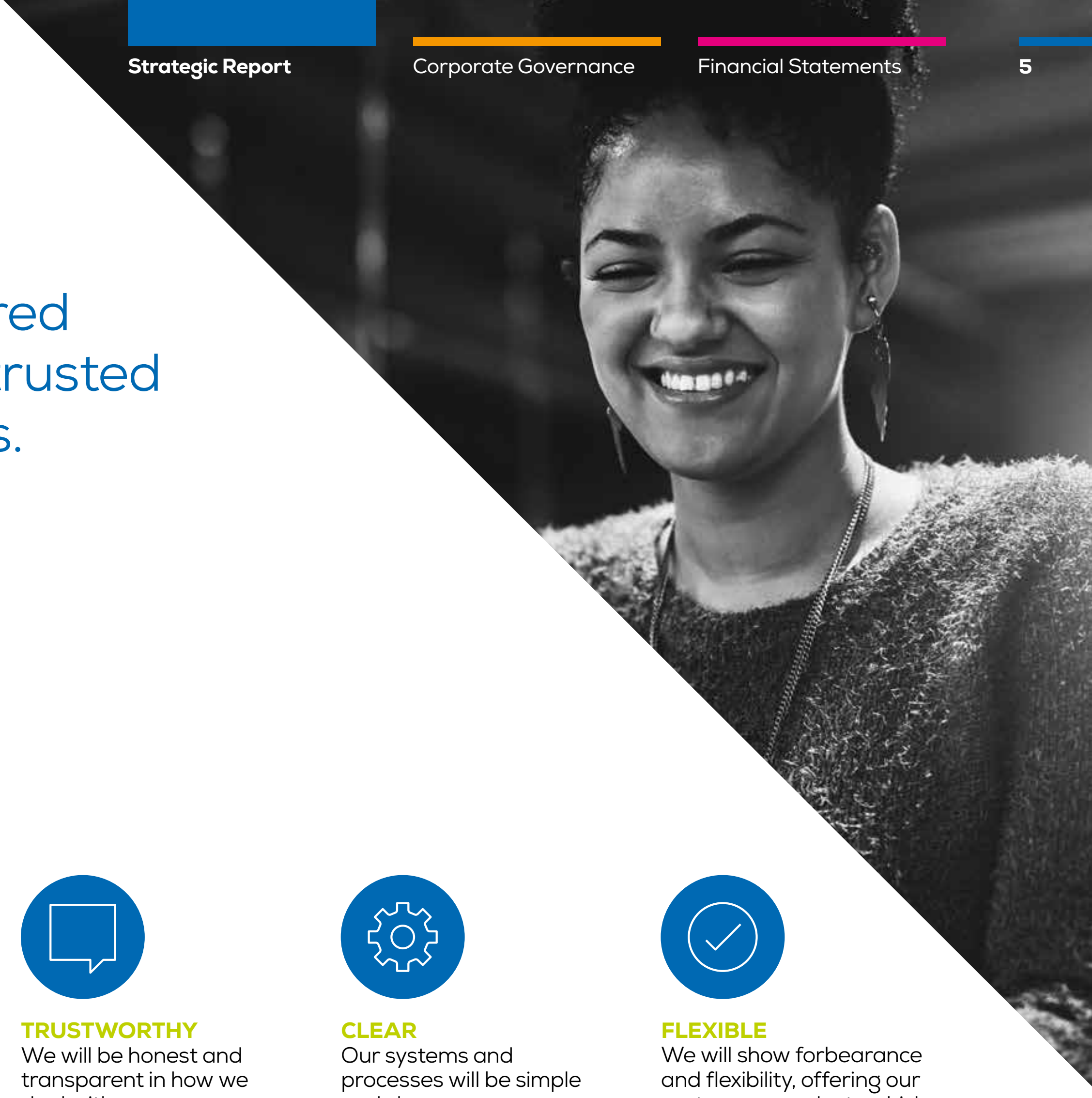
YEARS OF HOME COLLECTED CREDIT EXPERIENCE

130+

BRANCHES THROUGHOUT THE UK

95

1 Independent market research (Mustard) 2018/19.



Built on shared values and trusted relationships.

Our values

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

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

CLEAR
Our systems and processes will be simple and clear.

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

CULTURAL VALUES

HONEST

SUPPORTIVE

FAIR

UNDERSTANDING

RESPONSIBLE

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 share

235,000 customers across the UK, up by 2.6%

High levels of customer satisfaction and repeat business

Read more on page 18

SCALABLE INFRASTRUCTURE

Scalable, highly invested IT platform

Widening product offering

Read more on page 20

WELL POSITIONED FOR GROWTH

Roadmap of organic growth initiatives

Well placed for consolidation in a fragmented market

Untapped market potential of c.8m people

Read more on page 22

SOUND RISK MANAGEMENT

Prudent credit risk policy, applied through face to face contact by agents: every customer, every loan

Robust balance sheet and funding model

Read more on page 32

PROVEN FINANCIAL PERFORMANCE

Revenue up by 6% vs. last year*

Loan book growth of 6%*

Cash generative business model that allows for a progressive dividend policy

Read more on page 24

* Like-for-like on an IFRS 9 basis.

EXPERIENCED AND STABLE EXECUTIVE TEAM

c. 100 years of home credit experience

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.

Our sources of competitive advantage

INFRASTRUCTURE

National infrastructure of 95 branches staffed by 547 employees, and 2,050 self-employed, home-based agents

RELATIONSHIPS

Trusted brand based on close and enduring relationships with customers

TECHNOLOGY

Efficient and scalable technology

COMPLIANCE

Robust compliance and controls

TEAM

Customer-focused culture and values

MANAGEMENT

Experienced management team

SCALE

Economies of scale from a loyal customer base of c. 235,000

What we do

We offer loans of £100 to £1,000, in cash or on a Morses Club Card, for customers who struggle to find credit elsewhere.

We meet most of our customers face-to-face, and treating the customer fairly is our core philosophy.

LEND RESPONSIBLY

- Evaluate suitability of customer against lending criteria
- Conduct credit checks
- Meet customer to understand needs and undertake affordability checks
- Issue appropriate loan, ensuring 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
- Support customers in short-term difficulty
- Transparent, simple charging structure with one fixed fee and no penalties or late payment fees. Customers never pay more than the original agreed amount

A full income and expenditure check is done with every loan, using evidenced income.

15%

of net disposable income is used on average for loan affordability calculations

We only lend to customers who can afford the repayments.

63%

of loan applications are not progressed

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.

How we share value with stakeholders*

CUSTOMERS

98%

CUSTOMER SATISFACTION RATE WITH AGENT SERVICE

INVESTORS

7.8p

DIVIDEND

AGENTS

73%

AGENT SATISFACTION

EMPLOYEES

86%

EMPLOYEE ENGAGEMENT

* Based on annual independent satisfaction surveys (Mustard).

Our Strategy

Firmly grounded in our core HCC business, our strategy includes selected diversification to offer a wider range of services to non-standard credit customers.

OUR VISION

To build the market-leading non-standard credit company in the UK – with our customers and our people at the heart of our business.

STRATEGIC PILLARS	PROGRESS AND KPIs	FUTURE PLANS
Grow core HCC offering		
Build geographical presence	Having capitalised on the unprecedented opportunity to recruit agents in 2017/18, we reverted to historical norms – 95 branches – 235,000 customers	Continue to seek opportunities to add territories, targeting growth of 50 to 100 per year
Modernise HCC model with technological developments while respecting agent / customer relationship	Increased adoption of Morses Club Card 30,000 Morses Club Card customers £15.5m of loan balances on cards 84% customer satisfaction with Morses Club Card	Continue to integrate the Morses Club Card into the online customer portal launched during 2019
Diversify into complementary products		
Using our technology platform and deep customer insights to develop new products for the broader credit market	In January 2018 we entered a test phase for our Customer Portal, which enables customers to access account balance and payment history information, their credit eligibility, and content and rewards from third parties Defined product set for online instalment product Dot Dot Loans to focus on longer-term and higher value lending market and higher quality customers – 60+% of Morses Club customers are interested in cashless lending / banking style products – 12% – 15% of Morses Club customers surveyed have a credit card	Launch Customer Portal during 2019 Integrate the CURO Transatlantic acquisition and increase our online offering Further refine plans for Dot Dot Loans to optimise the product range for its target segment Develop our digital platform and increase our online offering Launch our e-money proposition, including a range of credit options for our customers
Continue to work responsibly and ethically		
	Our lending model is based on treating customers fairly, and we ensure that lending is affordable every time – 63% of new customer loan applications are rejected – 97% customer satisfaction	Implement the final technology developments to support compliance with the FCA's review of High Cost Lending; expected to be in place by the middle of 2019 Adherence to best practice guidelines remains a top priority. We have an open and transparent relationship with the regulator and our CEO is a member of the FCA's Smaller Business Practitioner Panel

To accelerate our strategy, we continue to seek to make selected acquisitions in HCC and the wider non-standard finance markets.

We believe that we are 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 achieve consistently high monthly customer satisfaction ratings.*

Customer satisfaction 2019

CUSTOMER SATISFACTION RATE WITH AGENT SERVICE	LIKELY TO RECOMMEND US TO FAMILY AND FRIENDS	LIKELY TO CONSIDER USING MORSES CLUB IN THE FUTURE
98%	96%	96%

* Based on annual independent satisfaction surveys (Mustard).

> " They are always reliable, the staff are polite and always helpful. All the staff I have met so far feel like a friend of the family. "

Satisfied Agents

We are proud that more than 77% of agents feel that Morses Club helps them deliver great customer service.*

73%

AGENT SATISFACTION

" I'm happy with the support of the management team, the flexibility within the role, and the potential rewards to be made. "

Agent satisfaction 2019

AGENT SATISFACTION
73%

OF AGENTS FIND MORSES EQUIPMENT USEFUL FOR THEIR BUSINESS
96%

OF RESPONDENTS ARE PROUD TO BE MORSES CLUB AGENTS
71%

OF AGENTS FEEL MORSES CLUB HELPS THEM DELIVER GREAT CUSTOMER SERVICE
77%

OF AGENTS UNDERSTAND THE IMPORTANCE OF TREATING CUSTOMERS FAIRLY
96%

* Based on annual independent satisfaction surveys (Mustard).

Satisfied Team

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

79%

TEAM SATISFACTION

" I feel as though I'm working for a progressive company that are always looking to improve how they work. "

* Based on annual independent satisfaction surveys (Mustard).

Employee satisfaction 2019

EMPLOYEE SATISFACTION

79%

OF EMPLOYEES FEEL ENGAGED WITH MORSES CLUB

86%

OF EMPLOYEES ARE PROUD TO WORK FOR MORSES CLUB

78%

OF EMPLOYEES UNDERSTAND THE IMPORTANCE OF TREATING CUSTOMERS FAIRLY

99%

Market Context

Home Collected Credit is an important and resilient segment.

The non-standard finance market is sizeable

There are around 10m non-standard finance consumers, an estimated 20% to 25% of the UK's adult population who have difficulty accessing credit from mainstream lenders[1] on account of an impaired or non-existent credit history.

Overall outstanding unsecured balances of lenders actively operating in the non-standard lending market grew at an estimated 9% p.a. between 2014 and 2016, with balances in aggregate at the end of 2016 at an all-time high of c. £16 billion[1].

The HCC market is still directly relevant to customers

HCC customers typically have low or variable incomes, with an estimated net median individual income of £15,502. They take out small, unsecured, short-term loans to finance events such as birthdays or Christmas, or unexpected household expenditure. The average loan value in the home collected credit market in 2016 was £770[2].

"...for those who are less well-off and with worse credit scores, I would stress that credit has a role to play, for instance in smoothing more erratic incomes or enabling the purchase of essential goods that would otherwise prove too expensive."

Andrew Bailey, Chief Executive, FCA[3]

1.6m people had home credit debt at the end of 2016, a figure that remains broadly stable, and outstanding home credit debt at the end of 2016 was £1.3bn. Following a period of decline to 2014, outstanding home collected credit balances were relatively stable from 2014 to 2016, in part driven by the greater professionalisation of smaller players[1].

"There is a relative lack of change in the overall number of borrowers over time."[2]

Morses Club has a material share of the fragmented HCC market

There are three sizeable providers of home credit. With a 14% share of HCC users, Morses Club is the #2 provider of Home Collected Credit. Aside from the top 3 operators, the market is fragmented, with 420 home credit members registered with the Consumer Credit Association.

There are high barriers to entry to the sector, notably regulatory compliance requirements that became even more stringent following the FCA's 2018 review of the High Cost Credit Market. Advances in technology that facilitate the assessment of affordability and other administrative procedures, as well as making it easier for consumers to access advisers, represent another barrier to prospective market entrants.

NON-STANDARD FINANCE CUSTOMERS	HOME COLLECTED CREDIT CUSTOMERS	PROVIDER OF HOME COLLECTED CREDIT
10m	1.6m	#2

Market developments support Morses Club's strategy

LEK's assessment that there is potential for a more integrated "whole of customer" offering[1] aligns with Morses Club's strategy to diversify into areas adjacent to its core HCC proposition. The consulting firm believes that open banking, may offer further opportunities for non-standard lenders to compete at the margins with prime lenders and banks in some product categories.

1 LEK UK Specialist lending market trends and outlook 2018 https://www.lek.com/insights/uk-specialist-lending-market-trends-and-outlook-2018
2 FCA High Cost Credit Review Technical Annex 1, July 2017 https://www.fca.org.uk/publication/feedback/fs17-02-technical-annex.pdf
3 The Consumer Credit landscape today, February 27th, 2018, Finance & Leasing Association, https://www.fca.org.uk/news/speeches/consumer-credit-landscape-today
4 https://ccauk.org/members/

UNSECURED CONSUMER CREDIT (EXCLUDING CREDIT CARDS)

+£16bn

BETWEEN DECEMBER 2017 AND DECEMBER 2018

Chief Executive Officer's Review

> A year of solid results, with attractive opportunities for further growth."

Paul Smith
Chief Executive Officer

Performance

I am delighted to report on another year of robust performance. Total credit issued was £178.5m, a 2.4% increase relative to the previous year (FY 2018: £174.4m). Our gross loan book grew by more than 6% compared with 24 February 2018; of this, 5% derived from an increase in the core book and 1% from the acquisitions of the Eccles Savings & Loans Limited and Hays Credit LLP assets.

After the exceptional activity in FY18, territory builds reverted to a historically more normal level of 73 in FY19 (FY18: 463 net territory builds). Customer numbers at the year end were 235,000, an increase of 2.6% from the equivalent FY18 figure of 229,000.

We continued to see positive momentum with the Morses Club Card. Adoption of our cashless lending cards grew by 43% to reach 30,000 customers with £15.5m of loan balances (FY18: 21,000 customers and £10.6m of loan balances).

Our continued investment in technology has helped make it easier for customers to apply for loans and interact with our self-employed agents. Customers want swift and simple interaction and excellent customer service, which has been demonstrated by our continued excellent customer satisfaction scores of 97% and Recommend a friend statistics, both sound indicators that we are delivering positive customer experiences and outcomes.

Post-period end, on 26 February 2019, we announced the acquisition of the business and certain assets of online lending provider CURO Transatlantic Limited. This is a major milestone in our product diversification strategy, as we develop digital products to meet evolving customer needs and broaden our customer base.

External market

There has been a renewed wave of industry consolidation as smaller HCC firms struggle to comply with ever more stringent regulatory requirements and owners seek to exit the sector. The market remains fragmented and we continue to have a healthy pipeline of high-quality acquisition candidates to expand our regional presence in HCC. Our acquisition activity has been carefully considered, and although changes in the market bring opportunities, we are focused on ensuring that we acquire businesses which enhance our quality and approach to forbearance. There are also attractive prospects in adjacent areas of the non-standard credit market, to support the development of our capabilities as we diversify our proposition.

In the regulatory sphere, we are pleased that the Financial Conduct Authority's in-depth review of the high-cost credit market has concluded and that the outcomes for HCC and high cost, short-term credit are, in the Board's view, measured, responsible, and look after customer interests without creating turbulence in the sector. The review concluded that the markets are well run and offer the best solution to customers in that part of the market. Our preparedness in anticipation of the review meant that no significant changes were required to our processes, although we have refined our training in relation to conduct rules in customer homes, and are making modifications to our technology which will be in place later in 2019.

As for the wider economic backdrop, the demographic we serve is largely shielded from macroeconomic volatility, since government support in the form of benefits flexes as wages change, such that household incomes in this part of the market tend to remain stable.

From a consumer perspective, growing adoption of digital channels supports our strategy to enhance our offering in this regard, with increased penetration of mobile and web-based interactions across our customer demographic.

Chief Executive Officer's Review continued

Strategy

Our vision is to become a leading provider of non-standard finance in the UK. This does not mean we are seeking to be the largest operator in the sector, rather our focus is to nurture our excellent reputation founded on outstanding levels of customer satisfaction. Home Collected Credit is very much our current core business, and we are looking to build upon our solid foundations by diversifying our offering into adjacent areas of the non-standard finance market. There are an estimated 10 million non-standard finance customers in the UK, demographically diverse and with various levels of creditworthiness, but all with some form of complex credit history (or indeed no credit history) that precludes them from accessing mainstream lending.

We made sound progress against our strategy last year. Organic growth was at anticipated low single digit levels given the stable market, with growth delivered through our strong interpersonal relationships and the resulting customer referrals. Larger growth opportunities stem from acquisitions, as well as our product diversification strategy. Our ongoing customer surveys are not only used to evaluate our performance, but are also an important means of understanding customer needs and behaviour in related areas of finance. Using these insights, we have been building an online proposition to allow our target customers to access credit with the flexibility they desire: from loans and revolving credit products through to an e-money proposition which we plan to launch in 2019. The assets and capabilities associated with our recent acquisition of CURO Transatlantic Limited will accelerate our initiatives in this area.

We have also been investing in technology to maintain our outstanding level of customer service, whilst leveraging the same investment to ensure we never lend to customers who cannot afford the repayments. Customers are able to transact with us face-to-face in a swift but robust manner, and are offered choices in how their loans are distributed and repaid. They are able to interact with us around the clock, in a way that complements their personal relationships with agents.

People and culture

We are people-focused, which is reflected in our consistently high levels of customer, agent and employee satisfaction. We are committed to our successful model built around self-employed agents and their strong, face-to-face relationship with customers that drives excellent levels of service and customer loyalty, and is also the best route to understanding customer circumstances for forbearance.

Having made a number of acquisitions in recent years, we have well established processes for due diligence, acquisition and integration. Our track record of retaining high quality agents with correspondingly high quality customers is testament to our friendly, collegiate culture and intuitive, compliant procedures, with incoming agents enthusiastic adopters of our technology as a core means of improving their productivity and making their lives easier.

Following an acquisition, the training of agents in our conduct rules and credit processes begins on the day the transaction completes, and is largely completed within a month. Agent feedback confirms that we are seen as having a genuine ethos of treating customers fairly. They appreciate that they are not under pressure to sell, and enjoy Morses Club's digitally enabled systems, which frees up time previously spent on reconciling figures in a highly manual process.

CSR

Our corporate responsibility activity is executed at grass roots level by the agents and the managers in the communities in which we work. We invite requests for small community-run programmes relevant to our people.

Dividend

The Board is proposing to increase the final dividend to 5.2 pence per share from 4.8 pence last year, an increase of 8.3 per cent. Together with the interim dividend of 2.6 pence per share (H1 FY18: 2.2 pence), this gives a total dividend for the year of 7.8 pence per share, an increase of 11.4 per cent on the 7.0 pence per share paid last year.

The dividend of 5.2 pence per share will be paid on 26 July 2019 to ordinary shareholders on the register at the close of business on 28 June 2019.

Financing

In November 2018 we announced a further increase in our revolving credit facility ('RCF') to £50m plus a mezzanine facility of £5m with an option, subject to conditions and lender approval at the time, to increase the mezzanine facility up to £15m. The Board considers this appropriate to meet our likely growth and acquisition strategies without burdening the Company with excessive non-utilisation charges.

In terms of our capital allocation policy, the Board is confident that we have the right balance between internal investment, acquisitions and dividends.

Outlook

Looking ahead, we are optimistic about the pipeline of opportunities for organic and acquisitive growth in a market we feel continues to offer attractive prospects. We are excited about our planned launches that will make Morses Club even easier to deal with for both agents and customers, and are confident in our team's ability to deliver.

Paul Smith
Chief Executive Officer
2 May 2019

Chief Financial Officer's Operational and Financial Review

> "The Group has continued to make good progress on all fronts with profits, returns on assets and equity and dividends all showing a favourable trajectory. We continue to make great strides in our core UK Home Collected Credit business whilst making significant progress towards diversifying our product portfolio."

Andy Thomson
Chief Financial Officer

Overview

The results for the Group for the 52 weeks ended 23 February 2019 reflected the growth in earnings from the expansion in HCC territories during the last year. Whilst credit issued increased by a modest 2.4%, reflecting our continued focus on quality in a stable market place, adjusted profit before tax increased by 14.6% as the cost of the new territory build subsidies declined from £4.5m to £1.7m. Statutory reported profit before tax increased by 25.5%.

Over the two years covering the period of above average territory build growth (FY17 to FY19), credit issued grew by 24% (FY19: £178.5m v FY17: £144.1m) and adjusted profit before tax also by 24% (FY19: £22.0m v FY17: £17.7m).

Impairments remained broadly stable at 22.4% of revenue from 22.5%. Write-offs during the year fell to 21.2% of revenue from 22.4% last year (on a pro forma IFRS9 like-for-like basis). Impairment provisions at the close of the period did increase proportionally to gross receivables, which was a result of the quantum of top tier* customers falling from 69.6% to 68.4% as the new territories trended towards the long-term mix of good customers. This still compares very favourably to the 66.2% top tier we had in February 2017, prior to the significant territories expansion.

Shareholders' funds increased by 6.8% to £71.0m compared to the prior year, however after taking into account the £3.2m reduction to opening shareholders' funds due to the implementation of IFRS9 which was effective for the Group from 25 February 2018, on a like-for-like basis the increase was 12.2%. The net loan book increased by 0.3% to £73.0m, however after taking into account the IFRS9 adjustment above, the like-for-like increase was 6%.

* A top tier customer is a customer who has made 9 or more payments by value in the last 13 weeks.

Trading summary

£'m (unless otherwise stated)	IFRS 9 52-week period ended 23 February 2019	IAS 39 52-week period ended 24 February 2018	Pro forma IFRS 9 52-week period ended 24 February 2018
Customer numbers ('000s)	**235**	229	229
Period end receivables	**73.0**	72.8	68.8
Average receivables	**69.3**	66.4	n/a[1]
Revenue	**117.0**	116.6	110.4
Impairment	**(26.2)**	(30.4)	(24.8)
Agent Commission	**(28.3)**	(28.0)	(28.0)
Gross Profit	**62.5**	58.2	57.6
Administration expenses (pre-exceptional)	**(37.1)**	(36.1)	(36.1)
Depreciation	**(1.7)**	(1.5)	(1.5)
Operating Profit before exceptional costs and amortisation of acquisition intangibles	**23.7**	20.6	20.0
Amortisation of acquisition intangibles	**(1.0)**	(2.1)	(2.1)
Acquistion, restructuring and non-recurring costs	**(0.8)**	(1.0)	(1.0)
Exceptional costs	**–**	0.1	0.1
Operating profit	**21.9**	17.6	17.0
Funding costs	**(1.7)**	(1.5)	(1.5)
Statutory Profit Before Tax	**20.2**	16.1	15.5
Tax	**(4.0)**	(3.0)	(3.0)
Statutory Profit After Tax	**16.2**	13.1	12.5
Basic EPS	**12.5p**	10.1p	9.6p

1 Metric not quoted as it includes data points which precede the date of IFRS 9 transition.

Reconciliation of Statutory profit before tax to Adjusted profit before tax and explanation of Adjusted EPS

£'m (unless otherwise stated)	IFRS 9 52-week period ended 23 February 2019	IAS 39 52-week period ended 24 February 2018	Increase
Statutory Profit Before Tax	**20.2**	16.1	25.5%
Acquisition, restructuring and non-recurring costs	**0.8**	1.0	
Exceptional costs[2]	**–**	(0.1)	
Amortisation of acquired intangibles[3]	**1.0**	2.1	
Adjusted Profit Before Tax[1]	**22.0**	19.2	
Tax on Adjusted Profit Before Tax	**(4.4)**	(4.0)	
Adjusted Profit After Tax	**17.6**	15.2	
Adjusted EPS[1]	**13.6p**	11.7p	
Adjusted Return on Assets[1]	**25.4%**	22.9%	
Adjusted Return on Equity[1]	**29.6%**	26.5%	

1 Definitions are set out in the Glossary of Alternative Performance Measures.
2 Costs incurred in relation to the Company's IPO and AIM listing.
3 Amortisation of acquired customer lists and agent networks.

Chief Financial Officer's Operational and Financial Review continued

Group results

Credit issued to customers increased by 2.4% to £178.5m (FY18: £174.4m) and demonstrated that the majority of the benefits anticipated from the expansion in territories during last year had been achieved. The second half year growth was 0.5% to £92.5m (Second half FY18: £92.0m) compared to the first half growth of 4.5% to £86.0m (First half FY18: £82.3m). We expect that further growth in HCC sales will primarily come from acquisitions, however the two small acquisitions made in February 2019 had negligible impact on earnings in the year.

As a result of the implementation of IFRS9 in FY19, revenue and gross profit comparisons are more meaningful against the pro forma IFRS9 numbers for last year. The table below provides the comparative numbers against both the pro forma IFRS9 numbers and the actual numbers reported for last year under IAS39.

	FY19		Pro forma IFRS9 FY18		FY18 (reported)	
	£'m	% of rev	£'m	% of rev	£'m	% of rev
Revenue	117.0		110.4		116.6	
Agent commission	(26.6)	22.7%	(23.5)	21.3%	(23.5)	20.2%
Impairment	(26.2)	22.4%	(24.8)	22.5%	(30.4)	26.1%
Gross profit before territory build subsidy	64.2	54.9%	62.1	56.3%	62.7	53.8%
Territory build subsidy	(1.7)	1.5%	(4.5)	4.1%	(4.5)	3.9%
Reported gross profit	62.5	53.4%	57.6	52.2%	58.2	49.9%

Note: The reduction of revenue under IFRS9 is due to revenue being capped at the contractual amount whereas under IAS39 we were required to recognise revenue as if interest charges continued beyond the contract term. We then had to impair the excess revenue recognised over and above what we were contractually entitled to. Since we do not make any charges for late payments on any of our products the IFRS9 treatment of revenue is more appropriate.

On a comparable IFRS9 basis, revenue increased by 6.0% to £117.0m (FY18: £110.4m), with reported gross profit increasing by 8.5% to £62.5m (FY18: £57.6m). Compared to the reported numbers for FY18, revenue increased by 0.3% and reported gross profit increased by 7.4%.

Agent commission increased to 22.7% of revenue from 21.3% in the prior year. This was due to a minor revision of our agent commission schemes which although not fully approved by the FCA, were made with their full knowledge. In implementing this change, we standardised our scheme and were very careful to ensure no individual agents were materially adversely affected, which slightly increased total costs.

The impairment charge as a percentage of revenue was 22.4% for FY19, compared to 26.1% reported for in FY18 . The figure for the 2018 financial year was reported under IAS39, whilst FY19 is reported under IFRS9, and we had previously provided guidance that we expected this number to decrease as a percentage of revenue because of this change in the accounting regulations. FY18's pro forma income statement consistent with IFRS9 gives an impairment rate of 22.5%.

The ratio of impairment to revenue for FY19's outcome is in line with FY18. The actual debt write-off was only 3.5% lower than the prior year, compared to a revenue increase of 0.3%, the adverse movement in overall impairment relating to provision movements for future expected losses. This reflects a decline in top tier customers to 68.4% of gross balances from 69.6% in FY18 as the new territory build customer base trended closer to a long-term normal level of quality. A top tier of 68.4% of gross balances still compares very favourably with the 66.2% level in February 2017, prior to the territory build expansion.

Having reviewed all of the relevant factors that make up the calculation of the impairment provision (including the change in the accounting regulations), and in particular recognising that the impact of the improvements in debt quality over recent years has gone as far as is achievable, we are now issuing new guidance that we see impairment being in the range of 21% to 26% of revenue (previously 22% to 27%).

The gross margin benefitted significantly from the reduction in the cost of territory build subsidies, which fell to £1.7m from £4.5m in FY18, as the territory builds that largely commenced by the late Summer 2017 reached their target customer levels by late Summer 2018. Further, the split of this cost in FY19 was £1.3m in the first half and just £0.4m in the second half year, demonstrating the drop-off in the cost of subsidies.

Chief Financial Officer's Operational and Financial Review continued

Administration expenses increased from £37.6m in FY18 to £38.7m in FY19, reflecting greater customer acquisition costs that in part offset the reduction in territory build subsidy costs, as well as the continued increase in costs of compliance. However, the administration expenses as a percentage of revenue fell from 34.0% in FY18 (pro forma IFRS9) to 33.2% in FY19, an overall efficiency gain of 2.4%, driven by ongoing productivity improvements achieved through the operational IT improvements and lower management bonuses.

Adjusted profit before tax increased to £22.0m from £19.2m in the prior year, an improvement of 14.6%. The reported profit before tax increased from £16.1m to £20.2m, an improvement of 25.4%. The improvement in the reported profit before tax was boosted by reduced charges for the amortisation of acquisition intangibles, since only two small acquisitions were made at the end of FY19 and a reduction in acquisition, restructuring and non-recurring costs from £0.9m last year to £0.8m.

A table of adjustments between reported profit before tax and adjusted profit before tax is shown below.

For illustrative purposes the table below also shows the movement in the adjusted profit before tax when compared to the prior year on a like-for-like basis under IFRS9, which indicates a performance improvement of 18.3%.

£'m	FY19	FY18	Increase
Reported PBT	**20.2**	**16.1**	**25.5%**
Amortisation of acquisition intangibles	1.0	2.1	
Acquisition, restructuring and non-recurring costs	0.8	0.9	
Adjusted PBT	**22.0**	**19.2**	**14.6%**
Application of IFRS9 to FY18	n/a	(0.6)	
Pro forma IFRS 9 Adjusted PBT	**22.0**	**18.6**	**18.3%**

The amortisation of intangible assets reflects the unwinding of intangible assets in connection with acquisitions. This reduction reflects both the lack of material acquisitions in FY19 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. No intangible asset is recognised for acquired agents or new customers that these agents may identify subsequently, which management considers to be a conservative approach.

Other non-operating costs in FY19 largely related to legal and professional fees associated with acquisition activities. These were far lower than the other non-operating costs in FY18 which were largely as a result of restructuring costs in operations.

Earnings per share

The adjusted earnings per share for FY19 was 13.6p, an increase of 16.2% relative to the 11.7p for FY18. This represents an increase of 20.4% relative to the equivalent number of 11.3p for FY18.

The reported earnings per share for FY19 was 12.5p compared to 10.1p for FY18, an increase of 23.8%. This is 30.2% up on the equivalent pro forma IFRS9 number of 9.6p for FY18.

Dividend

Subject to shareholder approval at the Annual General Meeting on 25 June 2019, the Board proposes to pay a final dividend of 5.2p per Ordinary Share (FY18: 4.8p) payable on 26 July 2019 to shareholders on the register at the close of business on 28 June 2019.

This payment is in addition to the interim dividend already paid of 2.6p per Ordinary Share, making a total dividend for the year of 7.8p (FY18: 6.0p). The continued high level of the dividend payments reflects the Board's confidence in the business prospects and our commitment to provide a strong income yield to our shareholders.

Net margin

The adjusted net margin, which excludes amortisation of intangibles on acquisitions and other non-operating costs, increased to 18.6% from 16.8% in the prior year, due largely to the reduction in the cost of territory builds. This reduced cost of territory builds helped to improve margins by 2.4% in FY19.

The reported net margin for the period increased to 17.3% from 13.8% in the previous year, driven by several factors: the reduced territory build costs mentioned above, the reduction in the amortisation of intangibles on acquisitions charge which reduced to £1.0m from £2.1m in the prior year for the reasons described above and below.

Acquisitions and goodwill

The Group made two small HCC acquisitions towards the end of FY19 which had a negligible impact on the amortisation of acquisition intangibles in the period. The goodwill on acquisitions may be found in note 10 in the financial statements.

Following the year end, the Group acquired the business and certain assets of online lender CURO Transatlantic Limited for £8.5m. This acquisition was in line with our stated strategy to diversify the products and markets that we serve in the non-prime lending space. This acquisition gives us scale and expertise to take our own Dot Dot online product to a level where management are confident that it will be financially successful. We are currently going through a complex integration process of rebranding and replatforming the incumbent technology, which means that there will be initial losses, particularly in the first half of FY20, as we build it back up to a profitable scale. However, management are confident that the acquisition will make healthy returns on the investment.

In FY19, Dot Dot loans made a start-up loss of £0.5m (FY18: £0.8m).

Funding

Following our increase in debt funding from £25m to £40m in August 2017, we were pleased to announce in November 2018 a further increase in our revolving credit facility to £50m plus a mezzanine facility of £5m with an option, subject to conditions and lender approval at the time, to increase the mezzanine facility up to £15m. The expiry date of the RCF facility remains August 2020, with the mezzanine facility expiring in February 2021.

The current facility is sufficient to meet our immediate strategic objectives, with the peak drawdown in FY19 being only £21.5m in December 2018 (FY18: December 2017 £28.0m). We remain focused on seeking to increase our gearing in order to maximise equity returns, but not to a degree that we would feel we were putting the Group at a significantly higher level of financial risk.

Chief Financial Officer's Operational and Financial Review continued

Balance sheet

The total equity for the Group increased by 6.8% from £66.5m reported in FY18 to £71.0m, reflecting the proportion of profits that we retain for future expansion. This was a 12.2% increase relative to the pro forma IFRS9 total equity figure of £63.3m.

The main asset of the Group is our loan book, which on a net basis increased by 0.3% from £72.8m in FY18 to £73.0m in FY19. However, the opening loan book was reduced down by £3.9m to £68.9m as a result of adopting IFRS9, so the real increase on a comparable IFRS9 basis was 6.0%.

Summarised balance sheet

£'m	FY19 Reported	Pro forma IFRS9 FY18	FY18 Reported
Loan book	73.0	68.9	72.8
Bank loans	(14.5)	(16.0)	(16.0)
Other net assets	12.5	10.4	9.7
Total equity	71.0	63.3	66.5

Cash flow

The simplified cash flow statement below illustrates the cash generated by the business. Cash from operations excluding investment in the loan book increased by 6.1% to £24.3m (FY18: £22.9m).

Summary cash flow

£'m (unless otherwise stated)	52-week period ended 23 February 2019	52-week period ended 24 February 2018
Cash from operations excluding investment in loan book	**24.3**	22.9
Cash from funding	**(1.0)**	6.0
Total cash sources	**23.3**	28.9
Increase in net loan book	**(0.8)**	(11.6)
Acquisitions	**(2.2)**	–
Capital expenditure	**(2.4)**	(2.0)
Corporation tax	**(3.6)**	(4.6)
Interest paid	**(1.7)**	(1.4)
Dividends paid	**(9.6)**	(8.4)
Total cash uses	**(20.3)**	(28.0)
Cash movement	**3.0**	0.9

IFRS 9

The International Accounting Standards Board introduced a new accounting standard covering financial instruments which became effective for accounting periods beginning on or after 1 January 2018.

This standard replaces IAS 39: Financial Instruments: Recognition and Measurement.

The new standard requires that lenders (i) provide for the Expected Credit Loss ('ECL') from performing assets over the following year and (ii) provide for the ECL over the life of the asset where that asset has seen a significant increase in credit risk. As a result, whilst the underlying cash flows from the asset are unchanged, IFRS 9 has the effect of bringing forward provisions into earlier accounting periods. This resulted in a one-off adjustment to receivables, deferred tax and reserves on adoption.

To assist analysts and investors, the FY18 full year results included a separate disclosure detailing an estimate of the expected impact of IFRS 9 on the closing balance sheet for FY18 (and therefore the opening balance sheet for FY19). An analysis of impacts on the main areas of the opening balance sheet are:

	Closing Balance Sheet IAS39	IFRS9 estimated adjustment	Opening Balance Sheet IFRS9
Net Loan Book	72.8	(3.9)	68.9
Other (Deferred tax)	(0.1)	0.7	0.6
Net Assets	66.5	(3.2)	63.3

The adoption of IFRS9 saw a reduction in the net loan book of £3.9m, which net of deferred tax resulted in a reduction in net assets of £3.2m.

The fundamental cash flows of the business remain unchanged with the introduction of IFRS9 only changing the timing of the profits taken on the Group's products.

The introduction of IFRS9 has not resulted in any changes to the Group's lending policy.

By order of the board:

Andy Thomson
Chief Financial Officer
2 May 2019

Risk Management

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

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 that 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 framework by focusing on the quality of risk capture and risk updates. This helps to ensure that priorities are given to the most important risks and helps inform decision-making for the future.

FIRST LINE OF DEFENCE	SECOND LINE OF DEFENCE	THIRD LINE OF DEFENCE
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	Independently assess and assure Internal control framework Risk management effectiveness
Field operations – divisional managers, regional managers, area managers and business managers	Compliance monitoring & oversight	Internal audit
Central operations	Horizon scanning by senior personnel	Audit Committee
Banking and finance	Risk and financial crime prevention	Use of third party specialists to assist the internal audit department
		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. Risks and their status are reviewed regularly.

The Group operates only in the UK financial services sector and, having undertaken a risk assessment as shown on the page opposite, 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 34 to 35.

Viability statement

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 has been 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 (including all variations of Brexit) and how these are identified, managed and mitigated (as shown on pages 34 to 35).

The strategy for the Group is included on pages 10 to 11 and its business model is on pages 8 to 9. HCC is a long established offering, and parts of the Group have been undertaking this business for more than 130 years.

The Directors review and renew the three-year strategic plan at least annually. Progress against the strategic plan is reviewed at every meeting 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 revolving debt facility of £50m, secured by a debenture on the assets of the business. The Group has also agreed a further mezzanine facility of £5m which can be increased to £15m with lender consent. The revolving credit facility expires in August 2020 and the mezzanine facility expires in February 2021. It is the Group's policy to renew its facilities well in advance of these dates.

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

Brexit
As a company operating solely in the UK, with no foreign currency exposure, EU supply chain, or key dependency on overseas staff, the Company has not identified any adverse direct consequences of Brexit, in whatever form it may take.

Management have considered that there may be a period of uncertainty in the general economy after Brexit, with possible increases in unemployment and interest rates as the government may employ some quantitative easing measures to stimulate demand in the domestic economy.

In terms of the impact of increased unemployment, the home credit sector has generally been quite resilient in periods where unemployment has been increasing, due in part to the HCC customer base typically relying on a mixture of wages and benefits within household incomes.

With regard to interest rate increases, management has modelled a number of scenarios where interest rates are increased substantially without the Company breaking any funding covenants.

Conclusion
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

Type of Risk	Definition	Mitigation
CONDUCT RISK	The risk of poor outcomes for customers, 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. The Group is developing processes to measure culture and ensure that behaviours are consistent with our values. The Group has successfully accommodated regulatory changes including those announced under the High Cost Credit review (CP18/43). The Group is due to implement enhanced affordability procedures incorporating additional external data by summer 2019.
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 or regulatory guidance changes. 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 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. In 2018, we initiated surveys of all types of customer, including those who benefited from our policy of forbearance. 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.	A full Committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual two-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. 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.	The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision. 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.
LIQUIDITY RISK	The risk of the Company being unable to meet its current and future financial obligations on time.	The Group currently has a revolving debt facility of £50m, secured by a debenture on the assets of the business. The Group has also agreed a further mezzanine facility of £5m which can be increased to £15m with lender consent. The revolving credit facility expires in August 2020 and the mezzanine facility expires in February 2021. It is the Group's policy to renew its facilities well in advance of the dates of these facilities expiring. This is sufficient to fund planned business growth. The Group actively monitors its compliance with the covenants set out in the facilities, in order to avoid the debt being recalled.
IT RISK	The risk of business interruption 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. Failover tests of our IT facilities have also been carried out successfully. A comprehensive business continuity 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.

Emerging risks

The Company uses Proactive Risk Management in order to view current and future events and predict where emerging risks might appear. This horizon scanning is fundamental to being able to predict business needs and potential issues and there are numerous techniques for this process.

Risk identification exercises are performed as part of general risk management practice within the Group.

Current events are highlighted and analysed, for example regulatory fines to other organisations. This is then reported on at executive level as a horizon scanning item for Risk Executive reports.

Other future business, economic, political, or newsworthy events are also highlighted and added to the horizon scanning process.

Risks identified using these processes are prioritised and managed following the Group's established risk processes.

An example of an emerging risk is the implementation of processes in readiness for the Senior Managers and Certification Regime to be implemented in December 2019. The Company has appointed a project team in order to ensure compliance prior to December.

This Strategic Report was approved by the Board on 2 May 2019 and signed on its behalf by:

Paul Smith
Chief Executive Officer
2 May 2019

Board of Directors

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.

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. On 1 May 2018, Paul was appointed a member of the FCA's Smaller Business Practitioner Panel to represent the consumer credit sector.

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 SME's 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 Club 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 focusing principally on regulation, governance and culture in the financial services sector. Patrick is a Non-Executive Director of Arch Insurance Europe, ActiveTrades 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 Group PLC. Sir Nigel is the former Global Co-Chairman and Senior Partner of DLA Piper, having served as Global Co-CEO and Managing Partner for nearly 20 years. 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 that it is today. He received a knighthood in 2009 in recognition of his services to the legal industry.

Legal Business awarded Sir Nigel a 'Lifetime Achievement Award' in 2015 and he was given the Financial News 'Editor's Choice' award for lifetime achievement in 2016. Sir Nigel was also the High Sheriff of Greater London from 2016 to 2017, and is on the Council of the Prince's Trust.

Areas of Expertise
Sir Nigel has immense experience of building and leading a worldwide regulated services business.

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 Green Man Gaming Holdings PLC. These other roles outside Morses Club take up 9.5 days per month of Joanne's time.

Areas of Expertise
Joanne's financial services experience includes Board level roles focusing 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.

Chairman's Introduction to Governance

Dear Shareholder,

I am pleased to present our 2019 Corporate Governance report for the Group which includes reports from the Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations and Disclosure Committees on pages 40 to 62.

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 exception is the Directors' Remuneration Report which has been prepared in accordance with AIM Rule 19. 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. The Directors have already started to implement the changes being introduced by the July 2018 edition of the Code, although this does not become applicable until 2020.

Culture

The strapline of Morses Club PLC is 'putting you first'. During the year, the Board has again been very active in ensuring that this reflects reality and is not merely an aspiration.

The Group has a culture of looking after its customers and employees, taking account of community and stakeholder interests in its decision-making. The Directors have positively addressed the matters set out in section 172 of the Companies Act 2006.

Examples of Board activity in stakeholder engagement included:

- Monitoring the satisfaction levels of both current and past customers. Independent research covering the whole range of our customers returned scores of 97% for overall customer experience.
- Reviewing employee satisfaction surveys, with other updates from the HR team featuring prominently at meetings.
- Reviewing the satisfaction of our 2,050 self-employed agents who are in regular face-to-face contact with our customers.
- Looking at trends relating to customer complaints and health & safety.
- The introduction of an employee-wide HMRC tax-advantaged share option plan under which all staff with a minimum of one year's service have been given shares in the Company.
- 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 three years ago 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. During the financial year, Board membership again remained stable and unchanged, as it has done during the three 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 36 and 37. All continuing Directors are submitting themselves for re-election at the Annual General Meeting in June 2019, in accordance with the provisions of the July 2018 edition of the Code.

As Chairman, I carried out a formal Board evaluation process between November 2018 and February 2019. 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 that is engaged, has a wide variety of relevant experience, and is focused 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.

Imminent change to the Board

In reviewing my recommendations to the Board on the renewal of Non-Executive Director contracts, it has been appropriate to assess the possible future requirements of the business and to identify any potential conflicts of interest. As a result, Patrick Storey and I have agreed that he will not seek renewal of his term of office and accordingly he will step down from the Board and his Committee duties at the end of his current contractual period on 4 May. Patrick has been a first class Board member, contributing to debate with the benefit of his deep understanding of the regulated financial services industry. He has made a significant mark in developing the control environment within the Company through his chairmanship of both the Audit and the Risk & Compliance Committees and he played a key role in the process leading to full authorisation with the Financial Conduct Authority. He led on the introduction of an internal audit function and added real value to decision-making across a range of important subjects.

In the light of the loss of such a valued Non-Executive Director, it is therefore most pleasing to report that a high calibre replacement has been secured, following an intensive search process. Baroness Simone Finn has accepted the Board's offer to become a Non-Executive Director and Chair of the Audit and Risk & Compliance Committees with effect from 5 May 2019. Baroness Finn has a deep grounding in corporate governance excellence and, through the consultancy business of which she is managing director, advises international governments in this field. She is a chartered accountant by profession and is experienced in audit practice through her previous roles and membership of the Audit Committee of Arbuthnot Latham. Her ability to grasp complex and demanding issues is reflected in her specific Parliamentary responsibilities for reviewing secondary legislation. Baroness Finn previously worked at the Financial Services Authority, the predecessor of the FCA.

Stephen Karle
Chairman
2 May 2019

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 (the 'Code'), although, being AIM listed, the Group is not obliged to comply with this.

Following feedback received at the 2018 Annual General Meeting, Peter Ward, an Affiliated Director appointed by Hay Wain Group Limited, resigned from membership of the Audit Committee and the Remuneration & CSR Committee on 24 July 2018.

As a result, the only exception currently to our adoption of the April 2016 edition of the Code is the Directors' Remuneration Report, which has been prepared in accordance with AIM Rule 19.

As required by AIM Rule 26, details of the Company's adherence to the April 2016 Code is shown on its website.

The Directors have been fully briefed about the changes being introduced by the July 2018 edition of the Code. Many of these changes are already in the process of being implemented.

Leadership

Role of the Board

The Company is headed by an effective Board that 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 that 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 Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations and Disclosure 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 eight formal meetings each year, including one that concentrates solely on strategy. In addition, two teleconferences are convened each year in order to agree the final and interim results and dividend. Further teleconferences are arranged, if required. Members of the Executive Team are invited to the formal meetings as attendees. 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.

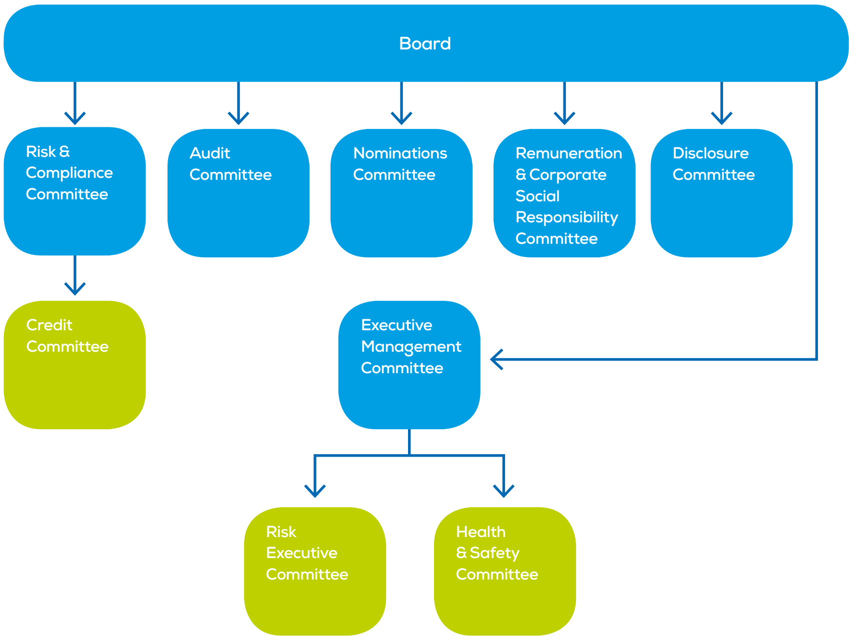
The Board meeting agenda normally comprises a review of management financial statements and operational performance, a CEO review of activity, reports from the Executive Team, a review of potential acquisitions and other growth opportunities, a review of relevant Board sub-Committee minutes and reports, 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. A meeting in November is dedicated to the Group's strategy.

The Chairman
The Chairman is mainly responsible for the leadership of the Board and ensuring its effectiveness concerning 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 Risk & Compliance, Audit, Nominations, Remuneration & Corporate Social Responsibility and Nominations Committees.

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 36 and 37.

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 the Group's major shareholder, Hay Wain Group Limited, and so is not considered to be independent.

Appointments to the Board
On 1 May 2019, it was announced that Patrick Storey would not be renewing his appointment at the expiry of his three-year term of office and that Baroness Simone Finn would replace him as a Director with effect from 5 May 2019.

Commitment
The Group appreciates the benefits that are brought by a Board with a range of business backgrounds. The Board is satisfied that each Non-Executive Director has sufficient capacity to discharge their responsibilities effectively. This is demonstrated by the 100% attendance at Board meetings during the year, and 98% attendance during the previous year. Their record of attendance at meetings is shown on page 44, and they have also demonstrated their commitment by the work and advice provided throughout the year. Following guidance contained in the 2018 edition of the Code, the Board is now required to give prior approval to the Directors for any new appointments.

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.

With effect from the appointment of Baroness Simone Finn on 5 May 2019, there will be two women on the Board.

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 regular briefings on corporate governance matters. In January they were briefed about the FCA's Senior Management & Certification Regime that is being implemented in December 2019. Following feedback received as part of the Board evaluation exercise, the Company is looking to increase the amount of training available to Directors during the year, with the first such training session taking place in March 2019.

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 to enable them to fulfil their duties if necessary.

Board Evaluation
Our CEO is appraised every six months by the Chairman. During the year, the Chairman has undertaken a formal internal Board evaluation, and the Senior Independent Director has appraised the Chairman after consultation with the other Directors.

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.

Following the evaluation, it was agreed to provide additional training for the Directors about matters specific to the business.

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.

The conclusions of the evaluation process are included within the report of the Nominations Committee on page 59.

Re-election of Directors
Following the recommendation of the July 2018 edition of the Code, at the Company's AGM in June 2019, all of the continuing Directors will submit themselves for re-election, and will continue to do so at each subsequent 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 35, 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 66 and those of the auditor on page 72.

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 32 to 35. 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, Key Performance Indicators and forecasts on a monthly basis;
- the receipt of regular reports that 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 that enables the Company to identify, manage and evaluate risks, including emerging risks. The report of the Audit Committee on pages 47 to 51 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 2016 edition of the 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 that come to the attention of management and the Board.

Audit Committee and its auditors
The Board is required to establish formal and transparent arrangements for considering how they should apply the corporate reporting, 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 47 to 51 demonstrates how the Board has undertaken its obligations in this area.

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, including Committee Chairpersons, will be present and available to answer questions. The Board is aware of the importance of maintaining close relations with investors and analysts. 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. Within seven days of the preliminary announcement of the 2018 annual results, the CEO and CFO met 85% of the Company's shareholders (by shareholding). These meetings usually cover any matters arising from the analyst presentations, the market in which the Group is operating, its dealings with the regulator, together with the Group's financial performance and future strategy. 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 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 2018 AGM, at which 95% of its shareholders voted, with a minimum of 98% of votes being cast in favour of all 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 attend meetings of the Audit, Risk & Compliance, Nominations and Disclosure Committees in order to maintain a full appreciation and understanding of the Company.

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	7	3	1
Stephen Karle	Non-Executive Chairman	8	5	4	7	3	1
Paul Smith	Chief Executive Officer	8	5				1
Andy Thomson	Chief Financial Officer	8	5				1
Sir Nigel Knowles[1]	Senior Independent Director	8	3	2	5	3	1
Joanne Lake	Non-Executive Director	8	5	4	7	3	1
Patrick Storey	Non-Executive Director	8	5	4		3	1
Peter Ward[2]	Non-Executive Director	8	4	2/2	4/4	3	1

1 On 20 March 2018, Sir Nigel Knowles was appointed a member of the Remuneration & Corporate Social Responsibility Committee.
2 On 24 July 2018, Peter Ward, an Affiliated Director, ceased to be a member of the Audit Committee and the Remuneration & CSR Committee.

Membership of Committees during the year were as follows:

C = Chairman
M = Member
UA = Upon appointment

	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	UA
Paul Smith	Chief Executive Officer	M				M	x
Andy Thomson	Chief Financial Officer	M				M	x
Sir Nigel Knowles	Senior Independent Director	M	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 (part)	M (part)	M	M	x

On 5 May 2019, Peter Ward, an Affiliated Director, and Executive Directors Paul Smith and Andy Thomson ceased to be members of the Risk & Compliance Committee in order that all of its members could be deemed as independent under the July 2018 edition of the Corporate Governance Code.

On 5 February 2019, Stephen Karle, Chairman, ceased to be a member of the Audit Committee.

Following these changes, the Company now complies with the provisions of the July 2018 edition of the Corporate Governance Code regarding Committee membership.

Membership of the Committees at the start of FY19/20 is shown below:

C = Chairman
M = Member
UA = Upon appointment

	Position	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations Committee	Disclosure Committee	Considered Independent
Stephen Karle	Non-Executive Chairman	M	–	M	C	C	UA
Paul Smith	Chief Executive Officer	–	–	–	–	M	x
Andy Thomson	Chief Financial Officer	–	–	–	–	M	x
Sir Nigel Knowles	Senior Independent Director	M	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	x

On 1 May 2019, it was announced that Patrick Storey would not be renewing his appointment at the expiry of his three-year term of office on 4 May 2019, and that Baroness Simone Finn would replace him as a Non-Executive Director and Chair of the Audit and Risk & Compliance Committees with effect from 5 May 2019.

Corporate Governance Report continued

Remuneration & Corporate Social Responsibility Committee

During the year, the Remuneration & Corporate Social Responsibility Committee comprised the following:

- Joanne Lake (Chairman);
- Stephen Karle;
- Peter Ward (25 February 2018 – 24 July 2018); and
- Sir Nigel Knowles (20 March 2018 – present).

On 20 March 2018, Sir Nigel Knowles was appointed to the Committee in order to comply with the requirement within the April 2016 edition of the Corporate Governance Code that a Remuneration Committee should consist of a minimum of two independent Directors (not including the Board Chairman).

On 24 July 2018, Peter Ward, an Affiliated Director, resigned from the Committee in order to comply with the requirement within the April 2016 edition of the Corporate Governance Code that a Remuneration Committee should consist solely of independent Directors.

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 52 to 55.
The Directors' Remuneration Report on pages 52 to 55 forms part of these financial statements.

Audit Committee

Committee members	Regular attendees
• Patrick Storey (Chairman)	Chief Executive Officer[1]
• Stephen Karle (until 5 February 2019)	Chief Financial Officer[1]
• Sir Nigel Knowles	Finance Director[1]
• Joanne Lake	Head of Internal Audit[1]
• Peter Ward (until 24 July 2018)	Risk & Compliance Director[1]
	Representatives from Deloitte, the external auditor[1]
	Company Secretary
	Peter Ward (from 25 July 2018)[1]
	Stephen Karle (from 6 February 2019)[1]

1 By invitation.

Both Patrick Storey and Joanne Lake are Chartered Accountants with 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.

Peter Ward, an Affiliated Director, resigned as a member of the Committee on 24 July 2018, in order to comply with the provisions of the April 2016 edition of the UK Corporate Governance Code.

Stephen Karle, Board Chairman, resigned as a member of the Committee on 5 February 2019, in order to comply with the provisions of the July 2018 edition of the UK Corporate Governance Code.

The Committee held four meetings during the year.

Audit Committee continued

Dear Shareholder,

As Chairman of the Audit Committee, I am pleased to present my report for the year ended 23 February 2019.

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.

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 independent Non-Executive Directors are members of this Committee, and have been since the Group's IPO in May 2016. 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. During the year, the IT & Business Change Director agreed to attend meetings of the Committee. Stephen Karle (Board Chairman) and Peter Ward (Affiliated Director) have also been invited to attend meetings since their resignation as full members of the Committee in February 2019 and July 2018 respectively.

The Committee meets with the external auditor without the presence of Executive Management twice each year to discuss matters relating to its remit and any issues relating to the audit. The Committee also meets each of the Risk & Compliance Director and the Head of Internal Audit individually on an annual basis 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 Committee meetings was increased to ensure that it remains appropriate for the issues being raised. In addition, a formal rolling agenda was 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. Loan loss provisioning
IFRS 9 requires management to record impairment provisions based on the stage of credit impairment. The recording of a provision requires management to make complex judgements. Management has adopted an approach to IFRS 9 impairment modelling, based on discounting expected future cash flows whereby the probability of default and loss given default are assessed as a single combined measure.

The key judgement is around the estimation of expected future cash flows used to determine the provision.

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
IFRS 9 requires management to recognise interest using the effective interest rate ('EIR') method based on the stage of credit impairment. The Committee has reviewed the expected life assumptions and management's judgement paper. It has also challenged the expected life of products by reference to both historical and forecast data and comparability with the contractual life under IFRS 9, and concluded that the Group's treatment of this is reasonable.

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;

Audit Committee continued

- a review of the external auditor's management letter arising from their external audit of the Company's 2018 accounts, and the managements response to the recommendations included within it;
- a consideration of the level of non-audit work carried out for the Group by the external auditor seeking confirmation from the auditor that it maintains suitable policies and processes to ensure independence. The Committee has a non-audit work policy which is reviewed annually;
- overseeing the activities of the Group's internal audit function, including its resourcing, its planning and the output of its audit work;
- approving the budgets for internal and external audit activities;
- 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. The CFO, Finance Director and other senior executives provide feedback to the Board and Audit Committees, on a regular basis regarding the services received from the external auditor.

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

As part of the Committee's remit, we monitor the level of non-audit work carried out by the external auditor. During the year, the Committee carefully considered a proposal from the CFO that he should be permitted to select Deloitte to undertake due diligence work in respect of future acquisitions. After careful consideration about Deloitte's independence, the Committee agreed that the Company should select whoever it believes to be the most appropriate provider under the circumstances.

During the year to 23 February 2018, the level of audit fees amounted to £254k (FY18: £224k), and non-audit fees amounted to £119k (FY18: £26k). The ratio of audit fees to non-audit fees was 29.8% (FY18: 11.6%). The non-audit work carried out during FY19 related to (i) the review of the interim results and (ii) due diligence work in respect of a number of potential acquisitions.

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. Deloitte have significant experience and expertise within the Home Collected Credit market and the management team has confirmed that they are very content with the competence and performance of the team at Deloitte. Being on AIM, the Company is not required to review its external auditor after 10 years. However, within the next 12 months, the Committee expects to review whether it wishes to put the external audit service out to tender, following the successful implementation of IFRS 9.

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 FY18 audit, Matt Perkins, the then partner from the external auditor rotated off the Morses Club audit after eight years of service and was replaced by Kieren Cooper. The Committee observed that the handover went very well.

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.

During the year, the Internal Audit plan contained a diverse selection of risk-based reviews. One of the largest reviews on the plan was in the area of GDPR, which was seen as a high priority for the Group due to the introduction of the new regulations in May 2018. A follow up of the prior year's Information Security review was also conducted. This reviewed the sustainable implementation of the recommendations arising from the 2017 audit.

The Committee closely reviews the reports of the internal audit function. Its work is primarily risk-based, using the Group's risk register and consultation with the Executive team 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. The Head of Internal Audit is invited to attend all of the Committee's meetings, and meets the Committee members on an annual basis without management present. As Chairman of the Committee, I hold one-to-one meetings every month with the Head of Internal Audit.

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
2 May 2019

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 2018/19. No changes have been made to any of the Director roles. The only change to the supporting Executive Management structure has been the appointment of an additional Customer Experience Director effective from 1 February 2019.

Remuneration & Corporate Social Responsibility Committee

The Board had appointed a Remuneration Committee ('the Committee') which is chaired by Joanne Lake (Independent NED), and comprises Sir Nigel Knowles (Senior Independent 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 2019, 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.
- 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 continuing to develop new products and services for our customers.

Directors' Remuneration 2018/19 (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	292,500	50,049	8,550	209,790	137,172	10,749	708,810
Andy Thomson	CFO	224,250	9,396	15,207	160,839	104,824	5,073	519,589

Directors – 2017/18

	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

Non-Executive Directors 2018/19 (This section is subject to audit)

Name	Role	Base Salary	Supplements	Expenses & Emoluments
Stephen Karle	Chairman	116,667	–	5,495
Sir Nigel Knowles	Senior Independent NED	49,167	7,500	–
Joanne Lake	NED and Chair of Remuneration Committee	49,167	7,500	857
Patrick Storey	NED and Chair of Audit and Risk & Compliance Committees	49,167	15,000	1,225
Peter Ward	NED	49,167	–	1,835

Non-Executive Directors – 2017/18

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 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 Statement continued

Directors' remuneration policy

Service contracts
All Executive Directors were reissued 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.

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.

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 23 February 2019 is outlined in the table on page 53.

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 on 5 May 2018 was £1.54. 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 2017/18. The issue price of the shares was £1.26.

Name	Role	Percentage of Salary	Share Award
Paul Smith	CEO	100	215,300
Andy Thomson	CFO	100	165,100

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 105 to 107.

Directors' shareholdings

The table below details the shareholdings and other share interests of the Directors as at 23 February 2019.

Name	Role	Ordinary Shares	Percentage Shareholding
Paul Smith	CEO	327,420	0.25
Andy Thomson	CFO	3,038,171	2.34
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 FY19 is £20,702,173 compared to £20,060,506 for FY18.

Corporate Social Responsibility

The Company has undertaken small localised CSR programmes during FY19. We are developing similar CSR programmes, based on local communities for FY20.

Joanne Lake
Chair – Remuneration and Corporate Social Responsibility Committee
2 May 2019

Risk & Compliance Committee

Committee members	Regular attendees
• Patrick Storey (Chairman)	Peter Ward[1] (from 6 February 2019)
• Stephen Karle	Paul Smith[1] (CEO) (from 6 February 2019)
• Sir Nigel Knowles	Andy Thomson[1] (CFO) (from 6 February 2019)
• Joanne Lake	Ian Cooper[1] (Risk & Compliance Director) (from 6 February 2019)
• Peter Ward (until 5 February 2019)	Barrie Grimshaw[1] (IT & Business Change Director) (from 6 February 2019)
• Paul Smith (CEO) (until 5 February 2019)	Finance Director[1]
• Andy Thomson (CFO) (until 5 February 2019)	Company Secretary
• Ian Cooper (Risk & Compliance Director) (until 5 February 2019)	
• Barrie Grimshaw (IT & Business Change Director) (until 5 February 2019)	

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 and regulatory compliance within the Group with particular focus on the FCA's developing requirements, 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 held five meetings during the year, including one that dealt solely with the proposed acquisition of the business and certain assets of CURO Transatlantic Limited.

Dear Shareholder,

As Chairman of the Risk & Compliance Committee, I am pleased to present our report for the year ended 23 February 2019.

The report provides insight into the composition of the Committee and the work that it undertakes to ensure that:

- the Group remains compliant with the FCA's prevailing rules, regulations and guidance;
- the Group's risk management policies and procedures are fit for purpose; and
- 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 independent Non-Executive Directors are members of this Committee, and have been since the Group's IPO in May 2016.

The composition of the Committee was reviewed by the Nominations Committee in November 2018. In light of the recommendation contained in the July 2018 edition of the UK Corporate Governance Code, Peter Ward (Affiliated Director), Paul Smith (CEO), Andy Thomson (CFO), Ian Cooper (Risk & Compliance Director) and Barrie Grimshaw (IT & Business Change Director) ceased to be members of the Committee on 5 February 2019 and will in future attend the Committee meetings by invitation. The Finance Director also attends Committee meetings by invitation.

How the Committee discharged its responsibilities

The Committee held five meetings during the year in accordance with its terms of reference.

Both the Group's Risk Executive Committee and its Credit Risk Committee report to this Risk & Compliance Committee and their minutes are sent to all members of this Committee.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. It also confirmed that it was satisfied with the effectiveness of the Company's risk management function. As Chairman, I am satisfied with the functioning of the Committee, and the management information provided by the Company.

The time allocated to Committee meetings was increased in FY19 to ensure that it remains appropriate for the scope of its responsibilities. A formal rolling agenda was also introduced for FY19 following the Committee's review and updating of its terms of reference in February 2018.

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);
- processes and procedures to ensure that the Group operates in compliance with external regulators, for example the FCA and the ICO;
- the arrangement for the identification, assessment, monitoring, management and oversight of risk with regard to processes and procedures;

Risk & Compliance Committee continued

- 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.

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 work done by the Executive Team's Credit 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 GDPR.
- Customer complaints.
- Financial crime.
- Whistleblowing.
- Regulatory matters, including those relating to the FCA.

Activities during the year

During the year, some of the key topics addressed by the Committee included cyber security and data protection, Treating Customers Fairly, whistleblowing, regulatory matters and customer complaints.

Cyber security and data protection

Cyber security has been a major topic for the Committee. During the year, the Group continued to perform both penetration testing and failover testing. The Committee was very pleased with the diligent manner in which the Company implemented the GDPR regulations, introduced in May 2018.

Regulatory matters

The Chairman has more than 30 years of experience focusing principally on regulation in the financial services sector, having been a founding member and former senior partner of Grant Thornton's Financial Services Group. The Committee has been actively involved in the Group's continuing constructive dialogue with the FCA. The Committee continues to have oversight of the preparations for the implementation of the Senior Managers and Certification Regime in December 2019.

Treating Customers Fairly dashboard review

At each meeting, the Committee reviews the Company's dashboard for Treating Customers Fairly. In October 2018, the Committee chose to undertake a 'deep dive' review of the Company's policies and procedures for Treating Customers Fairly, in association with the Company's Operations Director.

Whistleblowing

During the year, the Committee reviewed the Company's whistle-blowing procedures. The Company has consistently highlighted to its staff the FCA's whistleblowing hotline as well as providing an internal contact telephone number and email address. Following the review, the Company has added the contact details of one of its Independent Non-Executive Directors, in order to increase the options available to a potential whistleblower.

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. The Committee was delighted when the Company's complaints handling process was awarded ISO 10002:2014 in August 2018.

A section on the Group risks can be found on pages 32 to 35.

Approval

On behalf of the Risk & Compliance Committee

Patrick Storey
Chairman
2 May 2019

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 three meetings.

During the financial year ended 23 February 2019, the Board has remained unchanged. The Executive Management Team has remained stable, with the addition of a new appointment of a Customer Experience Director.

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.

The appointment with effect from 5 May 2019 of Baroness Simone Finn will result in a position whereby for the first time, two members of the Board will be women.

Nominations Committee continued

Activities during the year

During the year, the Committee has:

- undertaken an exercise to look at executive succession planning;
- reviewed the composition of the Board and its sub-Committees;
- undertaken an annual 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;
- agreed that the Affiliated Director, Peter Ward, should cease to be a full member of the Audit, Risk & Compliance, and Remuneration & CSR Committees in accordance with recommendations set out in the 2016 Code and also that he should cease to be a member of the Risk & Compliance Committee as recommended in the 2018 Code;
- agreed that the Executive Directors Paul Smith and Andy Thomson should cease to be members of the Risk & Compliance Committee prior to the start of FY20, in accordance with the July 2018 edition of the Corporate Governance Code;
- agreed that the Chairman, Stephen Karle, should cease to be a member of the Audit Committee prior to the start of FY20, in accordance with the July 2018 edition of the UK Corporate Governance Code;
- agreed that the Senior Independent Director, Sir Nigel Knowles, should be appointed as a member of the Remuneration & CSR Committee;
- agreed that each of the continuing Directors should stand for re-election at the AGM in June 2019 and in all subsequent years, in accordance with the 2018 edition of the UK Corporate Governance Code; and
- reviewed and updated the Committee's terms of reference.

Internal evaluations

Following the internal evaluation, the Committee concluded that:

- the Board remains focused on outcomes – for customers, investors, employees, self-employed agents and stakeholders. This can be demonstrated by the management information requested by and produced to the Board at each Board meeting, including additional customer research commissioned during the year;
- the Board consistently considers the relevance of its capabilities to meet the challenges ahead. This is debated in relation to every acquisition and at Nominations Committee;
- the culture at the Board table encourages wide, deep and relevant participation;
- the Board is consistently engaged. All Non-Executive Directors add value in maximising the leverage and quality of their third party relationships;
- board colleagues bring a wide range of perspectives to the Board table. Non-Executive Directors reflect on insights gained from their other activities and bring valuable input to meetings;
- additional training should be provided to the Directors on topics specifically related to the Group's activities. This process was started at the Board meeting in March 2019, when the Directors were briefed on the Company's current pricing policies, together with a comparison against its competitors; and
- the Board agenda and management information are continually reviewed to ensure that concise and relevant information is made available at an appropriate time. As an example, standing agendas were adopted by the main Board Committees during the year, and by the Board in January 2019.

Matters after the end of the financial year

Following the end of the financial year, the Committee agreed to recommend the appointment of Baroness Simone Finn as a Non-Executive Director with effect from 5 May 2019, subject to regulatory approval. She is due to replace Patrick Storey whose three-year term of office is due to expire on 4 May 2019.

For reasons of confidentiality, reputation and efficiency, on this occasion, the Chairman used internal and external sources to provide recommendations for candidates, rather than appointing an independent search firm.

As part of the selection process, the Chairman reviewed the Boards of other public companies in the financial services sector. However, many of these Board members would (i) potentially be 'over-boarded', i.e., already serving on a number of boards, and/or (ii) probably experience a conflict of interests with Morses Club's future planned activities.

The Chairman therefore looked more closely at Directors in the wealth management sector. These would have experience within the financial services sector, but they would be unlikely to have any conflicts of interest with also being a Director of Morses Club. As a consequence, a short list of three candidates was created.

The Committee was unanimous in recommending Baroness Finn as the new Non-Executive Director.

- she is a Chartered Accountant, having run audit teams for PriceWaterhouseCoopers prior to moving into their compliance team;
- she is already a member of the Audit Committee of a company in the financial services sector;
- she has worked for the Financial Services Authority, the forerunner to the FCA;

- she has worked as a consultant at a very high level advising governments; and
- she is a member of the House of Lords and should be able to advise the Company on its public relations and lobbying activities.

The Committee will consider conducting any future search for an independent Non-Executive Director by an independent search firm, supplemented by open advertising as appropriate.

Approval

On behalf of the Nominations Committee

Stephen Karle
Chairman
2 May 2019

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.

Although a change in the AIM rules removed the obligation for AIM-listed companies to maintain insider lists, there is still an obligation to take all reasonable steps to ensure that people with access to inside information acknowledge their legal and regulatory duties, and a company must be able to provide the FCA with an insider list, upon request. In practice, this means Morses Club has chosen to retain an up to date insiders list.

During FY19, the Company's Internal Audit Department undertook an audit into the Company's adherence to AIM Rule 10 (Principles of disclosure) and Rule 11 (General disclosure of price sensitive information). Following the internal audit, the Company enhanced its process for adding and removing employees from their insider lists when they joined or left the Company.

The Committee held one meeting during the year, on 20 March 2018.

Approval

On behalf of the Disclosure Committee

Stephen Karle
Chairman
2 May 2019

Executive Committee

The Company has established an Executive Committee which is chaired by the Chief Executive Officer and meets each week when 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 23 February 2019.

The Corporate Governance Statement set out on pages 38 to 62 forms part of this report.

Information about the use of financial instruments by the Company and its subsidiaries is given in note 24 to the financial statements.

Dividend

The Directors will assess dividend payments in the context of consolidation opportunities, new product investment requirements and the broader growth strategy of the Company. The Board intends to distribute between 50% and 60% of adjusted earnings after tax to shareholders as dividends. In due course, the Board may also consider increasing the dividend payout ratio should the funding structure of the Company enable an increase in gearing and/or the Company finds itself with surplus cash over and above its investment opportunities. Subject to shareholder approval at the Annual General Meeting on 25 June 2019, the Board proposes to pay a final dividend of 5.2p per Ordinary Share payable on 26 July 2019 to Shareholders on the register at close of business on 28 June 2019. This would represent a total dividend of 7.8p per Ordinary Share for 2019.

Directors

The Directors of the Company who served during the year ended 23 February 2019, 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 52 to 55.

Biographical details of the current Directors are given on pages 36 and 37. As recommended by the July 2018 edition of the UK Corporate Governance Code, all continuing Directors will be standing for re-election at the forthcoming Annual General Meeting, and at all subsequent AGMs.

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 23 February 2019, the Company had 129,729,122 Ordinary Shares of one pence each in issue (2018: 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 40.

Information contained in other sections

The Company's principal risks and uncertainties, together with any emerging risks, that are required to be included within the Report of the Directors, can be found within the Strategic Report on pages 34 to 35.

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act 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 Committee and is subject to periodic review by the Group's 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. The Company also provides 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.

Directors' Report continued

Important events since the end of the financial year (23 February 2019)

On 26 February 2019, the Group announced that it had acquired, through its fully owned subsidiary Shelby Finance Ltd, the business and certain assets of CURO Transatlantic Limited, trading as WageDayAdvance out of administration. The total consideration for the acquisition was approximately £8.5m paid in cash, 50% on completion and the balance over 5 months (depending on the final valuation of the acquired loan book).

On 1 May 2019, the Company announced that Patrick Storey, the Chair of the Company's Audit Committee and Risk & Compliance Committee would leave at the expiry of his three-year term of office on 4 May 2019. Baroness Simone Finn was appointed as a Director and the Chair of the Company's Audit Committee and Risk & Compliance Committee, with effect from 5 May 2019.

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, videos and our intranet. We regard employee involvement as essential to the healthy development of the business.

The Group first introduced an unapproved share option scheme on 19 October 2017, and awarded share options to all of its employees who had been employed for a minimum of 12 months at 1 October 2017.

In February 2018, Hay Wain Group Limited ceased to be a majority shareholder of the Company, and as a result, the Company was permitted to implement an HMRC tax advantaged plan for the first time. In November 2018, the Company created a new Share Incentive Plan (the 'SIP'). In the first award under the SIP, a total of 428 eligible employees applied to participate in the SIP and have each been given shares in the Company representing approximately 3.25% of their salary (based on the average share price during the few days prior to the award).

The free shares are held in trust for a minimum holding period of three years, and employees who participate in the SIP will lose their award if they resign or are dismissed from their employment during this three-year period. During the time that the shares are held in the Trust, employees will be able to vote at the AGM and receive dividends, so giving them a real stake in the business in which they work.

Subject to the Group achieving its profitability targets, the Group intends to continue to award shares under the SIP to its employees on an annual basis.

In the previous year, the Group had launched its first employee benefits survey, and the results showed us that people wanted benefits that helped them achieve a better work/life balance. The majority of employees wanted a holiday purchase scheme whereby they can buy or sell their holidays. As a result, a holiday purchase scheme was launched to functional heads for calendar year 2019.

The Group introduced a new healthcare provider which incentivises and rewards members who improve and monitor their health and wellbeing, and we have since seen participation rates increase during the year. The Group also introduced a Health Cash Plan for all eligible employees who were not eligible to participate in the healthcare scheme.

The Directors were pleased to see that the results of the annual employee satisfaction survey this year showed the highest level of satisfaction with the Company that has ever been recorded. Details are shown on page 16 of the Strategy Review. The level of staff participation in the survey increased by 26%, thereby demonstrating increased engagement as well as higher levels of satisfaction.

Substantial Interests in Shares

As at 29 March 2019, 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	47,683,640	36.74%
Woodford Investment Management	12,652,666	9.75%
Miton Investment Management	12,643,445	9.74%
J O Hambro Capital Management	8,984,250	6.92%
Majedie Asset Management	6,644,479	5.12%
Artemis Investment Management	5,585,477	4.30%
Legal & General Investment Management	4,415,045	3.40%

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, reduced from 100% to 51%.

On 21 February 2018, Hay Wain Group Limited sold 14.2% of the shares in the Company and at 29 March 2019 continues to hold 36.7% 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 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 2019 (2018: £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' basis in preparing the financial statements. A separate viability statement is contained in the Strategic Report on page 33.

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 25 June 2019, 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
2 May 2019

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 2 May 2019 and is signed on its behalf by:

Paul Smith
Director
2 May 2019

Andy Thomson
Director
2 May 2019

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 of Morses Club PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 23 February 2019 and of the Group's profit for the 52 weeks ended 23 February 2019;
- 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 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 27.

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 Parent 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 Financial Reporting Council's (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 Within this report, any new key audit matters are identified with ⮝ and any key audit matters which are the same as the prior year are identified with ».
Materiality	The materiality that we used for the Group financial statements was £1.03 million which was determined on the basis of 5% 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 our audit work was focussed principally on the trading entity.
Significant changes in our approach	No significant changes have been made to our audit approach.

Independent Auditor's Report continued
To the Members of Morses Club PLC

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 Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.	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 Group has implemented IFRS 9: Financial Instruments, which was effective from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation. The Group held loan loss provisions of £42.5 million (2018: £33.9 million in accordance with IAS 39) against amounts receivable from customers of £73.0 million (2018: £68.9 million). The impairment transition adjustment on adoption of IFRS 9 at 1 January 2018 was an increase of £6.5 million, resulting in a total allowance for impairment of £40.4 million at 25 February 2018. Amounts receivable from customers are valued using collections curves to estimate the 12-month and lifetime expected future losses on cohorts of loans exhibiting similar risk characteristics, including the number of missed payments in the previous 13 weeks. These collections curves are based on collections levels from outstanding amounts receivable from customers over 2013-2017. 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. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Management's associated accounting policies are detailed on pages 79 to 80 with detail about judgements in applying accounting policies and critical accounting estimates on page 85 and within the Audit Committee report on page 49.

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 walkthrough. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the design and implementation of the review control over the estimation of future cash flows, as part of management's judgement paper.

The modelling approach taken by management is partly automated, 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. Additionally we assessed the application of the provisioning rates to the loan balances within the loan loss provisioning model.

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, engaging our IT specialists to independently reconstruct the curves and performing 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. This included an assessment of the completeness of macroeconomic overlays.

As part of our wider assessment of loan loss provisions we used our IT specialists to test the mechanical accuracy and completeness of the models on which impairment provisions are calculated by recalculating the provision in accordance with the approved provisioning policy.

We challenged the appropriateness of the other key assumptions used in the impairment calculations such as the definitions of staging triggers. This involved analysis of the Group's historical cash collection experience and benchmarking the key assumptions to external economic and industry data.

We reconciled the loan loss provision to the general ledger, assessed compliance of the modelling approach and provisioning policy with the requirements of the Standard and substantively tested a sample of loans back to signed source documentation to assess whether the data used in the provision calculation were complete and accurate.

Key observations

We concluded that the partly automated impairment models were working as intended.

We concluded that the estimation of future cash flows within the models was reasonable and thus the impairment provision recorded was appropriate.

Independent Auditor's Report continued

To the Members of Morses Club PLC

Revenue recognition

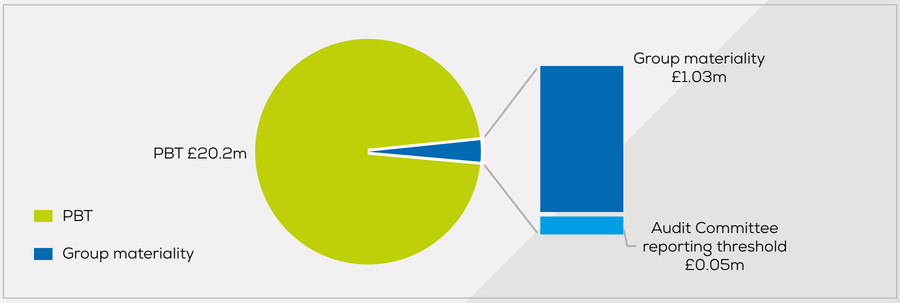
Key audit matter description	The Group recognised revenue of £117.0 million (2018: £116.6 million in accordance with IAS 39) against amounts receivable from customers during the 52 weeks ended 23 February 2019. The recognition of revenue on amounts receivable from customers under IFRS 9 requires the use of an effective interest rate method. Judgement is applied by management to determine key assumptions related to the expected lives. We have determined our key audit matter to be the formulation of the expected lives assumptions, given these are the key judgements underpinning the calculation of the revenue balance. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. Management's associated accounting policies are detailed on pages 80 to 81 with detail about judgements in applying accounting policies and critical accounting estimates on page 85 and within the Audit Committee report on page 49.
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 walkthrough. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the design and implementation of the review control over the determination of the expected lives, as part of management's judgement paper. The modelling approach taken by management is partly automated, in relation to the extraction of loan data from the lending system and the application of expected lives to the revenue balance. We used internal IT specialists to review the methods used by management to extract loan data from the lending system. We engaged our IT specialists to independently reconstruct the expected lives using historical data and then challenged the lives by reference to both historical & forecast data and comparability with the contractual life under IFRS 9. As part of our wider assessment of revenue recognition we tested the mechanical accuracy and completeness of the revenue recognition models by agreeing a sample of model inputs back to underlying source data. We recalculated the effective interest rates for each type of product and independently determined for a sample of customers the accuracy of the revenue earned during the 52 weeks ended 23 February 2019.
Key observations	We concluded that the partly automated revenue recognition models were working as intended. The underlying assumptions applied within the models, specifically in respect of the expected lives used in the calculation of the revenue balance, were found to be materially 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	Parent Company financial statements
Materiality	£1.03 million (2018: £0.97 million)	£1.02 million (2018: £0.96 million)
Basis for determining materiality	5% (2018: 6%) of pre-tax profit. This equates to 1.4% of net assets and 0.9% 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 6% to 5% is consistent with the approach being taken by peers and this change was formally communicated to the Audit Committee.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £51,100 (2018: £48,400), 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.

Independent Auditor's Report continued
To the Members of Morses Club PLC

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 our audit work was focussed principally on the trading entity.

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 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

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 of 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.

Opinion on other matter prescribed by our engagement letter
In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the provisions of the Companies Act 2006 that would have applied were the Company a quoted company.

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 this matter.

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.

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

2 May 2019

Consolidated Income Statement

For the 52 week period ended 23 February 2019

	Note	52 weeks Ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Revenue			
Existing operations	1	**116,803**	116,576
Acquisitions during the period		**203**	–
		117,006	116,576
Cost of sales		**(54,465)**	(58,350)
Gross profit		**62,541**	58,226
Administration expenses		**(40,579)**	(40,637)
Operating profit before amortisation of acquisition intangibles and exceptional items		**22,987**	19,569
Amortisation of acquisition intangibles	11	**(1,025)**	(2,051)
Exceptional income	3	**–**	71
Operating profit			
Existing operations		**21,875**	17,589
Acquisitions during the period		**87**	–
		21,962	17,589
Finance costs	5	**(1,745)**	(1,456)
Profit before taxation	4	**20,217**	16,133
Taxation	6	**(4,042)**	(3,041)
Profit after taxation		**16,175**	13,092

Earnings per share		23.2.19 Pence	24.2.18 Pence
Basic	8	**12.48**	10.11
Diluted	8	**12.30**	10.02

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 23 February 2019

Registered Number: 06793980

	Note	Group 23.2.19 £'000	Group 24.2.18 £'000	Company 23.2.19 £'000	Company 24.2.18 £'000
Assets					
Non-current assets					
Goodwill	10	**3,501**	2,834	**3,309**	2,642
Other intangible assets	11	**6,221**	5,520	**5,283**	3,869
Investment in subsidiary	13	**–**	–	**2,861**	2,611
Property, plant & equipment	12	**378**	822	**378**	822
Deferred tax	18	**958**	–	**1,097**	149
Amounts receivable from customers	14	**206**	265	**206**	265
		11,264	9,441	**13,134**	10,358
Current assets					
Amounts receivable from customers	14	**72,840**	72,563	**72,819**	72,335
Other receivables	14	**2,369**	2,039	**2,211**	1,842
Cash and cash equivalents		**7,893**	4,868	**7,758**	4,795
		83,102	79,470	**82,788**	78,972
Total assets		**94,366**	88,911	**95,922**	89,330
Liabilities					
Current liabilities					
Taxation payable		**(1,830)**	(1,110)	**(1,830)**	(1,110)
Trade and other payables	15	**(7,482)**	(5,585)	**(8,285)**	(6,529)
		(9,312)	(6,695)	**(10,115)**	(7,639)
Non-current liabilities					
Bank and other borrowings	16	**(14,075)**	(15,552)	**(14,075)**	(15,552)
Deferred tax	18	**–**	(144)	**–**	–
		(14,075)	(15,696)	**(14,075)**	(15,552)
Total liabilities		**(23,387)**	(22,391)	**(24,190)**	(23,191)
Net assets		**70,979**	66,520	**71,732**	66,139
Equity					
Called up share capital	19	**1,298**	1,295	**1,298**	1,295
Group reconstruction reserve	20	**–**	–	**(9,276)**	(9,276)
Retained earnings	20	**69,681**	65,225	**79,710**	74,120
Total equity		**70,979**	66,520	**71,732**	66,139

The Parent Company's profit for the financial period was £17,253,045 (2018 – £14,999,353). The consolidated and Company financial statements of Morses Club PLC were approved by the Board of Directors on 2 May 2019.

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

Statement of Changes in Equity

For the 52 week period ended 23 February 2019

Group	Notes	Called up share capital £'000	Retained earnings £'000	Total equity £'000
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		–	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	65,225	66,520
Impact of adoption of IFRS 9	1	–	(3,931)	(3,931)
Deferred tax impact of IFRS 9	20		699	699
As at 25 February 2018		1,295	61,993	63,288
Profit for period		–	16,175	16,175
Total comprehensive income for the period		–	16,175	16,175
Share Issue		3	–	3
Share-based payments charge	20	–	1,104	1,104
Dividends paid	7	–	(9,591)	(9,591)
As at 23 February 2019		**1,298**	**69,681**	**70,979**

Company	Notes	Called up share capital £'000	Group reconstruction reserve £'000	Retained earnings £'000	Total equity £'000
As at 25 February 2017		1,295	(9,276)	67,070	59,089
Profit for 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
Impact of adoption of IFRS 9	1	–	–	(3,875)	(3,875)
Deferred tax impact of IFRS 9	20	–	–	699	699
As at 25 February 2018		1,295	(9,276)	70,944	62,963
Profit for period				17,253	17,253
Total comprehensive income for the period		–	–	17,253	17,253
Share Issue		3	–	–	3
Share-based payments charge	20	–	–	1,104	1,104
Dividends paid	7	–	–	(9,591)	(9,591)
As at 23 February 2019		**1,298**	**(9,276)**	**79,710**	**71,732**

Cash Flow Statements

For the 52 week period ended 23 February 2019

		Group		Company	
	Notes	23.2.19 £'000	24.2.18 £'000	23.2.19 £'000	24.2.18 £'000
Net cash inflow from operating activities	1	**20,467**	7,239	**20,612**	7,733
Cash flows used in financing activities					
Dividends paid	7	**(9,591)**	(8,418)	**(9,591)**	(8,418)
Proceeds from additional long-term debt		**(1,052)**	6,000	**(1,052)**	6,000
Arrangement costs associated with additional funding		**(425)**	(448)	**(425)**	(448)
Interest paid	5	**(1,745)**	(1,456)	**(1,745)**	(1,456)
Net cash outflow from financing activities		**(12,813)**	(4,322)	**(12,813)**	(4,322)
Cash flows used in investing activities					
Purchase of intangibles	11	**(2,411)**	(1,412)	**(2,368)**	(1,377)
Purchase of property, plant and equipment	12	**(31)**	(622)	**(31)**	(622)
Additional investment in subsidiary		**–**	–	**(250)**	(600)
Acquisitions		**(2,187)**	–	**(2,187)**	–
Net cash (outflow) from investing activities		**(4,629)**	(2,034)	**(4,836)**	(2,599)
Increase in cash and cash equivalents		**3,025**	883	**2,963**	812

Reconciliation of increase in cash and cash equivalents

Movement in cash and cash equivalents in the period	**3,025**	883	**2,963**	812
Cash and cash equivalents, beginning of period	**4,868**	3,985	**4,795**	3,983
Cash and cash equivalents, end of period	**7,893**	4,868	**7,758**	4,795

Notes to the Consolidated Cash Flow Statement

For the 52 week period ended 23 February 2019

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

	Group		Company	
	23.2.19 £'000	24.2.18 £'000	23.2.19 £'000	24.2.18 £'000
Profit before exceptional costs	**20,217**	16,062	**21,449**	19,278
Exceptional costs	**–**	71	**–**	(984)
Profit before taxation	**20,217**	16,133	**21,449**	18,294
Depreciation charges	**475**	563	**475**	563
Share Issue	**3**	–	**3**	–
Share-based payments expense	**1,104**	431	**1,104**	431
Amortisation of intangibles	**2,209**	2,950	**1,455**	1,590
(Increase) in receivables	**(3,901)**	(11,604)	**(4,091)**	(11,185)
Increase in payables	**2,170**	1,846	**2,027**	1,120
	2,060	(5,814)	**973**	(7,481)
Interest paid	**1,745**	1,456	**1,745**	1,456
Taxation paid	**(3,555)**	(4,536)	**(3,555)**	(4,536)
Net cash inflow from operating activities	**20,467**	7,239	**20,612**	7,733

2 Reconciliation of liabilities arising from financial activies – Group and Company

	Long term borrowings £'000
At 25 February 2017	10,000
Cash flows:	
– Repayments	–
– Proceeds	6,000
– Arrangement costs associated with additional funding	(448)
At 24 February 2018	15,552
Cash flows:	
– Repayments	–
– Proceeds	(1,500)
– Arrangement costs associated with additional funding	23
At 23 February 2019	**14,075**

Notes to the Consolidated Financial Statements
For the 52 week period ended 23 February 2019

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 23 February 2019.

New and amended standards adopted by the Group and Company

IFRS 2	Classification and Measurement of Share-based Payment Transactions amendments
IFRS 2014-2016 Cycle	Annual Improvements
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers

IFRS 15 'Revenue from Contracts with Customers'
IFRS 15 'Revenue from Contracts with Customers' and the related 'Clarifications to IFRS 15 Revenue from Contracts with Customers' (hereinafter referred to as 'IFRS 15') replace IAS 18 'Revenue', IAS 11 'Construction Contracts', and several revenue-related Interpretations. IFRS 15 establishes the principles to determine the nature, amount and timing, and uncertainty of revenue and cash flows arising from a contract with a customer and has been adopted from 25 February 2018.

All of the Group's revenue is accounted for in accordance with IFRS 9.

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.

Classification and measurement
In adopting IFRS 9 the Group firstly considered the three available classifications of Financial Assets for businesses:
- Hold to collect – the asset is held to collect contractual cash flows
- Hold to collect and sell – the asset is held to collect contractual cash flows but may sell them at some future point
- Hold to sell – an asset is originated with the intention of disposing of it

The most appropriate classification for the Group for all financial assets is Hold to collect, which requires assets to be held at amortised cost, as the Group has no intention of selling the assets which it originates. This is subject to the contractual cash flows for loans being only repayments of principal and interest, of which they are. Under IAS 39 the amortised cost basis was adopted previously.

On initial application of IFRS9 all financial assets were previously categorised as loans and receivables were reclassified to amortised cost. Since loans and receivables were previously measured at amortised cost under IAS39 there was no impact on the measurement basis or related carrying values.

In respect of financial liabilities there has been no change to the classification or measurement on adoption of IFRS9.

Impairment of amounts receivable from customers
IFRS 9 significantly changes the recognition of impairment on customer receivables by introducing an expected loss (EL) model. Under the EL approach, impairment provisions are recognised on inception. This differs from the incurred loss model under IAS 39 where impairment provisions are only reflected when there is objective evidence of a credit-affecting event, such as two or more missed payments.

The resulting effect is that impairment provisions under IFRS 9 are recognised earlier. This has resulted in a one-off adjustment to receivables and reserves on adoption and results in the delayed recognition of profits.

Provisions are based on historical default and collection performance which are reviewed at each reporting period.

There will be a small shift in distribution of profit between H1 & H2 with a slightly higher profit in H1 and a slightly lower profit in H2. Distribution of profits are affected by the business' seasonality and will be lower in times of growth due to higher day 1 provisioning.

The Group has adopted the standard three banding profile for customer accounts receivable as outlined in the standard and classifies customer receivables into the following categories:

Stage 1 – Low Credit Risk
Stage 2 – Significant Increase in Credit Risk
Stage 3 – Credit Impaired

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

1. Accounting policies *(continued)*

From the date of adoption the Group applies the following income and impairment methodologies for the amounts receivable from customers

	Income Recognition	Impairment
Stage 1	Income recognised on the gross carrying value of the asset (amortised cost)	12-month expected losses
Stage 2	Income recognised on the gross carrying value of the asset (amortised cost)	Lifetime Expected Losses
Stage 3	Income recognised on the net carrying value of the asset i.e. gross carrying value less impairment provision (amortised cost)	Lifetime Expected Losses

For stage 1: Losses are recognised on inception of a loan based on 12-month expected losses utilising historic repayment data.

Stage 2: Lifetime losses are then recognised using a discounted cash flow model when a significant increase in credit risk is evident from two missed weekly payments in the last 13 weeks.

Stage 3: A customer is deemed to have defaulted when the customer has missed 10 payments over 13 weeks.

A loan can move from having an impairment provision calculated on a lifetime expected loss basis back to a 12-month expected losses basis if the payment performance for the loan has improved at the review date.

Stage 2 and Stage 3 are defined with reference to the number of contractual payments that have been missed in the previous 13-week period. As a result, there exists a cohort of loans for which the 30/90 day backstops have been rebutted. Recent arrears performance is considered to be a more robust indicator of credit risk than days-past-due for the customer base.

Macroeconomic overlay
Through involvement in the Regional CBI, Morses Club PLC receives good insight into the current macro-economic landscape.

Most economic analysis from the Bank of England and HM Treasury recognise the reduced level of consumer confidence and growth in the economy, with the uncertainty around what form Brexit will take, contributing to this.

Management have considered that there may be a period of uncertainty in the general economy post Brexit, with possible increases in unemployment and interest rates as the government may employ some 'quantitative easing' measures to stimulate demand in the domestic economy.

In terms of the impact of increased unemployment, the home credit sector has generally been quite resilient in periods where unemployment has been increasing, due in part to the HCC customer base typically having a mixture of wages and benefits within household incomes. As a result, no macroeconomic overlays for Brexit and other factors have been applied.

Revenue recognition
In addition to earlier recognition of impairments through the expected loss model there is also a change to revenue recognition. Interest income, for receivables in Stage 1 and Stage 2 is calculated on gross carrying value, using the Effective Interest Rate (EIR) method. The EIR is calculated using estimated cash flows, based on contractual cash flows adjusted for early settlement and late repayments. Income on loans in Stage 3 is now being calculated on the net carrying value i.e. gross carrying value less impairment provision.

Impact of adoption
The following table shows the adjustments required in the key Balance Sheet areas at adoption on 25 February 2018:

	24 Feb 2018 As originally presented £'000	IFRS 9 Adjustment £'000	25 Feb 2018 Restated £'000
Current assets			
Amounts receivable from customers	72,828	(3,931)	68,897
Non current liabilities			
Deferred tax (liability)/asset	(144)	699	555
Equity			
Retained earnings	66,520	(3,232)	63,288

The IFRS 9 adjustment, as shown in the table above, is the net impact after consideration of both the revenue recognition and impairment criteria under the new standard.

The only IFRS 9 adjustment is in respect of the changes in the measurement of net receivables and the resulting impact on taxation.

At the IFRS 9 conversion date of 25 February 2018 the amounts receivable from customers analysed across the three Stages are as follows:

	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Gross Carrying Amount	57,187	32,089	19,980	109,256
Impairment Provision	(8,712)	(14,829)	(16,818)	(40,359)
Net Amounts Receivable	48,475	17,260	3,162	68,897

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 2015-2017 Cycle	Annual Improvements
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 will adopt IFRS 16 from 24 February 2019, the beginning of the next financial year. This is expected to result in an increase to both assets and liabilities of between £3-4 million and is not expected to have a material impact on the income statement.

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 105 to 107 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 23 February 2019.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

1. Accounting policies *(continued)*

Revenue recognition
Under IFRS 9, all receivables are recognised within Stage 1 on inception of the loan. A customer will then move to Stage 2 when there has been a significant increase in credit risk through a deterioration in their Payment Performance. Stage 3 represents a customer in default. Revenue recognition is recognised on the Gross Receivable in Stages 1 and 2 and on the Net Receivable in Stage 3. A customer can only move to or back out of Stage 3 for revenue recognition purposes at the Group's interim or year end.

Stage 1 – Accounts at initial recognition. Revenue is recognised on the Gross Receivable before Impairment Provision.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. Revenue is recognised on the Gross Receivable before Impairment Provision.

Stage 3 – Accounts which have defaulted. Revenue is recognised on the Net Receivable after Impairment Provision.

Under IFRS the amount of revenue recognised is capped at the contractual amount due.

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

Net loan book
All customer receivables are initially recorded at the amount loaned to the customer i.e. fair value. 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 an additional deduction for impairment. 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.

Under IFRS 9, all receivables are recognised within Stage 1 on inception of the loan. A customer will then move to Stage 2 when there has been a significant increase in credit risk through a deterioration in their Payment Performance. Stage 3 represents a customer in default.

Stage 1 – Accounts at initial recognition. The Impairment Provision is based on 12-month expected losses, based on historic performance.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The Impairment Provision is based on lifetime losses, based on historic performance.

Stage 3 – Accounts which have defaulted. The Impairment Provision is based on lifetime losses, based on historic performance.

Impairment provisions under IFRS 9 are calculated based on historic loan book performance and considers the outlook for macro-economic conditions. Further details can be found on pages 79 to 80.

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.

Payment performance and missed payments are used as indicators to identify loans with no reasonable expectation of recovery and these loans are subsequently written off.

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

Business combinations
Acquisitions are accounted for using the acquisition method. Acquisition costs are expensed to the income statement. 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.

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 ten 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 ten 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 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.

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 Tablets	- 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.

Notes to the Consolidated Financial Statements continued
For the 52 week period ended 23 February 2019

1. Accounting policies *(continued)*

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 on an EIR basis 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 in prior periods.

Group restructuring reserve
The group reconstruction reserve was created within the Company balance sheet during the financial year ending 28 February 2015. This was required following the Company's acquisition of 100% of the ordinary share capital of Shopacheck Financial Services Limited ("SFS") from its then parent company, and the subsequent hive up of the trade and assets of SFS into the Company at carrying value.

The group reconstruction reserve was initially accounted for using merger accounting, with the assets and liabilities of SFS therefore being transferred into the Company at carrying value rather than fair value. The difference between the carrying value of the assets and liabilities transferred and the consideration paid was taken directly to the group reconstruction reserve.

There has been no change to the balance held within this reserve since it was initially recognised and this is due to the Company continuing to own 100% of the ordinary share capital of SFS.

Share-based payments
The Company operates three equity-settled share-based compensation schemes for Directors and three 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 income statement.

The fair value of the share options granted, excluding the impact of any non-market vesting conditions, is calculated using established option pricing models, being Monte Carlo simulation or Black-Scholes. 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 income statement in the period they are incurred.

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
Under IFRS 9 an impairment provision is recognised on inception of the loan whether it is deemed to be impaired or not. 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.

The key estimate within the impairment provision is the collection curves, which are derived from a five-year average of actual performance. The impact of updating these curves during the year was a reduction in the provision of £0.6m.

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 £5.6m (2018: £2.4m) higher/lower. The current year calculation under IFRS 9 includes a £3m sensitivity on Stage 1 balances, whereas the prior year under IAS 39 did not include Stage 1.

Revenue Recognition
Under IFRS 9 interest income should be recognised on the expected life of the loan. The Group has made an estimate of the expected life of the loan based on historical loan book performance. The expected life of a loan was changed during the year in line with Group policy.

If the expected life of the loans shortens by two weeks, it is estimated that revenue would be approximately £1.0m (2018: £1.6m) higher. The decrease in sensitivity is attributed to the change from IAS 39 to IFRS 9, whereby revenue is recorded quicker under the new accounting standard.

2. Staff costs

	52 weeks ended 23.2.19 £'000	52 weeks ended 24.2.18 £'000
Wages and salaries	**18,064**	17,345
Social security costs	**2,059**	2,290
Other pension costs (note 21)	**579**	426
	20,702	20,061

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

	52 weeks Ended 23.2.19	52 weeks ended 24.2.18
Management	**145**	144
Clerical & field staff	**364**	379
	509	523

Redundancy costs total £Nil (2018 – £1,019,034). 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.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

3. Exceptional (income)/costs

	52 weeks ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Flotation costs	–	(71)
Total exceptional (income)/costs	–	(71)

4. Profit before taxation

Profit before tax is stated after charging:

	52 weeks Ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Depreciation – Owned assets	**475**	563
Amortisation of intangibles	**2,209**	2,950
Operating lease rentals – Motor vehicles	**1,368**	1,581
Operating lease rentals – Property	**1,127**	1,093
Restructuring costs	–	1,019

	52 weeks Ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Directors' remuneration (including key management personnel)	**1,290**	1,014
Directors' pension contributions to money purchase schemes	**24**	18
The number of Directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**2**	2

Information regarding the highest paid Director is as follows:

	52 weeks Ended 23.2.19 £'000	52 weeks ended 24.2.18 £'000
Emoluments	**552**	412
Pension contributions to money purchase schemes	**9**	5

The analysis of auditor's remuneration is as follows:

	52 weeks Ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Fees payable to the Company's auditor for the audit of the Group's:		
– Financial statements	**254**	224
Fees payable to the Company's auditor and their associates for other services to the Group:		
– Subsidiary audit fee	–	–
Total audit fees	**254**	224
Audit-related assurance services	**27**	26
Taxation compliance services	–	–
Corporate finance services	**92**	–
Other services	–	–
Total non-audit fees	**119**	26

5. Finance costs

	52 weeks ended 23.2.19 £'000	52 weeks ended 24.2.18 £'000
Other interest payable	**1,745**	1,456
Total interest payable	**1,745**	1,456

6. Taxation

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

	52 weeks Ended 23.2.19 £'000	52 weeks ended 24.2.18 £'000
Current tax:		
UK corporation tax	**4,166**	3,526
Adjustment in respect of prior periods	**114**	(23)
Deferred tax on acquisitions	**(95)**	–
Origination and reversal of timing differences	**(39)**	(440)
Adjustment in respect of prior periods	**(104)**	(22)
Effect of change of tax rates	**–**	–
Total deferred tax	**(143)**	(462)
Tax on profit on ordinary activities	**4,042**	3,041

Factors affecting the tax charge
The tax assessed for the period is higher (2018: lower) than the standard rate of corporation tax in the UK. The difference is explained below:

	52 weeks Ended 23.2.19 £'000	52 weeks Ended 24.2.18 £'000
Profit on ordinary activities before tax	**20,217**	16,133
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2018: 19%)	**3,841**	3,065
Effects of:		
Ordinary expenses not deductible for tax purposes	**123**	(12)
Deferred tax on acquisitions	**(95)**	–
Effect of changes in tax rate	**111**	25
Movement in amounts not provided in deferred tax	**53**	8
Adjustment in respect of prior periods	**9**	(45)
Tax on profit on ordinary activities	**4,042**	3,041

The standard rate of corporation tax applicable for the period ended 23 February 2019 is 19% (2018: 19%).

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.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

7. Dividend per share

	52 weeks Ended 23.2.19	52 weeks Ended 24.2.18
Dividends paid (£'000)	**9,591**	8,418
Weighted average number of shares ('000s)	**129,570**	129,500
Dividend per share (pence)	**7.40**	6.50

Subject to shareholder approval at the Annual General Meeting on 25 June 2019, the Board proposes to pay a final dividend of 5.2p per Ordinary Share payable on 26 July 2019 to all shareholders on the register at the close of business on 28 June 2019.

8. Earnings per share

	52 weeks ended 23.2.19	52 weeks ended 24.2.18
Earnings (£'000)	**16,175**	13,092
Number of shares		
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**129,570**	129,500
Effect of dilutive potential Ordinary Shares through share options ('000s)	**1,977**	1,133
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	**131,547**	130,633
Basic earnings per share amount (pence)	**12.48**	10.11
Diluted earnings per share amount (pence)	**12.30**	10.02

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.

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 £17,253,045 (2018 – £14,999,353).

10. Goodwill

	Group Goodwill £'000	Company Goodwill £'000
Cost		
At 25 February 2017 and 24 February 2018	3,167	2,975
Additions	667	667
At 23 February 2019	**3,834**	**3,642**
Impairment		
At 25 February 2017 and 24 February 2018	(333)	(333)
Impairment charge for the period	–	–
At 23 February 2019	**(333)**	**(333)**
Net Book Value		
At 23 February 2019	**3,501**	**3,309**
At 24 February 2018	2,834	2,642
At 25 February 2017	2,834	2,642

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 & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
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
Additions	2,411	475	24	2,910
At 23 February 2019	**8,864**	**21,241**	**874**	**30,979**
Accumulated Amortisation				
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
Charge for period	1,185	984	40	2,209
At 23 February 2019	**4,226**	**19,724**	**808**	**24,758**
Net Book Value				
At 23 February 2019	**4,638**	**1,517**	**66**	**6,221**
At 24 February 2018	3,412	2,026	82	5,520
At 25 February 2017	2,898	3,999	161	7,058

Company	Software & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
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
Additions	2,368	475	24	2,867
At 23 February 2019	**8,687**	**3,689**	**154**	**12,530**
Accumulated Amortisation				
At 25 February 2017	2,143	1,979	82	4,204
Charge for period	874	689	26	1,589
At 24 February 2018	3,017	2,668	108	5,793
Charge for period	1,154	289	11	1,454
At 23 February 2019	**4,171**	**2,957**	**119**	**7,247**
Net Book Value				
At 23 February 2019	**4,516**	**732**	**35**	**5,283**
At 24 February 2018	3,302	544	22	3,869
At 25 February 2017	2,799	1,235	48	4,082

Research and development expenditure expensed during the year was £197,252.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

12. Property, plant & equipment

Group	Computers & Tablets £'000	Fixtures & Fittings £'000	Leasehold £'000	Totals £'000
Cost				
At 25 February 2017	1,825	143	3	1,971
Additions	597	25	–	622
At 24 February 2018	2,422	168	3	2,593
Additions	31	–	–	31
At 23 February 2019	**2,453**	**168**	**3**	**2,624**
Depreciation				
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
Charge for period	456	19	–	475
At 23 February 2019	**2,106**	**137**	**3**	**2,246**
Net Book Value				
At 23 February 2019	**347**	**31**	**–**	**378**
At 24 February 2018	772	50	–	822
At 25 February 2017	718	45	–	763

Company	Computers & Tablets £'000	Fixtures & Fittings £'000	Totals £'000
Cost			
At 25 February 2017	1,417	132	1,549
Additions	597	25	622
At 24 February 2018	2,014	157	2,171
Additions	31	–	31
At 23 February 2019	**2,045**	**157**	**2,202**
Depreciation			
At 25 February 2017	699	87	786
Charge for period	543	20	563
At 24 February 2018	1,242	107	1,349
Charge for period	456	19	475
At 23 February 2019	**1,698**	**126**	**1,824**
Net Book Value			
At 23 February 2019	**347**	**31**	**378**
At 24 February 2018	772	50	822
At 25 February 2017	718	45	763

13. Investment in subsidiaries

	Company £'000
Cost	
At 25 February 2017	2,011
Additions – Shelby share issue	600
At 24 February 2018	2,611
Additions – Shelby share issue	250
At 23 February 2019	**2,861**

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

Amounts receivable from customers

	Group		Company	
Amounts receivable from customers	**23.2.19 £'000**	24.2.18 £'000	**23.2.19 £'000**	24.2.18 £'000
Amounts falling due within one year:				
Net receivable from advances to customers	**72,840**	72,563	**72,819**	72,335
Amounts falling due after one year:				
Net receivable from advances to customers	**206**	265	**206**	265
Net loan book	**73,046**	72,828	**73,025**	72,600
Other debtors	**625**	429	**617**	429
Prepayments	**1,744**	1,610	**1,594**	1,413
	75,415	74,867	**75,236**	74,442

Amounts receivable from customers

	Group		Company	
	23.2.19 £'000	24.2.18 £'000	**23.2.19 £'000**	24.2.18 £'000
Amounts receivable from customers	**73,046**	72,828	**73,025**	72,600
Analysis by future date due				
– due within one year	**72,840**	72,563	**72,819**	72,335
– due in more than one year	**206**	265	**206**	265
Amounts receivable from customers	**73,046**	72,828	**73,025**	72,600
Analysis by security				
Other loans not secured	**73,046**	72,828	**73,025**	72,600
Amounts receivable from customers	**73,046**	72,828	**73,025**	72,600

Impairment provisions are recognised on inception of a loan based on the expected 12-month losses or the lifetime losses of the loan.

Stage 1 – Accounts at initial recognition. The Impairment Provision is based on 12-month expected losses, based on historic performance. Revenue is recognised on the Gross Receivable before Impairment Provision.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. The Impairment Provision is based on lifetime losses, based on historic performance. Revenue is recognised on the Gross Receivable before Impairment Provision.

Stage 3 – Accounts which have defaulted. The Impairment Provision is based on lifetime losses, based on historic performance.

Impairment provisions under IFRS 9 are calculated based on historic loan book performance and considers the outlook for macro-economic conditions. Further details can be found on pages 79 to 80.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

14. Trade and other receivables *continued*

At 23 February 2019 the amounts receivable from customers are as follows:

	Group £'000	Company £'000
Gross carrying amount	115,536	115,443
Impairment provision	(42,490)	(42,418)
Net amounts receivable	**73,046**	**73,025**

Amounts receivable from customers for Home Collected Credit can be reconciled as follows:

Home Collected Credit	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2018/19 IFRS 9 Total £'000
Gross carrying amount				
At 25 February 2018	57,187	32,089	19,980	109,256
New financial assets originated	178,468	33	11	178,512
Net transfers and changes in credit risk	(72,471)	43,349	29,122	–
Write-offs	(1,265)	(1,938)	(21,991)	(25,194)
Collections	(212,105)	(48,351)	(5,124)	(265,580)
Revenue	106,955	10,008	43	117,006
Other movements	1,536	–	–	1,536
At 23 February 2019	**58,305**	**35,190**	**22,041**	**115,536**
Loan loss provision account				
At 25 February 2018	8,712	14,829	16,818	40,359
Movements through income statement:				
New financial assets originated	27,035	15	9	27,059
Net transfers and changes in credit risk	(26,303)	3,043	23,526	266
Total movements through income statement	**732**	**3,058**	**23,535**	**27,325**
Other movements:				
Write-offs	(1,265)	(1,938)	(21,991)	(25,194)
Loan loss provision account at 23 February 2019	**8,179**	**15,949**	**18,362**	**42,490**
Reported amounts receivable from customers at 23 February 2019	**50,126**	**19,241**	**3,679**	**73,046**
Reported amounts receivable from customers at 25 February 2018	48,475	17,260	3,162	68,897

15. Amounts falling due within one year

	Group		Company	
	23.2.19 £'000	24.2.18 £'000	23.2.19 £'000	24.2.18 £'000
Trade creditors	**2,019**	1,504	**2,003**	1,466
Amounts owed to group undertakings	**–**	–	**836**	1,002
Social security and other taxes	**501**	441	**501**	441
Other creditors	**1,445**	745	**1,445**	745
Accrued expenses	**3,061**	2,895	**3,044**	2,875
Deferred consideration	**456**	–	**456**	–
	7,482	5,585	**8,285**	6,529

16. Bank and other borrowings : amounts falling due after one year

	Group and Company	
	23.2.19 £'000	24.2.18 £'000
Bank loans	**14,500**	16,000
Unamortised arrangement fees	**(425)**	(448)
	14,075	15,552

In November 2018 the Company signed a £10,000,000 loan facility to bring its total revolving credit facilities to £50,000,000. In addition, the Company also signed a £15,000,000 mezzanine facility of which £5,000,000 is committed and £10,000,000 is uncommitted. The fees incurred in relation to these facilities were £254,750 and are being amortised over the life of the arrangements.

The bank loan is made up of a revolving credit facility held with Shawbrook Bank Limited, a major high street bank and a private equity firm along with a mezzanine credit facility with the private equity firm. Under the terms of the loan covenants, 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	
	23.2.19 £'000	24.2.18 £'000	**23.2.19 £'000**	24.2.18 £'000
Existing:				
Within one year	**1,127**	1,063	**424**	415
Between one and five years	**970**	1,756	**92**	108
	2,097	2,819	**516**	523

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	
	23.2.19 £'000	24.2.18 £'000	**23.2.19 £'000**	24.2.18 £'000
Fixed asset temporary differences	**(128)**	(161)	**(128)**	(161)
Other temporary differences	**(830)**	305	**(969)**	12
Deferred tax liability/(asset)	**(958)**	144	**(1,097)**	(149)

	Group £'000	Company £'000
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)
IFRS 9 adjusment	(699)	(699)
ACAs		
Deferred Tax change in profit and loss account for period – CY	18	18
Deferred Tax change in profit and loss account for period – PY	–	–
Deferred Tax rate change	15	15
STTDs		
Deferred Tax change in profit and loss account for period – CY	(46)	108
Deferred Tax change in profit and loss account for period – PY	(104)	(104)
Deferred Tax rate change	72	72
Intangibles		
Deferred Tax change in profit and loss account for period – CY	4	4
Deferred Tax change in profit and loss account for period – PY	–	–
Deferred Tax rate change	25	25
Share-based payments		
Deferred Tax change in profit and loss account for period – CY	(142)	(142)
Deferred Tax change in profit and loss account for period – PY	–	–
Deferred Tax rate change	15	15
Deferred Tax on share-based payments	(260)	(260)
Balance as on 23 February 2019	**(958)**	**(1,097)**

Notes to the Consolidated Financial Statements *continued*

For the 52 week period ended 23 February 2019

18. Deferred tax *continued*

	Group £'000	Company £'000
Asset values for which deferred tax has not been recognised in relation to the TWDV of intangible fixed assets which are not available to deduct against profits until the intangibles are realised	(344)	(344)
Asset values for which deferred tax has not been recognised in relation to tax losses carried forward which are available to offset against future taxable profits from the same trade.	(48)	–
Total value of assets on which deferred tax has not been recognised	**(392)**	**(344)**

19. Called up share capital

Authorised, allotted, issued and fully paid:

Number:	Class:	Nominal Value:	23.2.19 £'000	24.2.18 £'000
129,500,000	Ordinary	£0.01	**1,295**	1,295
292,122	Ordinary	£0.01	**3**	–
			1,298	1,295

20. Reserves

Group	Retained Earnings £'000	Total £'000
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
Impact of adoption of IFRS 9	(3,931)	(3,931)
Deferred tax impact of IFRS 9	699	699
At 25 February 2018	61,993	61,993
Profit for the period	16,175	16,175
Share-based payment charge	1,104	1,104
Dividends paid	(9,591)	(9,591)
At 23 February 2019	**69,681**	**69,681**

Company	Group Reconstruction Reserve £'000	Retained Earnings £'000	Total £'000
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
Impact of adoption of IFRS9	–	(3,875)	(3,875)
Deferred tax impact of IFRS 9	–	699	699
At 25 February 2018	–	70,944	61,668
Profit for the period	–	17,253	17,253
Share-based payment charge	–	1,104	1,104
Dividends paid	–	(9,591)	(9,591)
At 23 February 2019	**(9,276)**	**79,710**	**70,434**

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 £578,906 (2018: £425,585) 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 £102,920 (2018: £66,465).

22. Ulitimate Parent Company

The Directors consider there to be no ultimate Parent Company.

23. Acquisitions

During the period the Company made a number of acquisitions. For each of the acquisitions detailed below the Company has undertaken an analysis of the fair value of the receivables acquired compared with the gross contractual amounts of the receivables book and the contractual cash flows not expected to be collected.

As the financials for each of the acquisitions detailed below were not available for the period prior to acquisition it is not possible to disclose the impact on profit before tax and amortisation of acquisition intangibles had the acquisitions been completed on the first day of the financial period. None of the goodwill recognised in relation to acquisitions made during this reporting period are expected to be deductible for tax purposes.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

23. Acquisitions *(continued)*

Eccles Limited
30 January 2019 the Company acquired the loan book and certain assets of Eccles Limited via a cash purchase. The Company acquired the assets of Eccles Limited for the purpose of increasing its customer base. The costs incurred in relation to this acquisition of £21,637 were expensed to the Income Statement.

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Non-current assets			
Intangible assets	–	270	270
Tangible fixed assets	53	–	53
Current assets			
Amounts receivable from customers	655	–	655
Total assets	**708**	**270**	**978**
Deferred tax	(51)	–	(51)
Total liabilities	(51)	–	(51)
Net assets	**657**	**270**	**927**

Goodwill arising on acquisition	£'000
Consideration	1,297
Net assets acquired	(927)
Goodwill	**370**

Hays Limited
On 11 February 2019 the Company acquired the loan book and certain assets of Hays Limited via a cash purchase. The Company acquired the assets of Hays Limited for the purpose of increasing its customer base. The costs incurred in relation to this acquisition of £18,043 were expensed to the Income Statement.

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Non-current assets			
Intangible assets	–	229	229
Current assets			
Amounts receivable from customers	864	–	864
Total assets	**864**	**229**	**1,093**
Deferred tax	(43)	–	(43)
Total liabilities	(43)	–	(43)
Net assets	**821**	**229**	**1,050**

Goodwill arising on acquisition	£'000
Consideration	1,346
Net assets acquired	(1,050)
Goodwill	**296**

24. 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 23 February 2019 the Company and Group's indebtedness amounted to £14,500,000 (2018: £16,000,000).

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.

The Group has not disclosed impairment allowance split by risk rating as this split is not used internally by the Group to monitor loan book performance

(i) Amounts receivable from customers
The Group's maximum exposure to credit risk on amounts receivable from customers as at 23 February 2019 is the carrying value of amounts receivable from customers of £73,046,149 (2018: £72,828,003).

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 (2018: between 20 and 52 weeks), with an average value of approximately £350 (2018: £320). 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.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

24. Financial instruments *(continued)*

(ii) Bank counterparties
The Group's maximum exposure to credit risk on bank counterparties as at 23 February 2019 was £7,893,230 (2018: £4,867,521).

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 £50,000,000 revolving asset-based credit facility and a separate £5,000,000 asset-based mezzanine 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.

Group At 23 February 2019	**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	72,840	206	–	–	–	73,046
Other Assets	2,369	–	–	–	11,058	13,427
Cash at bank and in hand	7,893	–	–	–	–	7,893
Total assets	83,102	206	–	–	11,058	94,366
Shareholders' funds	–	–	–	–	(70,979)	(70,979)
Other liabilities	(9,312)	(14,075)	–	–	–	(23,387)
Total liabilities and shareholders' funds	(9,312)	(14,075)	–	–	(70,979)	(94,366)
Cumulative Position	**73,790**	**59,921**	**59,921**	**59,921**	**–**	**–**

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	–	–

Company At 23 February 2019	**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	72,819	206	–	–	–	73,025
Other Assets	2,211	–	–	–	12,928	15,139
Cash at bank and in hand	7,758	–	–	–	–	7,758
Total assets	82,788	206	–	–	12,928	95,922
Shareholders' funds	–	–	–	–	(71,732)	(71,732)
Other liabilities	(10,115)	(14,075)	–	–	–	(24,190)
Total liabilities and shareholders' funds	(10,115)	(14,075)	–	–	(71,732)	(95,922)
Cumulative Position	**72,673**	**58,804**	**58,804**	**58,804**	**–**	**–**

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	–	–

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 equity and reserves 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 23 February 2019 was:

	23.2.19 £'000	24.2.18 £'000
Gross Debt	**14,500**	16,000
Equity	**70,979**	66,520
Gearing	**0.20**	0.24

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 23 February 2019.

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

Notes to the Consolidated Financial Statements *continued*

For the 52 week period ended 23 February 2019

24. Financial instruments *(continued)*

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 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 IFRS 9. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities:

Group 23 February 2019	Financial Assets Measured at Amortised Cost £'000	Financial Liabilities Measured at Amortised Cost £'000	Non-financial Assets/ Liabilities £'000	Total £'000
Assets:				
Cash and cash equivalents	7,893	–	–	7,893
Amounts receivable from customers	73,046	–	–	73,046
Trade and other receivables	625	–	1,744	2,369
Deferred tax assets	–	–	958	958
Property, plant and equipment	–	–	378	378
Goodwill	–	–	3,501	3,501
Other intangible assets	–	–	6,221	6,221
Total assets	**81,564**	**–**	**12,802**	**94,366**
Liabilities:				
Bank and other borrowings	–	(14,075)	–	(14,075)
Trade and other payables	–	(7,482)	–	(7,482)
Current tax liabilities	–	–	(1,830)	(1,830)
Total liabilities	**–**	**(21,557)**	**(1,830)**	**(23,387)**

Company 23 February 2019	Financial Assets Measured at Amortised Cost £'000	Financial Liabilities Measured at Amortised Cost £'000	Non-financial Assets/ Liabilities £'000	Total £'000
Assets:				
Cash and cash equivalents	7,758	–	–	7,758
Amounts receivable from customers	73,025	–	–	73,025
Trade and other receivables	617	–	1,594	2,211
Property, plant and equipment	–	–	378	378
Goodwill	–	–	3,309	3,309
Investment in subsidiary	–	–	2,861	2,861
Deferred tax asset	–	–	1,097	1,097
Other intangible assets	–	–	5,283	5,283
Total assets	**81,400**	**–**	**14,522**	**95,922**
Liabilities:				
Bank and other borrowings	–	(14,075)	–	(14,075)
Trade and other payables	–	(8,285)	–	(8,285)
Current tax liabilities	–	–	(1,830)	(1,830)
Total liabilities	**–**	**(22,360)**	**(1,830)**	**(24,190)**

Group 24 February 2018	Loans and Receivables Measured at Amortised Cost £'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)

Company 24 February 2018	Loans and Receivables Measured at Amortised Cost £'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)

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

Group **At 23 February 2019**	**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	–	4,421	–	–	–	4,421
Tax liabilities	–	1,830	–	–	–	1,830
Accruals and deferred income	–	3,061	–	–	–	3,061
Bank loans	–	–	–	14,075	–	14,075
At 23 February 2019	**–**	**9,312**	**–**	**14,075**	**–**	**23,387**

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

24. Financial instruments *(continued)*

Company **At 23 February 2019**	**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	–	5,241	–	–	–	5,241
Tax liabilities	–	1,830	–	–	–	1,830
Accruals and deferred income	–	3,044	–	–	–	3,044
Bank loans	–	–	–	14,075	–	14,075
At 23 February 2019	**–**	**10,115**	**–**	**14,075**	**–**	**24,190**

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

25. 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 second share option plan was granted on 5 May 2017 when 989,700 share options were issued and a third share option plan granted on the 5 May 2018 when 964,100 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.

The Deferred Share Plan (DSP) – Senior Management Team continued
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 £1.56 (2018: £1.37). This has resulted in a charge to the profit or loss account of £632,544 (2018: £340,261) 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	8 May 2016	5 May 2017	5 May 2018
Expected volatility	26%	45%	30%
Expected term	1	1	1
Risk-free rate	0.34%	0.34%	0.34%
Dividend yield	0%	0%	0%

Expected volatility is calculated based on movements in the Company's share price in the 12 months preceding the grant date. In prior years this was based on the volatility in the share prices for the Company's peer group due to the lack of historical data in relation to the Company's own share price.

	Number	Weighted Average Exercise Price (£)
Outstanding at 24 February 2018	1,992,010	–
Awarded/granted	964,100	–
Lapsed	–	–
Exercised	–	–
Outstanding at 23 February 2019	**2,956,110**	**–**
Exercisable as at 23 February 2019	**–**	**–**

For the share options outstanding at 23 February 2019, the weighted average remaining contractual life is 8.2 years (2018: 9.2 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.

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 £1.56. This has resulted in a charge to the profit or loss account of £83,468 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	5 December 2018
Expected volatility	40%	40%
Expected term	1	1
Risk-free rate	0.75%	0.68%
Dividend yield	4.75%	5.21%

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

25. Share-based payments *(continued)*

	Number	Weighted Average Exercise Price (£)
Outstanding at 24 February 2018	234,897	0.01
Awarded/granted	23,896	0.01
Lapsed	(16,400)	0.01
Exercised	–	–
Outstanding at 23 February 2019	**242,393**	**0.01**
Exercisable as at 23 February 2019	**–**	**–**

For the share options outstanding at 23 February 2019, the weighted average remaining contractual life is 8.7 years (2018: 9.6 years).

All options are expected to be equity settled.

The Share Incentive Plan (SIP) – Employees
On 5 December 2018 the Company introduced an approved share incentive scheme (SIP) for all employees and issued 292,122 Ordinary Shares with a nominal value of £0.01. The shares are held by an independent trust for the duration of the holding period 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 a Black-Scholes option pricing model. Service and non-market performance conditions were not taken into account in measuring fair value.

As at the balance sheet date, the estimated market value of each share option granted is £1.56. This has resulted in a charge to the profit or loss account of £32,422 during the year.

	SIP
Grant date	5 December 2018
Expected volatility	–
Expected term	1
Risk-free rate	0.68%
Dividend yield	0%

As there are no market-based performance conditions attached to this scheme the expected volatility is deemed to be neutral.

	Number	Weighted Average Exercise Price (£)
Outstanding at 24 February 2018	–	–
Awarded/granted	290,857	–
Lapsed	(8,858)	–
Exercised	–	–
Outstanding at 23 February 2019	**281,999**	**–**
Exercisable as at 23 February 2019	**–**	**–**

For the share options outstanding at 23 February 2019, the weighted average remaining contractual life is 9.7 years.

All options are expected to be equity settled.

26. 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 23 February 2019			
Hay Wain Holdings Limited	–	–	–
Hay Wain Group Limited	(3,529)	–	–
Shopacheck Financial Services Limited	–	–	–
Shelby Finance Limited	–	–	–
	(3,529)	–	–
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)	–	–

At the period-end the following balances were outstanding:

	23.2.19 £'000	24.2.18 £'000
Hay Wain Holdings Limited	**–**	–
Hay Wain Group Limited	**–**	–
Shopacheck Financial Services Limited	**(1,321)**	(1,321)
Shelby Finance Limited	**486**	319
Amounts owed to Related Parties	**(836)**	(1,002)

27. Post balance sheet events

CURO Transatlantic Limited
On 25 February 2019 the Company acquired the loan book and certain assets of CURO Transatlantic Limited via a cash purchase. The Company acquired the assets of CURO Transatlantic Limited for the purpose of increasing its customer base and as a platform for Dot Dot Loans.

Management are still in the process of assessing the fair value of the assets and liabilities acquired due to the timing of the transaction and will therefore provide full fair value disclosures in accordance with IFRS 3 in the 31 August 2019 interim financial statements.

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.

Notes to the Consolidated Financial Statements continued

For the 52 week period ended 23 February 2019

ALTERNATIVE PERFORMANCE MEASURES *(continued)*

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 and within the sector.
Agent Commission as % of Revenue (%)	None	Agent commission, which is included in cost of sales, divided by reported revenue. This calculation is used to measure operational efficiency and 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. This is used as another efficiency measure of the Company's cost base.
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)	Profit Before Tax	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 Earnings Per Share	Earnings Per Share	Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders

Reconciliation of statutory PBT to adjusted PBT

£'m	**FY19**	FY18	Increase / (Decrease)
Statutory PBT	**20.2**	16.1	4.1
Amortisation of acquisition intangibles	**1.0**	2.0	(1.0)
Cost of flotation on AIM	**–**	(0.1)	(0.1)
Restructuring and other non-recurring costs	**0.8**	1.0	(0.2)
Adjusted PBT	**22.0**	19.2	2.8

APM	Closest Statutory Measure	Definition and Purpose
Balance sheet and returns measures		
Tangible Equity (£m)	Equity	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. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of overall shareholder returns adjusted for exceptional items. This is presented within the interim report as the Directors believe it is more representative of the underlying operations of the business
Adjusted Return on Assets (%)	None	Calculated as adjusted profit after tax divided by 12-month average Net Loan Book. This calculation has been adjusted to an IFRS 9 basis. 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. This is presented within the interim report as the Directors believe it is more representative of the underlying operations of the business
Tangible Equity/Average Receivables Ratio (%)	None	Net Assets less intangible assets less acquisition intangibles divided by 12-month average receivables. This calculation has been adjusted to an IFRS 9 basis.

Adjusted Return on Assets and Adjusted Return on Equity

£m	**IFRS 9 FY19**	Pro forma IFRS 9 FY18
Adjusted Profit After Tax (Rolling 12 months)	**17.6**	14.7
12-month average Net Loan Book	**69.3**	62.6
Adjusted Return on Assets	**25.4%**	23.5%
12-month average Equity	**59.5**	50.4
Adjusted Return on Equity	**29.6%**	29.2%

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)	Cash from Operations	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 receivable 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.

Key Performance Indicators – Like-for-Like IFRS9 and IAS39
The table is present to enable users to understand the key performance indicators on a like-for-like basis

	IFRS 9 FY19	Pro Forma IFRS 9 FY18	% +/-	IAS 39 FY18	% +/-
Revenue	**£117.0m**	£110.4m	6.0%	£116.6m	0.3%
Net Loan Book	**£73.0m**	£68.9m	6.0%	£72.8m	0.3%
Adjusted Profit Before Tax	**£22.0m**	£18.6m	18.3%	£19.2m	14.6%
Statutory Profit Before Tax	**£20.2m**	£15.5m	30.3%	£16.1m	25.5%
Adjusted Earnings per share	**13.6p**	11.3	20.4%	11.7p	16.2%
Basic Earnings per Share	**12.5p**	9.6p	30.2%	10.1p	23.8%
Cost / Income ratio	**57.4%**	59.4%	3.4%	56.2%	-2.1%
Return on Assets	**23.4%**	n/a[1]	n/a	19.7%	18.8%
Adjusted Return on Assets	**25.4%**	n/a[1]	n/a	22.9%	10.9%
Return on Equity	**27.2%**	n/a[1]	n/a	22.9%	18.8%
Adjusted Return on Equity	**29.6%**	n/a[1]	n/a	26.5%	11.7%
Tangible Equity / average receivables	**85.9%**	n/a[1]	n/a	92.6%	7.2%
No of customers (000's)	**235**	229	2.6%	229	2.6%
Number of agencies	**2,050**	2,030	1.0%	2,030	1.0%
Credit Issued	**£178.5m**	£174.4m	2.4%	£174.4m	2.4%
Impairment as % of Revenue	**22.4%**	22.5%	0.4%	26.1%	14.2%

1 KPI not quoted as it includes data points which precede the date of IFRS 9 transition

Reconciliation of IAS39 to IFRS9 for metrics stated above

£m	IAS 39 to Feb 18	IFRS 9 Effective Credit Loss Adjustment	Pro forma IFRS 9 to Feb 18
Revenue	116.5	(6.2)	110.3
Impairment	(30.4)	5.6	(24.8)
Sub-total		0.6	
Statutory Profit Before Tax	16.1	(0.6)	15.5
Adjusted Profit Before Tax	19.2	(0.6)	18.6
Net Loan Book	72.8	(2.9)[1]	68.9

1 Net loan Book IFRS 9 ECL adjustment includes the transitional adjustment Reconciliation of Cash from operations to Cash from operations (excluding investment in loan book)

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

	Group	
	23.2.19 £'000	24.2.18 £'000
Net cash inflow from operating activities	**20,467**	7,239
Add back:		
Movement in net loan book	**722**	11,604
Tax paid	**3,555**	4,536
Prepaid loan facility arrangement fee	**(425)**	(448)
Cash from operations (excluding investment in loan book)	**24,319**	22,931

Morses Club PLC Information for Shareholders

Financial Calendar 2019 – 2020

25 June 2019	Annual General Meeting
28 June 2019	Ex-dividend date
26 July 2019	Final dividend paid
October 2019	Half year results announced
January 2020	Interim dividend payable
May 2020	2019/20 year end results announced

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