Building for the future

Morses Club PLC
Annual Report & Accounts 2020

Morses Club PLC is an established, relationship-driven consumer 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.

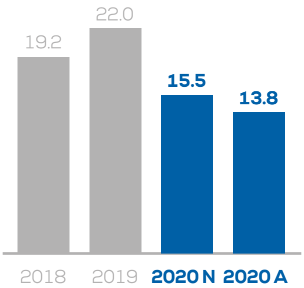
Our vision

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

Contents

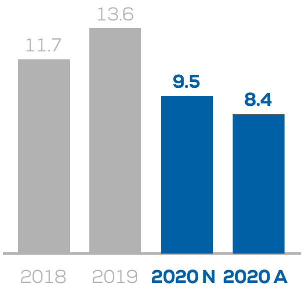
Highlights

Adjusted Profit[1] (Before Tax)



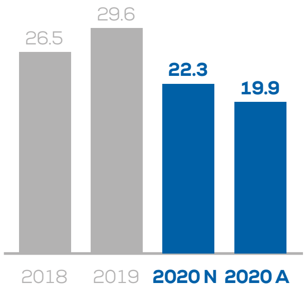
£13.8m
-37.3%

Adjusted Earnings[1] Per Share (p)



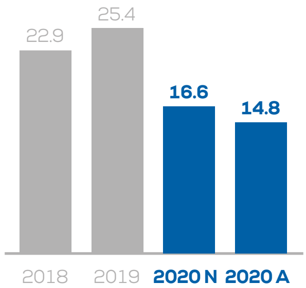
8.4p
-38.2%

Adjusted Return[1] On Equity (%)



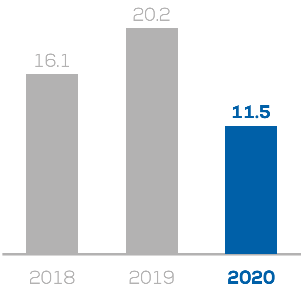
19.9%
-32.8%

Adjusted Return[1] on Assets (%)



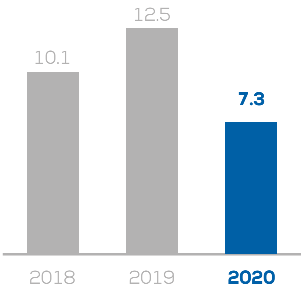
14.8%
-41.7%

Reported Profit (Before Tax)



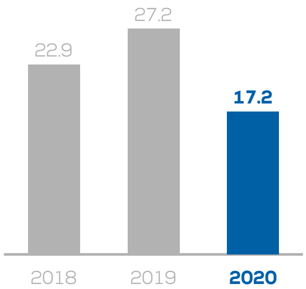
£11.5m
-43.1%

Basic Earnings Per Share (p)



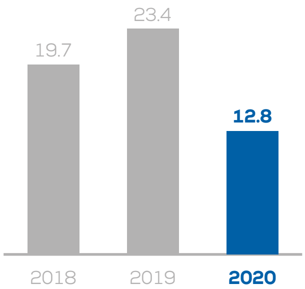
7.3p
-41.6%

Return On Equity (%)



17.2%
-36.8%

Return On Assets (%)



12.8%
-45.3%

1 Definitions and reconciliations to the nearest statutory measure are set out in the Glossary of Alternative Performance Measures on Pages 136 to 139

Operational highlights

- Development and launch of fully online Customer Portal, with over 78,000 customers (FY19: nil)
- 45,000 Morses Club Card customers, with £22.9m in loan balances (FY19: 30,000 customers, £15.5m loan balances)
- Acquisition of the business and certain assets of CURO Transatlantic Limited, an online lender, with c.37,000 customers, operating under the Dot Dot Loans brand
- Acquisition of U Holdings Limited, an e-money current account provider, with 18,000 customers, operating under the U Account brand
- Commenced re-engineering of our online businesses to build our product offering and take advantage of the opportunity in the wider non-standard credit market
- Delivering further technology enhancements in our HCC business to provide a digital service to customers enabling a virtually paperless documentation process
- Due to Covid-19, reconfigured our lending, collecting and operating processes to ensure the safety of our customers, employees and agents

N = Normalised PBT A = Adjusted PBT

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. The definition of Adjusted PBT is outlined in the glossary of APMs on Page 136.

An additional measure of Normalised Adjusted PBT has been adopted to strip out the impact of Covid-19 from the adjusted PBT figure. This is to illustrate the underlying performance prior judgements regarding Covid-19, since the pandemic itself did not have a material impact on the FY20 trading.

Each of the APMs used is set out in the glossary at the back of the statement on Pages 136 to 139. Reconciliations are also provided on Page 139 to the nearest statutory measure.

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

Expanding our offering to meet our customers' needs.

With a history dating back 130 years, Morses Club PLC is the result of the combination in 2015 of 2 established brands, Morses Club and Shopacheck Financial Services. We have been listed on AIM since May 2016.

Following the acquisitions of the business and certain assets of CURO Transatlantic Limited and U Holdings Limited, we now structure our reporting under 2 divisions, Morses Club, which is our home collected credit (HCC) division and Shelby Finance Limited (SFL), a subsidiary of Morses Club and our Digital division, which operates the online lending and e-money current account services.

97%*

CUSTOMER SATISFACTION

HCC

Operating under the Morses Club brand, we provide small, short-term loans to customers who need affordable credit and are often unable to access traditional High-Street lending.

Our model is based on a loan issue and collection process via agents that typically live in the same communities as our customers. Due to Covid-19, we have adapted our operating model to work remotely using our existing technology platform to maintain customer contact and collection activity and a new remote temporary lending process to deliver cashless lending to existing 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 at **97%** or above.

We are the second largest UK Home Collected Credit lender, and serve customers throughout the UK from our network of **89 branches** and **1,695 self-employed agents**.

221,000

CUSTOMERS

* relates only to the HCC division; no formal measurement of customer satisfaction for SFL conducted to date.

Digital

Our Shelby Finance Limited subsidiary operates under 2 online brands.

Dot Dot Loans

Dot Dot offers online instalment loans of up to 48 months

Dot Dot is a fully online lending provider, which was launched in March 2017. The product offering aims to serve the needs of 2 segments of the lending market: short-term 3-6 and 9-month duration loans serving customers who want to borrow £200-£1,000, and loans of £1,500-£4,000 for those customers who want to borrow more over a longer term of up to 48 months.

U ACCOUNT

U Account is an e-money current account provider

U Account offers customers online current account services, based on 2 pricing models: pay as you go or a monthly fee, which includes a set level of inclusive transactions. U Account is designed for customers who may not have access to mainstream banking or want a secondary account.

20,158
ONLINE LENDING CUSTOMERS

13,365
E-MONEY CURRENT ACCOUNT CUSTOMERS

Investment Case

Our growing digital capabilities open up opportunities in the fragmented non-standard finance market to deliver a broad range of financial products and services.

ESTABLISHED MARKET POSITION

#2 Home Collected Credit company in the UK, and gaining share

221,000 customers across the UK

High levels of customer satisfaction and repeat business

Read more on Page 14

SCALABLE INFRASTRUCTURE

Scalable, highly invested IT platform

Widening product and digital offering, notably into online loans and online e-money current account services

Read more on Page 8

WELL-POSITIONED FOR GROWTH

Roadmap of organic growth initiatives

Well placed for consolidation in a fragmented market

Untapped market potential of c. 10m people

Read more on Page 8

SOUND RISK MANAGEMENT

Prudent credit risk policy: stringent criteria applied to every customer, every loan

Robust balance sheet and funding model

Read more on Page 24

PROVEN FINANCIAL PERFORMANCE

Credit issued reduced to £174.2m, a marginal reduction of 2.4%

Loan book reduced slightly by 2.4%

Cash-generative business model that has performed well despite the headwinds that have affected the sector

Final dividend of 1.0p per share

Read more on Page 24

STRONG EXECUTIVE TEAM

Appointment of Gary Marshall to new position of Chief Operating Officer to run Shelby Finance Limited, the digital subsidiary

Andy Thomson appointed as Interim Chief Financial Officer, effective from 17 March 2020, following a period as a Non-Executive Director from 1 July 2019

Internal promotion of Mark Jakeman to Operations Director, due to retirement of Les Easson, who remains as a Non-Executive Director, effective from 1 September 2019

Chairman's Statement

Our Annual Report 2020 demonstrates how we have continued to build on our existing strategy to the benefit of our key interest groups – our shareholders, customers and stakeholders – to create a wider digital product and service offering which meets changing customer needs.

Stephen Karle
Chairman

As a responsible Board, we are committed to delivering the long-term, sustainable success of the business. Our established home collected credit business continues to perform well and enhance its technology offering to remain relevant to our customer base, and we are also progressing our strategy to develop viable and sustainable digital solutions for customers in the non-standard lending arena. While this process is taking longer than expected, I am confident that we are well placed to deliver growth in this division over the medium term. In the short term, it is clear that Covid-19 will significantly impact the UK economy. We have responded rapidly to the challenges this presents, successfully adapting our business model to the new environment, supporting our employees and continuing to offer our customers high levels of service.

Purpose, culture and values

Since the Company listed on AIM in May 2016 we have been a successful, responsible and growing business that has allowed access to important personal credit to thousands of people in the UK who rely on our core principles of being an ethical lender, with no additional or hidden charges, fees or other costs. We are proud of the valuable contribution made by the Company to the wider society and communities across the UK, in line with our purpose of meeting the real need for responsible lending to customers with a complex credit history, and the values that underpin the culture of the business.

Financial performance

Despite the challenges which the sector faces, we maintain an unwavering focus on serving our customers' needs within a competitive operating environment and a rigorous regulatory framework which requires a substantial ongoing investment in quality in all we do: in governance, technology, processes, compliance, risk management and, of course, first-class people. We have delivered continued profitability of the core home collected credit business through sound management practices and the sustained efforts of our employees and self-employed agents. Although currently loss-making, substantial changes have been made to our acquired digital businesses to ensure delivery of our long-term business plan. It is anticipated that our Digital division will make a positive contribution to the overall financial success of the emerging Group of companies by FY22.

Board changes

Protecting the value of our shareholders' investments in the Company is a central concern of the Board, Executive, and the Risk & Compliance, Audit and Remuneration sub-Committees. Risk management practices are subject to ongoing scrutiny, underpinned by relevant management information. It is noteworthy that we took an unusual approach to team strength with the initial appointment of 2 additional Non-Executive Directors (NED), each of whom served the Company as Executive Directors immediately before appointment. Les Easson was an employee of the Company for more than 36, latterly as Operations Director, with responsibility for management of the entire field force of employees. Andy Thomson was Chief Financial Officer of the Company through its Initial Public Offering (IPO) and beyond and is highly regarded by external financial analysts. I am delighted that following a period as a Non-Executive Director, he has agreed to undertake a further period as the Interim Chief Financial Officer, with effect from 17 March 2020. Baroness Simone Finn was appointed as a Non-Executive Director with effect from 5 May 2019, to replace Patrick Storey whose 3-year term of office ended on 4 May 2019.

The contribution made by NEDs and the CEO and the performance of the Board as a whole are the subject of annual appraisal and ongoing feedback. The quality of stewardship and supervision provided by the Board has been of a high standard, supported by near 100% attendance at all meetings.

Outlook

Our current priority is to support our employees and customers during the challenges which Covid-19 creates and our resilient and adaptable business model means we are well placed to navigate the challenging environment that this presents. Under the leadership of the CEO, Paul Smith, the Company has progressed its strategy of expanding into new products and markets in the broader financial services sector, alongside the core HCC business. This digital diversification strategy remains unchanged and I am confident that it will drive growth in the medium term and enable us to consolidate our position as a leading provider of products and services to the non-standard finance market.

Chief Executive Officer's Review

We have made significant progress in enhancing our product offering to our core customers.

Paul Smith
Chief Executive Officer

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.

Performance

FY20 was a year of significant regulatory and operational change for the business, as well as significant progress in our digital acquisition strategy. Total credit issued in our home collected credit division was £174.2m, slightly lower at -2.4% relative to the previous year (FY19: £178.5m), with our gross loan book marginally reduced by 2.4% from the FY19 figure.

The whole HCC sector saw a drop-off in sales following FCA changes to lending rules, however, our business was the least affected and consequently gained share. Our customer numbers remained broadly stable at 221,000, and we maintained our high levels of customer satisfaction of 97% and above. 99% of our employees scored Treating Customers Fairly (TCF) as part of the daily mindset of the business, with 90% believing that we offer good customer service. The self-employed agents who support our business gave a score of 96% meaning that TCF is part of the daily mindset of their business, with 95% understanding the importance of TCF.

During the year we have made significant progress in developing our Digital division. Following the acquisitions in February 2019 of the business and certain assets of online loan provider CURO Transatlantic Limited (now trading as Dot Dot Loans) and online e-money current account provider U Holdings Limited in June 2019 we have been rightsizing the businesses to move their cost bases to an appropriate level for their size. The losses were slightly deeper than we had anticipated, but we are on track to transition the digital business to a break-even position over the coming 2 years.

Since the end of the year we have faced the challenge of managing the impact of Covid-19. The business has quickly introduced wide-ranging adaptations to our operating model to ensure the safety and wellbeing of our staff and self-employed agents and to enable us to maintain our high levels of customer service during this period. More information on the steps we have taken are set out later in my review.

Principal drivers of performance

HCC

We are delighted that – less than a year since launch – around 35% of our customers are interacting with us via our Morses Club online portal, which now has more than 78,000 users. Customers using the portal generate significantly higher levels of interest in further credit options, since they are able to request credit at any time, rather than relying on the weekly visit with their agents under our traditional model. In addition to the portal, customers have responded positively to remote payment methods and 41% of all collections were being made remotely by the end of the year.

The move to digital has been embraced by our agents, who understand that, although they earn lower commission on digital repayments, the reduced need for physical visits allows agents

Chief Executive Officer's Review continued

to serve a larger base of customers. Increasing penetration of digital transactions has increased our customer satisfaction levels and reduced cost. The shift to digital has also given us scope to allow the gradual natural attrition of our agent base. As agents retire or leave, we can reallocate their loan books to agents in adjacent areas, enabling us to reduce costs. These agents benefit from an increased customer base, which our enhanced technology, and remote payment methods enables them to manage. We are targeting the removal of £1m of cost pa in HCC field-based costs over the next 5 years, and are well on track to achieve this.

We continue to be open to high-quality acquisitions as a means of growing our customer base, where attractive opportunities arise.

Digital
The portal platform will be extremely important to our online lending and e-money current account businesses. Our research with HCC customers indicates that a high proportion of them want to use online banking services, and the portal will allow them to manage their home collected credit loans, agent interaction, Morses Club card and their bank account.

Our HCC customers have an average of 27% of their debt with HCC providers and a further 36% with other providers, for example overdrafts. The portal allows us to offer customers the opportunity to consolidate their debt in one place. The independent market research we undertake monthly shows us that linked services continue to be of interest to our customers. In future we will seek to provide offerings to help customers manage their budget and access services such as utility switching and comparison services; if customers give us permission to access the data on their spend on these services, it will help us to tailor our offering still further to support their financial wellbeing.

Systems
Our technology platform developments are now significantly complete for HCC. We have made further enhancements to our Customer Relationship Management (CRM) telephony system and how this is used in our Nottingham contact centre, which will help to enhance and integrate the support across all our businesses as we target a substantial customer base using all 3 of our brands. Our loans platform, CRM platform and telephony are our focus for the next year for delivering integrated customer excellence and supporting our business plan.

External market

We saw minimal impact from the changes in lending regulations following the FCA's review of high-cost credit, and implemented the small adjustments required to our processes in a timely manner.

Although HCC and parts of the associated market are generally unaffected by macroeconomic movements, increases to the national minimum and living wage levels are positive for our business as they support affordability decisions, and give our customers confidence in spending and borrowing. The impact of Covid-19 meant that from March 2020 onwards we adapted operational processes to ensure we maintained our service model for our existing customers.

In the digital space, we have observed a number of firms struggling to stay in business or acquire customers due to historical issues in relation to treating customers fairly. Providers with roots in payday lending have historical books that have since been classed as irresponsible lending, and claims management companies are targeting them. As some of these providers exit the market, there is scope for us to acquire good quality recently issued debt.

We are closely monitoring the impact of Covid-19 on our customers and the macroeconomic environment more broadly and have been able to adapt our business quickly to maintain business continuity and ensure we can support our customers.

Strategy

Our objective is to continue to listen to what customers tell us they want and to deliver it for them. Our research with our existing customer base indicates that consistently over 50% of them want to use our e-money current account services linked to a credit facility in the future, in addition to the relationship credit that they already have. We already have the technology platform in place, so our focus next year will be on the delivery of an intuitive customer journey and on communications and marketing as we seek to drive the penetration of e-money current accounts and digital credit products among our HCC customers to take an increased share of their credit demand away from the competition. We will also look to increase volume amongst the 8.5m non-HCC customers who are in the non-standard credit market of banking, long-term lending, revolving credit and short-term lending, as we strive to make our other 2 brands as profitable as our home collected credit brand in the longer term.

Capital allocation

At the end of April 2020 we secured an extension to our revolving credit facility of £40m to the end of November 2021. This funding level better reflects the ongoing requirements of the business, with reduced growth in the short/medium term, in a post Covid-19 world. This reduces the costs of funding whilst still giving us significant headroom in our existing facilities to achieve our ambitions and support the business at this challenging time.

People, culture and stakeholder engagement

We are delighted to have welcomed and retained the expertise of some highly experienced colleagues during the year.

Gary Marshall joined as Chief Operating Officer of Shelby Finance Limited in July 2019. His deep experience in online banking and insurance environments is already proving invaluable for the development of U Account and Dot Dot loans as well as improving productivity and driving down costs. We are pleased to have retained the expertise of Les Easson, our previous Operations Director as he made the transition to a Non-Executive Director role. In addition, Andy Thomson, our previous Chief Financial Officer, has agreed to undertake the role of Interim Chief Financial Officer from 17 March 2020 and has stepped down from his current role as a Non-Executive Director.

We are proud of the people and culture at Morses Club. Our participation in the FCA's Smaller Business Practitioner Panel is testament to the recognition by the regulator as a firm that does the right thing, treats customers fairly and has a deep-seated cultural belief in putting customers first.

During a period of significant change and innovation it is gratifying how the Morses Club team of employees and agents have continued to embrace developments. In recognition of the contribution made by our colleagues, we issued shares to all eligible staff and recently won an award for our employee share scheme. As part of our commitment to ongoing stakeholder engagement, we undertake monthly surveys with customers, to assess their satisfaction. In addition, we conduct quarterly surveys with customers to check their overall experience in dealing with us, as well as former customers annually. Our surveys include those customers whose loans may be in arrears, and who we may not lend to again. We take the time to consider all feedback from our customers, and their involvement in how we build our products and services is critical in developing our future strategy. It is encouraging that the consistent results of both surveys are 97% or more. Read more about our engagement with stakeholders on Page 32.

Covid-19

As a business, our focus will always be on lending responsibly and conservatively, putting the customer first whilst ensuring the safety and wellbeing of our employees and agents. We responded rapidly to the outbreak of Covid-19 just after the year end, successfully adapting our operating model to enable all our agents to work from home and replacing face-to-face customer visits with a remote customer communication strategy, which makes use of our existing technology platform and payment methods to maintain customer contact and collection activity. Our normal adherence to TCF principles and forbearance continues. The Company has decided not to furlough any of its staff and all staff and agents are continuing to work remotely in support of customers.

We have recently launched a new cashless remote lending product, which is available to all existing Morses Club HCC customers and is compliant with all regulatory requirements. All necessary checks and agreements are transacted via our online Customer Portal, leveraging our existing technology platform. Customers using the new remote lending product can choose to have funds deposited directly into their bank account or loaded onto a Morses Club Card, ensuring that existing customers can continue to access our products and services during this time.

Customer response to our remote operating model has been positive and we have successfully transitioned 40% of repayments from face to face to remote collections since the outbreak of Covid-19.

Outlook

The safety and wellbeing of our employees and customers remains our priority. Going forward we expect growing numbers of our customers to engage with us via our technology platform. We are also looking at ways to implement social distancing measures across our business to enable us to resume face-to-face visits and our loan offering to new customers in a safe environment. The Group remains highly cash generative as a result of the actions we have taken and post year end we have also secured additional funding to support the business at this challenging time. We will continue to focus on effective cash-flow management and this is supported by temporarily suspending home collected credit loans which involve cash, lending to new customers, significant tightening of online lending decisions, cutting discretionary expenditure and an increased focus on collections.

Over the longer term, in HCC, the growing adoption of the digital portal will create value for customers, agents and the Group, and the gradual evolution of our agent network will drive further economies in our cost base. In our Digital division, we are confident that our strategy of developing our digital lending and e-money current account brands will deliver a positive financial contribution, however, for the current year we anticipate continued losses, primarily as a result of not being able to increase volumes due to the impact of Covid-19, with profitability reached in FY22.

The Board recognises the difficulty in fully assessing the long-term operational impact of Covid-19 on the business and therefore considers it prudent to withdraw its financial guidance for FY21. In full consideration of all relevant circumstances, the Board will recommend payment of a dividend in February.

1.0p
FINAL DIVIDEND
2019: 5.2P

2.6p
INTERIM DIVIDEND
H1 FY19: 2.6P

3.6p
TOTAL DIVIDEND
2019: 7.8P

Our Business Model

Our vision is to continue to grow as a leading provider of non-standard finance in the UK. To this end, we have enhanced our core community lending model with digital services that have been welcomed by stakeholders.

Our resources and relationships

PEOPLE

Experienced team of c. 613 employees and 1,695 self-employed, home-based agents

TECHNOLOGY

Investment in efficient and scalable technology platform and other online products to enhance the customer experience

SCALE

Economies of scale from a nationwide customer base of c.221,000

FINANCE

Long-term, cost-efficient capital from retained earnings, lending banks and investors

BRAND

Trusted HCC brand based on 130 years of valued relationships with customers and agents

REGULATION

Open and constructive dialogue with the regulator, including membership of the FCA's Smaller Business Practitioner Panel

How we create value

What we do

HOME COLLECTED CREDIT (HCC)

We offer loans of £100 to £1,500, in cash or on a Morses Club Card, to customers who struggle to find credit elsewhere.

Treating the customer fairly is our core philosophy. Our model is based on a loan issue and collection process via agents that typically live in the same communities as our customers. Agents normally meet our customers face to face but meetings are currently conducted over the phone due to Covid-19. Our online portal enables repayments to be made online, and our recently launched cashless remote lending product enables existing customers to access our products via their bank account or Morses Club Card.

Lend responsibly

- Evaluate suitability of customer against lending criteria, conducting credit and 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, supporting customers in short-term difficulty
- Transparent, simple charging structure with 1 fixed fee and no penalties or late payment fees. Customers never pay more than the original agreed amount

DIGITAL

Dot Dot Loans

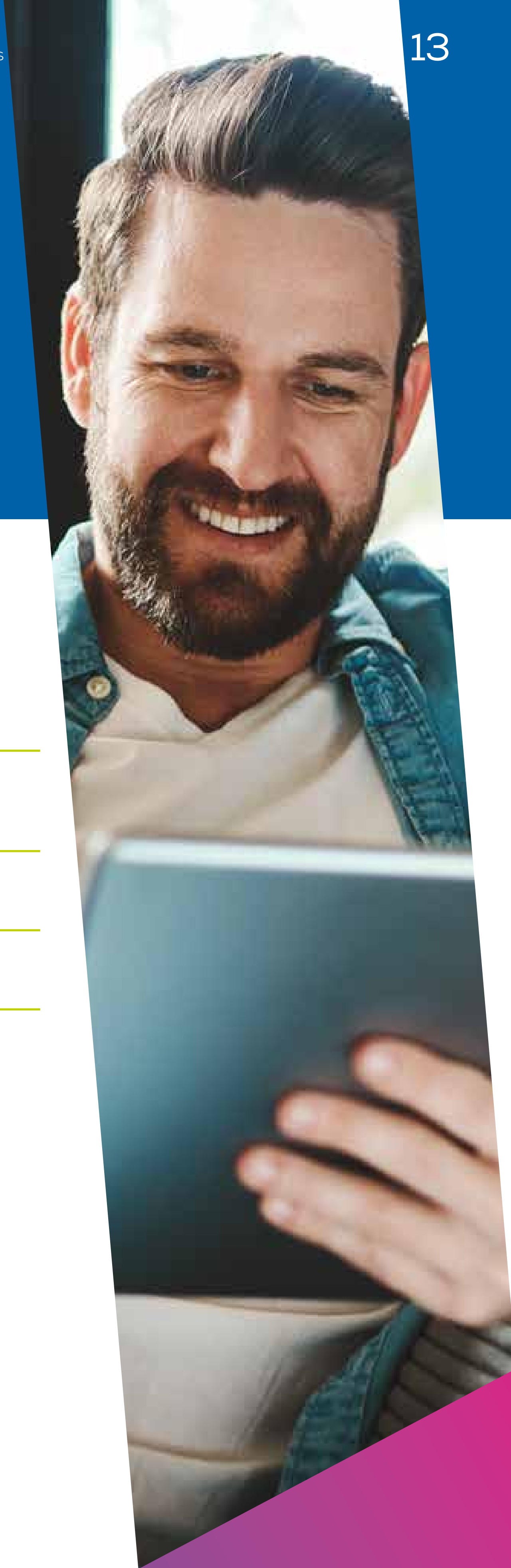
3- to 48-month online instalment loans

U Account

Online e-money current account services

Our value creation model

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

Affordable, convenient access to credit and excellent service for customers

97%

CUSTOMER SATISFACTION*

Flexible and rewarding, commission-based roles for agents

96%

OF AGENTS

Thought Treating the Customer Fairly was part of the daily mindset

Engaging careers for employees

72%

EMPLOYEE ENGAGEMENT*

Attractive returns for investors

8.4p/7.3p

ADJUSTED EPS/BASIC EPS

90%

of employees believe MCL offers good customer service

95%

of agents understand importance of TCF good customer service

Read about how we engage with our stakeholders on Page 32

* Based on annual independent satisfaction survey for HCC only (Mustard).

How we maximise value

CLEAR STRATEGY

Read more on Page 16

RESPONSIBLE, CUSTOMER-FOCUSED CULTURE

Read more on Page 34

ROBUST RISK MANAGEMENT

Read more on Page 24

SOUND GOVERNANCE

Read more on Page 40 to 48

Market Context

Home collected credit is an important and resilient segment of the non-standard finance market.

The non-standard finance market is sizeable and growing

An estimated 10-12m consumers – 20-25% of UK adults – have difficulty accessing credit from mainstream financial institutions[1] on account of an impaired or non-existent credit history.

The non-prime sector has seen high growth:

"Gross loan receivables for the largest active firms went up by 41% in 2 years to 2017/18, and net receivables (after impairments) up 32%."[2]

Although the rate of employment is at an all-time high, large numbers of adults are working part-time while looking for full-time employment, or are on zero-hour contracts, the types of low-paid, insecure work that drive demand for non-prime lending. The number of these 'underemployed' people is greater than actual unemployed, as shown in Fig 1.

A proportion of the working age population – whether or not in work – relies on benefits, which have been reduced as a result of government austerity policies since 2010.

HCC plays an important role for customers, and demand is resilient

HCC customers typically have low or fluctuating incomes. They take out small, unsecured, short-term loans to finance events such as birthdays or Christmas, or unexpected expenditure. The average loan value in the home collected credit market in 2016 was £770[3].

In its 2019 report into UK Non-Prime Consumer Credit, Apex Insight estimated loans outstanding in April 2019 of £1.0bn gross, £0.7bn net of impairments. In its review of the high-cost credit market, the FCA estimated 1.6m customers and total value of outstanding debt £1.1bn, based on 2016 data.

As Figures 2 and 3 show, the HCC sector is mature and also relatively resilient, notwithstanding well documented issues with the largest provider in recent years.

We are closely monitoring the macroeconomic environment and the impact of Covid-19 on the UK economy and the non-standard finance market. While it is difficult to assess the long-term impact on the market at this time, we have successfully adapted our operating model to maintain continuity of customer contact and collection activity.

"The availability of unsecured consumer credit fell for a 12th successive quarter in the fourth quarter of 2019 ... Lenders also further tightened their lending standards for unsecured consumer credit for a 13th successive quarter."[4]

Fig 1 – Key

Fig 3 – Key

Fig 1 – Unemployment and underemployment* (m)

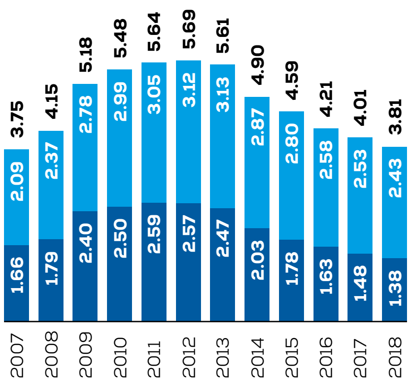


Fig 2 – Home Credit lenders revenue

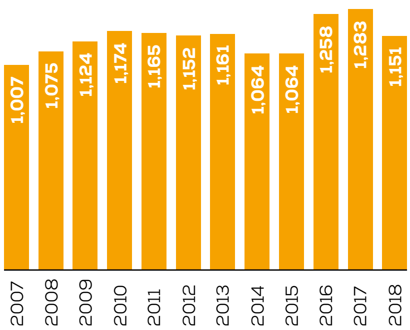


Fig 3 – Historical and forecast new lending by segment excluding credit cards (m)

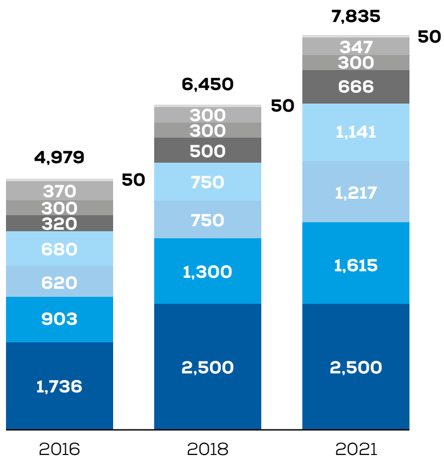


Fig 1 Source: ONS, OBR (Note: underemployed defined as workers who are employed but wish to work more hours)

Fig 2 Source: Company accounts, Apex insights analysis, FCA market statistics

Fig 3 Source: Apex insight analysis

Morses Club is a major provider in the fragmented HCC market

Morses Club is 1 of 3 national providers of home collected credit. The remainder of the market remains fragmented, with more than 400 home credit members registered with the Consumer Credit Association[5].

The need to comply with increasingly stringent regulatory requirements and to invest in technology to facilitate the assessment of affordability and other administrative processes, present significant barriers to prospective market entrants. These factors have also led to some existing participants choosing to leave the sector.

Recent regulatory changes following the FCA's review of the high-cost credit market include the need to provide customers with details of the comparative costs of refinancing an existing loan versus taking out a new loan, and new rules were also introduced in relation to when and how an agent is able to discuss a new loan with customers.

Market trends support Morses Club's strategy

L.E.K Consulting's view is 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 opportunities for non-standard lenders to compete at the margins with prime lenders and banks in some product categories.

NON-STANDARD FINANCE CUSTOMERS

10m*

HOME COLLECTED CREDIT CUSTOMERS

1.6m**

PROVIDERS OF HOME COLLECTED CREDIT

400***

UNSECURED CONSUMER CREDIT (EXCLUDING CREDIT CARDS)

£10.7 bn****

1 LEK UK Specialist lending market trends and outlook 2018
2 Apex Insight - Non-prime Consumer Credit UK Market Insight Report September 2019
3 High Cost Credit Review Annex 1 - July 2017
4 Apex Insight - Non-prime Consumer Credit UK Market Insight Report September 2019
5 Source CCA - Trade Association
* High Cost Credit Review ANNEX 1 – July 2017
** High Cost Credit Review ANNEX 1 – July 2017/September 2019
*** Source – CCA – Trade Association
**** Apex Insight – Non-Prime Consumer Credit: UK Market Insight Report – September 2019 reduced-lending-in-fourth-quarter-of-2019

Our Strategy

Our recent Digital acquisitions have accelerated our strategy to broaden our offer to non-standard credit customers.

OUR VISION

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

STRATEGIC PILLARS

Grow core HCC offering

Diversify into complementary products

Continue to work responsibly and ethically

PROGRESS AND KPIS	FUTURE PRIORITIES
Launched online portal in Feb 2019, allowing customers to access account balance and payment history information, their credit eligibility, and content and rewards from third parties – 78,000 customers – Consistent demand for the Morses Club card: – 45,000 customers (2019: 30,000) – £22.9m loan balances (2019: £15.5m)	Add functionality to the customer portal, including link to the Morses Club Card Continue to encourage adoption of Morses Club Card Continued development of remote lending and collection methods Continued research into understanding customer financial needs through market research Continued customer analysis will take place to mitigate any risk of a reduction in customer satisfaction levels in delivering a more remote service
Acquired the business and certain assets of online loan provider CURO Transatlantic Limited in February 2019, providing short-term loans (3 to 48 months) under the Dot Dot Loans brand – 37,000 customers Acquired online current account provider U Holdings Limited in June 2019 – 18,000 customers	Broaden our range of online loans sold under the Dot Dot Loans brand, including longer-term lending. Offer credit to U Account current account holders, including fixed-term loans and revolving credit. Develop brand of U Account to create platform for linked credit and current account services – U Money Careful assessment will take place to ensure our risk appetite and affordability criteria are met in offering credit products to current account customers
Implemented the recommendations of the FCA's High-cost Credit Review, that meets FCA's Covid-19 forbearance requirements including new affordability check processes and adhering to the requirements of the marketing permissions regime. Continued to apply strict eligibility and affordability criteria, treating customers fairly – 75% of new loan applications were rejected – 97% customer satisfaction for HCC Continued to achieve overall score of 97% for the quarterly Good Customer Outcomes Survey which measures customer feedback on all parts of our process	Development of affordability approaches Continue to gather customer feedback on aspects of service and product provision Ensuring that any further credit offered is to help the customer access suitable products as part of a normal share of wallet rather than creating indebtedness

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

Chief Financial Officer's Operational and Financial Review

Whilst the Group has made excellent progress in growing HCC profits in a mature marketplace, the new Digital acquisitions have contributed losses to the business that have reduced overall profitability. This year, we are also required to identify the possible adverse impact of Covid-19 on the impairment of our closing loan book that would have been foreseen at the year end. This has further suppressed our overall performance.

However, we are confident that our Digital strategy combined with what we believe to be a best-in-class HCC business will see us emerge from this difficult period as a strong and profitable business.

Andy Thomson
Chief Financial Officer

Overview

The results for the Group for the 53 weeks ended 29 February 2020 have been affected by the requirements of IFRS 9 to report the possible impact that would have been foreseen at the year end of the Covid-19 pandemic on the closing balance sheet for FY20. This required us to assess the likely decrease in cash flows from our closing loan books as a result of both our customers inability to pay and, in the case of home collected credit, our inability to collect from customers during a lockdown. These adjustments have required additional provisions of £1.7m (FY19 £nil) which directly reduced earnings by the same sum. The approach and assumptions of the additional Covid-19 provision are detailed in Note 16 on Page 115.

In addition, we also considered the subsequent impacts of Covid-19 that became known after the year end which we have noted as Post Balance Sheet Events (PBSE). The various aspects of these impacts are summarised in the table below and detailed in Note 30 of the financial statements.

Post Balance Sheet Events re Covid-19 (unaudited)	£m
Additional write off	£5.8m
Loss of income from bad debt recoveries	£0.3m
Delayed revenue recognition from slower repayments	£0.8m
Total impacts	**£6.9m**
Less: recognised in FY20	(£1.7m)
Net Post Balance Sheet Events	**£5.2m**

On a 'normalised' basis, our results excluding the Covid-19 adjustment, we achieved a normalised adjusted profit before tax of £15.5m (FY19: £22.0m) which after the Covid-19 adjustment reduced to £13.8m. Statutory profit before tax of £11.5m would have been £13.2m on a normalised basis were the £1.7m Covid-19 adjustment to be added back (FY19: £20.2m).

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

	FY20			FY19			Increase/
£m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total	(Decrease)
Statutory Profit Before Tax	**21.2**	**(9.7)**	**11.5**	20.7	(0.5)	**20.2**	**(8.7)**
Covid-19 adjustment to impairment	1.7	0.0	1.7	0.0	0.0	0.0	1.7
Statutory Profit Before Tax before Covid-19 adjustment	**22.9**	**(9.7)**	**13.2**	**20.7**	**(0.5)**	**20.2**	**(7.0)**
Amortisation, restructuring and non-recurring costs	0.9	2.6	3.5	0.8	0.0	0.8	0.8
Exceptional gain[2]	0.0	(2.3)	(2.3)	0.0	0.0	0.0	0.0
Amortisation of acquisition intangibles[3]	0.8	0.4	1.2	0.0	1.0	1.0	1.0
Normalised Adjusted Profit Before Tax[1]	**24.5**	**(9.0)**	**15.5**	**22.5**	**(0.5)**	**22.0**	**(6.5)**
Covid-19 adjustment to impairment	(1.7)	0.0	(1.7)	0.0	0.0	0.0	(1.7)
Adjusted Profit Before Tax[1]	**22.8**	**(9.0)**	**13.8**	**22.5**	**(0.5)**	**22.0**	**(8.2)**
Tax on Adjusted Profit Before Tax	(2.4)	(0.4)	(2.8)	(4.5)	0.1	(4.4)	1.6
Adjusted Profit After Tax	**20.4**	**(9.4)**	11.0	**18.0**	**(0.4)**	**17.6**	**(6.6)**
Statutory EPS[1]			7.3p			12.5p	(5.2p)
Normalised EPS[1]			9.5p			13.6p	(4.2p)
Adjusted EPS[1]			8.4p			13.6p	(5.2p)
Statutory Return on Assets[1]	27.5%		**12.8%**			**23.4%**	
Normalised Return on Assets[1]	31.1%		**16.6%**			**25.4%**	
Adjusted Return on Assets[1]	29.3%		**14.8%**			**25.4%**	
Statutory Return on Equity[1]	30.1%		**17.2%**			**27.2%**	
Normalised Return on Equity[1]	34.1%		**22.3%**			**29.6%**	
Adjusted Return on Equity[1]	32.1%		**19.9%**			**29.6%**	

1 Definitions are set out in the Glossary of APMs
2 Adjustments in connection with CURO Transatlantic Limited and U Holding Limited acquisitions
3 Amortisation of acquired customer lists and agent networks

The HCC business continued to perform strongly in what we believe is a mature and probably declining marketplace. Whilst closing customer numbers fell by 5.6% and gross receivables by 1.6%, income increased by 2.3% to £119.3m (FY19: £116.6m). This resulted in a Normalised Adjusted Profit before tax of £24.5m which was 8.9% up compared to FY19 of £22.5m. The Covid-19 impairment adjustment reduced this to £22.8m, still a year-on-year increase of 1.3%.

Chief Financial Officer's Operational and Financial Review continued

We made great strides in enhancing the scale and capability of our Digital business during the year, albeit with a significant impact on profitability. We acquired the business and certain assets of CURO Transatlantic Limited at the end of February 2019 from the Administrator. Whilst the business had suffered from a legacy of payday loans dating back to 2004, we only acquired the current instalment loans part of the loan book. Whilst we were able to acquire the business at a very small uplift to the net assets (£0.1m), we knew that the turnaround and growth of the business was likely to incur trading losses in FY20.

In addition, we acquired the digital banking business U Holdings Limited, trading as U Account in June 2019. Like most digital online current account providers, this is currently loss-making though we have a clearly defined strategy to grow this through FY21/FY22 with a view to integrating lending products into a one view of the customer model that should result in improved customer outcomes and financial performance.

As a result of these acquisitions, the digital adjusted loss before tax increased significantly to (£9.0m) against an adjusted loss for FY19 of (£0.5m).

Total equity was virtually unchanged, decreasing by 0.4% to £70.7m (FY19: £71.0m), as a result of the impact of the Covid-19 adjustments which after tax adversely impacted total equity by (£1.4m). The move to IFRS 16 had a negligible impact on net assets.

Trading summary

	53-week period ended 29 February 2020			52-week period ended 23 February 2019		
£m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Customer numbers ('000s)	221	34	**255**	234	**0**	**234**
Credit issued	174.2	16.1	**190.3**	178.1	**0.4**	**178.5**
Period end receivables	67.9	4.9	**72.8**	73.0	**0.0**	**73.0**
Average receivables	69.3	5.0	**74.3**	69.1	**0.2**	**69.3**
Revenue	119.3	14.4	**133.7**	116.6	**0.4**	**117.0**
Impairment	(27.6)	(7.1)	**(34.7)**	(25.9)	**(0.3)**	**(26.2)**
Agent commission	(27.0)	(0.6)	**(27.6)**	(28.3)	**0.0**	**(28.3)**
Gross Profit before Covid-19 adjustment	64.7	6.6	**71.3**	62.4	**0.1**	**62.5**
Administration expenses (pre-exceptional)	(34.4)	(13.8)	**(48.2)**	(36.5)	**(0.6)**	**(37.1)**
Depreciation	(3.6)	(0.7)	**(4.3)**	(1.7)	**(0.0)**	**(1.7)**
Operating Profit before exceptional costs and amortisation of acquisition intangibles	**26.7**	**(7.9)**	18.8	**24.3**	**(0.5)**	**23.8**
Amortisation of acquisition intangibles	(0.8)	(0.4)	**(1.2)**	(1.0)	**0.0**	**(1.0)**
Acquisition, restructuring and non-recurring costs	(0.9)	(2.6)	**(3.5)**	(0.8)	**0.0**	**(0.8)**
Covid-19 adjustment to impairment	(1.7)	0.0	**(1.7)**	0.0	**0.0**	**0.0**
Exceptional items	0.0	2.3	**2.3**	0.0	**0.0**	**0.0**
Operating Profit	**23.2**	**(8.5)**	**14.7**	**22.5**	**(0.5)**	**22.0**
Funding costs	(2.1)	(1.1)	**(3.3)**	(1.7)	**0.0**	**(1.7)**
Statutory Profit Before Tax	**21.2**	**(9.7)**	**11.5**	**20.7**	**(0.5)**	**20.2**
Tax	(2.0)	0.1	**(2.0)**	(4.1)	**0.1**	**(4.0)**
Statutory Profit After Tax	**19.2**	**(9.7)**	**9.5**	**16.6**	**(0.4)**	**16.2**
Basic EPS			**7.3p**			**12.5p**

Group results

Credit issued to customers increased by 6.6% to £190.3m (FY19: £178.5m) mainly due to the increase in Digital which increased by £15.7m to £16.1m (FY19: £0.4m) reflecting the acquisition of certain assets from the business and CURO Transatlantic Limited in February 2019. HCC credit issued declined by 2.2% to £174.2m (FY19: £178.1m) which we believe reflects the maturity of this market.

Revenue increased by 14.3% to £133.7m (FY19: £117.0m) with the majority of the increase due to the acquired digital businesses, £14.4m compared to FY19: £0.4m. HCC also saw a small 2.3% increase in revenue due to slightly higher yields.

HCC gross profits before the Covid-19 adjustment increased to £64.7m (FY19: £62.4m), an increase of 3.7%. The gross profit percent increased to 54.2% from FY19 53.5%. Within the cost of sales, impairment before the Covid-19 adjustment increased from 22.2% to 23.1%, with poorer loan performances identified across newer and more remote customers in the last few months of the year. However, the overall performance still sits comfortably within our guidance range of 21.0% to 26.0%. The increased impairment costs were more than offset by agent commission costs reducing from 24.3% to 22.6%. This was as a result of there being no material territory build subsidies in the year and the full year effect of the phasing out during FY19 of the remaining commission protection arrangements to newer agents.

Administration expenses (including depreciation) increased significantly from £38.8m in FY19 to £52.5m in the current year. This was entirely due to the digital businesses acquired in the year.

HCC administration expenses (including depreciation) were flat at £38.0m (FY19: £38.2m), against a 2.3% increase in revenue, although this was in part due to IFRS16 reclassifying £0.5m of lease costs within finance costs.

The comparison of the profit and loss account charges resulting from the implementation of IFRS16 is detailed in the table below:

Leases assets: charges to the profit and loss account (£'m)	FY20 (IFRS16)	FY20 (IAS17)	Movement	FY19 (IAS17)
Administration costs	0.5	3.0	2.5	2.5
Depreciation	1.7	–	(1.7)	–
Total	2.2	3.0	0.8	2.5
Finance costs	0.5	–	(0.5)	–
Total cost of leased assets	2.7	3.0	0.3	2.5

Aside from the impact of IFRS16, depreciation costs in HCC increased by £0.2m to £1.9m (FY19: £1.7m) due to our ongoing investment in our HCC technology platforms.

Normalised adjusted profit before tax fell 29.5% to £15.5m (FY19: £22.0m). Within this the HCC business increased normalised adjusted profit before tax by 8.9% to £24.5m (FY19: £22.5m), with the gross profit increase of £2.3m being only slightly offset by a £0.3m increase across administration costs, depreciation and funding costs. The digital businesses had an adverse impact on performance with a normalised adjusted loss before tax of £9.0m, an increase from FY19's loss of £0.5m.

The HCC normalised return on assets remained a healthy 31.1% compared to FY19 25.4%. After the Covid-19 adjustment the adjusted return on assets was 29.3%, still an improvement compared to FY19.

With the additional charge for impairment as a result of Covid-19 of £1.7m, this reduced the adjusted profit before tax to £13.8m (FY19: £22.0m). The details of the Covid-19 scenario we considered and the probability attached to it that resulted in the Covid-19 adjustment of £1.7m can be found in Note 16 on Page 117 of the accounts. A table of adjustments between reported profit before tax and normalised adjusted and adjusted profit before tax was shown above.

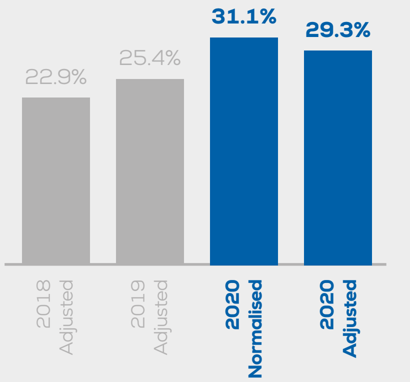
Acquisition, restructuring and non-recurring costs increased to (£3.5m) from (£0.8m), the increase being in connection with the digital acquisitions with the restructuring costs in HCC being similar to last year (FY20: £0.9m, FYH19: £0.8m). The digital costs were largely in relation to headcount reductions, IT transition costs, acquisition costs and office relocation.

The exceptional gain of £2.3m is in connection with the release of excess deferred consideration associated with the acquisition of U Holdings Limited; this was connected to performance criteria that were largely not achieved.

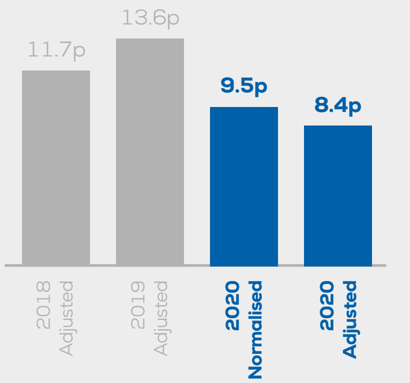
Amortisation of acquisition intangibles increased slightly from (£1.0m) to (£1.2m) as a result of the additional charge of (£0.4m) from the acquisition of the digital businesses.

The statutory profit before tax fell by 43.1% to £11.5m (FY19: £20.2m).

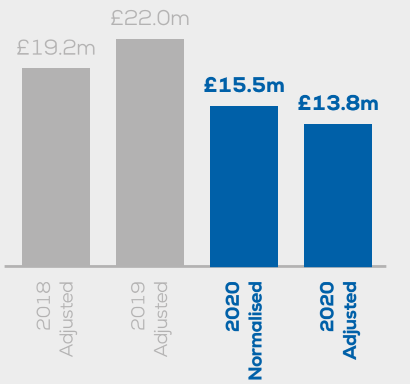
HCC adjusted return on assets



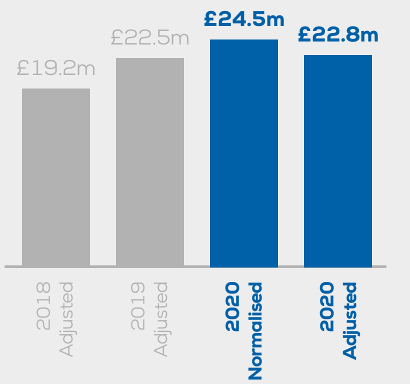
Adjusted earnings per share



Group adjusted profit before tax



HCC adjusted profit before tax



Chief Financial Officer's Operational and Financial Review continued

Earnings per share

The normalised adjusted earnings per share for FY20 was 9.5p, a decrease of 30.1% relative to 13.6p for FY19. The adjusted earnings per share was 8.4p, a 38.2% reduction compared to 13.6p for FY19. The reported earnings per share for FY20 was 7.3p compared to 12.5p for FY19, a decrease of 41.6%.

Dividend

After the impact of Covid-19 and the lockdown became a reality, the Group announced that it would be postponing its decision to make a final dividend payment whilst it assessed the impacts of the pandemic. During this time, we have extended our loan facilities and cash flows have exceeded expectations as we adapted, and continue to adapt, to the ever-changing demands on the business. We are pleased to say that we did not furlough any staff or take on any debt or other support packages offered by HM Government during the crisis.

As a result of this and subject to shareholder approval at the General Meeting on 7 January 2021, the Board proposes to pay a final dividend of 1.0p per Ordinary Share (FY19: 5.2p) payable on 12 February 2021 to shareholders on the register at the close of business on 15 January 2021.

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 3.6p (FY19: 7.8p). This represents a total payment for the year of 38% of normalised adjusted profits after tax which is below our normal dividend policy of paying between 50% and 60% of normalised adjusted profits after tax. However, the Board has noted that the profit is largely before Covid-19 and believes that we should remain particularly prudent in the current uncertain times.

Acquisitions and goodwill

At the beginning of the financial year, the Group acquired the business and certain assets of online lender CURO Transatlantic Limited for £8.0m. 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 Loans online product to a level where management are confident that it will be financially successful. We have been going through a complex integration process of re-platforming the incumbent technology, a process that has taken longer than we anticipated and will not be completed until early 2021. Due to Covid-19, it has been difficult to build up loan volumes to the required levels so far during FY20 and so we do not now expect to be profitable until later in FY22.

In June 2019 we acquired U Holdings Limited, a company providing e-money current account services, another major component of the Group's digital strategy. Whilst we acknowledge that this business may be loss making for a period of time, we have a strategy to expand it as a leading banking product to the non-prime space by developing integrated credit products to this customer niche.

Below is an extract of the consideration, goodwill and assets acquired, more details can be found of the acquisitions in Note 26 to the accounts.

£m	CURO	U Account	Total
Consideration transferred settled in cash	4.3	6.7	11.0
Fair value of contingent consideration	3.7	2.8	6.5
Total consideration	**8.0**	**9.5**	**17.5**
Less fair value of net assets acquired	(7.9)	(0.1)	(8.0)
Goodwill	**0.1**	**9.4**	**9.5**

The contingent consideration was originally payable 5 years after the acquisition based on various performance targets and although management still expects to achieve these targets, the contingent consideration has been released. This is because the individuals qualifying for this left the business during the year and have forgone this additional remuneration which is shown as an exceptional gain in the trading Summary on Page 20. See also Note 3.

Funding

We were pleased to announce at the end of April 2020 the extension of our loan facility with the incumbent lender consortium from August 2020 out to the end of November 2021. This was particularly pleasing as the facility extension was agreed and signed off during the most adverse period of the lockdown and we believe illustrates the confidence that our lenders have in the Group.

The facility limit was reduced from £55m committed to £40m as it became clear, as a result of Covid-19, that lending volumes during 2020 will be far lower than we anticipated coming into the year. By reducing this unused headroom, and repaying the £5m mezzanine layer, we will reduce our non-utilisation charges for any given level of borrowing and therefore overall cost of funding. We also took the opportunity to review operating covenants in light of the Covid-19 pandemic and given the reduced collections during the first stage of lockdown we agreed an amendment to one operating covenant, being the collection performance, to reflect this, though in the end we never breached the original unadjusted covenant.

Borrowing peaked at £40.0m in December 2019 (December 2018: £21.5m) the increase reflecting the consideration paid for the acquisitions, restructuring costs and the subsequent digital loan book growth. We anticipated that the impact of Covid-19 would be a shrinking of the HCC loan book which would generate more cash and lead to lower levels of borrowing in the second half of FY21 compared to FY20. In September we reported that our borrowing at the end of August 2020 was £14m which compared to £23m in August 2019.

Balance sheet

The total equity for the Group decreased by 0.4% from £71.0m reported in FY19 to £70.7m, reflecting the dividends paid, which included last year's final dividend, marginally exceeding the retained profit for the year.

The main asset of the Group is our loan book, which on a net basis decreased by (0.3%) from £73.0m in FY19 to £72.8m in FY20. Excluding the Covid-19 adjustment the net loan book would have been £74.5m, an increase of 2.1%. The net loan book represents 103% of the total equity (FY19: 103%).

Summarised balance sheet	**FY20**	FY19
Loan book	**72.8**	73.0
Goodwill	**13.0**	3.5
Bank borrowings	**(33.8)**	(14.1)
Cash at bank	**11.9**	7.9
Other net assets	**6.8**	0.7
Total equity	**70.7**	71.0

The biggest movement in other net assets is due to a tax credit last year of (£1.8m) becoming a tax receivable of £0.5m. In addition, prepayments increased by £1.3m and intangible assets by £1.2m.

Cash flow

The summarised cash flow statement below demonstrates the healthy levels of cash generated by the business prior to acquisitions in the table below. The cash inflow from operations of £21.4m was up by 4.4% compared to £20.5m in FY19. The increase in bank borrowings of £19.5m reflected the cost of investing in acquisitions and assets of £22.4m.

Summarised cash flow

£m	**Feb 20**	Feb 19
Cash inflow from operating activities	**21.4**	20.5
Net borrowing increase/(decrease)	**19.5**	(1.5)
Net cash outflow from investing activities	**(22.4)**	(4.6)
Dividends paid	**(10.2)**	(9.6)
Other net cash flow movements	**(4.3)**	(1.8)
Increase in cash and cash equivalents	**4.0**	3.0

Covid-19 and subsequent outlook

The additional charge for Covid-19 of £1.7m taken to earnings in FY20 is summarised in the overview above and detailed in Note 16 to the accounts on Page 115. This additional provision for expected credit losses is required by IFRS9 where not only do we have to consider the historical loan book performance in order to measure the likely future credit performance, but also consider economic and other factors that might affect the appropriateness of using this historical information unaltered. Since the adoption of IFRS9 the Group has, prior to FY20, concluded that there was no need to make any such adjustment. However, the Covid-19 pandemic required us to consider both the probability of higher expected credit losses under IFRS9 for the purpose of the FY20 accounts but also the non-adjusting post balance sheet impact under IAS10.

The full impact of Covid-19 and the lockdown on the business will be higher than this, with lending volumes in FY21 being reduced as a result of a combination of customer financial difficulties, reductions in customer spending resulting in reduced borrowing, customer deleveraging and de-risking of their personal finances, higher unemployment and the application of higher credit scoring criteria which you would expect a responsible lender to apply during this economic uncertainty.

These factors are inevitably going to lead to a shrinking of customer numbers and the loan book in the established HCC business during FY21, and therefore revenues and gross margin. The digital business is unlikely to be able to grow as quickly as we anticipated on acquisition whilst maintaining debt quality at the levels we would responsibly target. As a result it will take longer than we originally planned to generate profits from these. However, the Group continues to track all aspects of these challenges and is confident that it will emerge as a profitable and stronger business.

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, primarily through its Risk & Compliance Committee, 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 Chair of the Audit Committee. 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 (eg 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 financial crime, reporting, 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 Chair of the Risk & Compliance Committee and to the CEO.

The Third Line of Defence includes the Head of Internal Audit, who reports to the Chair 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 2019, the Internal Audit function invested in additional specialist resource following the acquisitions during the year.

During the year, the Group has reviewed its risk management framework in order to ensure that priorities are given to the most important risks.

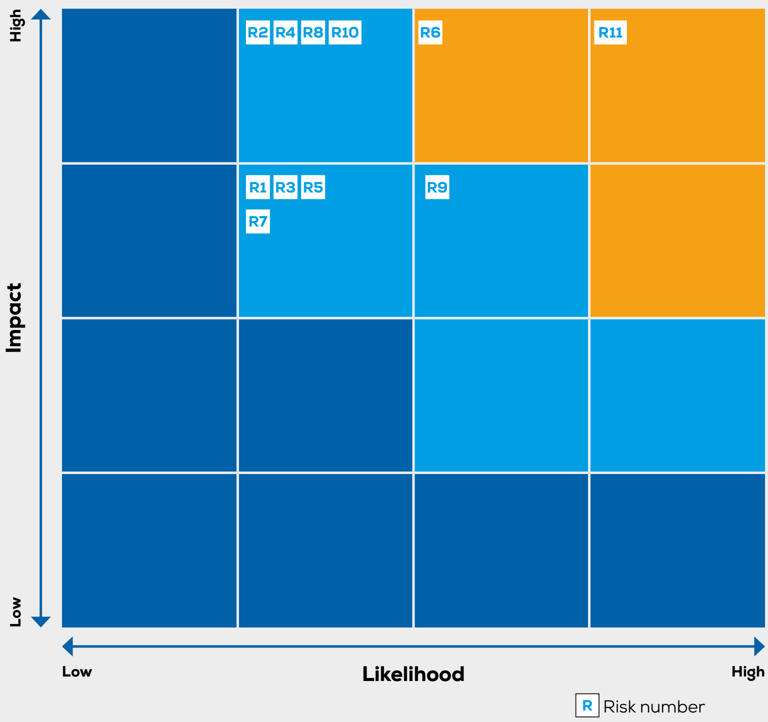
The Group maintains a risk register covering the entire business. Risks are rated according to the probability of occurrence and potential impact.

Each risk is assigned to an appropriate individual and all mitigation and action plans are recorded. Risks and their status are reviewed regularly and the Risk & Compliance Committee has performed a robust risk assessment during the year.

The report of the Risk & Compliance Committee on Pages 60 to 63 sets out the procedures used by the Board to manage the Group's risks.

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 assess and assure
	Independently review the effectiveness of front-line control activity	Internal control framework
		Risk management effectiveness
Field operations – divisional managers, regional managers, area managers and customer relationship 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

Principal Risks and Uncertainties



Key

R1	Conduct Risk	R7	Operational Risk
R2	Regulatory Risk	R8	Liquidity Risk
R3	Credit Risk	R9	IT and Cyber Risk
R4	Reputational Risk	R10	Agents' self-employed status
R5	Strategic and Business Risk	R11	Covid-19 pandemic
R6	Wider Industry Contagion Risk		

The principal risks faced by the business by risk category are as shown below and on Pages 26 to 29.

Key

▲ Increase ▶ No change ▼ Decrease

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R1	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. During the year, the HCC division has implemented enhanced affordability procedures incorporating additional external data. This, together with the new loan optimisation system has enhanced our affordability process and the customer journey for agents and customers at the point of sale. The HCC division enhanced the digital loan process to facilitate remote lending.	▶

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R2	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 by our lawyers. We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated.	▶
R3	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. Whilst the impact of Covid-19 remains uncertain, it is expected that credit risk will increase in 2020 as a result of a major slowdown in the UK economy. However, the Group is accustomed to providing forbearance to its customers and at the time of writing collection rates have improved and are now once again close to normal levels.	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.	▲
R4	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 2019, we continued surveys of all types of customer, including those who benefited from our policy of forbearance. The number and nature of complaints are closely monitored. We have widened customer access to online documentation through a customer portal and provided customers with a more robust and customer-centric experience.	▶

Key
▲ Increase
▶ No change
▼ Decrease

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R5	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 2 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. Following the Covid-19 outbreak, the Company put into place contingency plans to minimise the risks to the health and safety of its employees and agents. All staff were able to operate from home effectively and the HCC business is able to lend and collect both remotely and through doorstep activities.	▶
R6	Wider Industry Risk	Concerted action by Claims Management Companies (CMCs) can lead to a significant increase in the level of complaints being raised against the Group, whether they are ultimately settled or rejected. A change of approach by the Financial Ombudsman (FOS) resulting in more complaints being upheld without good reason. The increased cost of each FOS claim, whether the complaint is upheld or not.	During the year, the Group has seen a noticeable increase in the level of complaints received from CMCs. In many cases, these have been spurious or allegedly sent by individuals who have never been customers or have been sent without the customer's knowledge or consent. CMCs are now regulated by the FCA and it is hoped that they will act more responsibly in the future. The Group is actively engaging with FOS and the FCA through the sector trade associations.	▲ Following the ending of PPI claims, it is clear that CMCs are looking for opportunities to challenge companies

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R7	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. Business continuity plan fails to maintain customer service.	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. A comprehensive business continuity policy and procedure is in place and a third-party disaster recovery site is now available should it be required. Disaster recovery tests are performed periodically on critical systems. The Group's business interruption insurance cover has been increased substantially, following the increase in revenue resulting from the acquisitions made in 2019. We responded rapidly to the outbreak of Covid-19, successfully adapting our operating model to enable all our agents to work from home and replacing face-to-face customer visits with a remote customer communication strategy. We made use of our existing technology platform and payment methods to maintain customer contact and collection activity. We launched a new cashless remote lending product, which is available to all existing Morses Club HCC customers and is compliant with all regulatory requirements. All necessary checks and agreements are transacted via our online Customer Portal, leveraging our existing technology platform. Customers using the new remote lending product can choose to have funds deposited directly into their bank account or loaded onto a Morses Club Card, ensuring that existing customers can continue to access our products and services during this time. The Digital division reviewed operating practices so all employees working from home. Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained.	▲

Key
▲ Increase
▶ No change
▼ Decrease

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R8	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 £40m, secured by a debenture on the assets of the business. The revolving credit facility expires at the end of November 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. Positive discussions have started with the existing lenders, and the renewal will be a major focus for the incoming CFO.	
R9	IT and Cyber 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 (eg GDPR). • Strategy and architecture risk arising from inadequate requirements and business analysis. • 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. The Group recognises the increased relevance of this risk as the move to digitise the business continues and has plans to increase the frequency and scope of its testing. 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. Since the outbreak of Covid-19 we have engaged with suppliers to ensure increased resilience for all key IT services. During the year, we have undertaken phishing exercises in order to educate our staff. Most of our data is now encrypted at rest. The Group's cyber insurance cover has been increased once more in consultation with the Group's insurers. The business change team closely monitors demand and resource plans.	The risk is seen as increased owing to the increase in the number of cyber attacks globally.
R10	Agents' self-employed status	The risk that employment and/or tax legislation changes to such an extent the Company cannot maintain self-employed status for its agents.	The Company carefully monitors the position with its advisers and conducts an ongoing review of business processes, systems and contracts in order to maintain self-employed status for its agents.	
R11	Covid-19 pandemic	The risk that normal business is significantly affected by Covid-19: by restricting face-to-face contact with customers; reducing the number of staff working from offices; and reducing the demand for loans.	The Group has rapidly developed systems whereby customers can apply for loans and repay them remotely – by telephone or through the customer portal; at the time of writing, all staff are working from home effectively, including the customer call centres; the reduction in demand for loans is addressed by constantly monitoring the cost base of the business. For further information see the viability statement on Page 31.	

Principal Risks and Uncertainties continued

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.

In the vast majority of cases, the Group see risks change and develop rather than emerge.

However, the Senior Managers and Certification Regime, which was made effective in December 2019, and leaving the EU without a trade deal can be seen as emerging risks.

Emerging risk	Commentary
Leaving the EU without a trade deal	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. We therefore do not foresee any issues or changes being made to the business model or any impact on our accounting policies of critical judgements.
Senior Managers and Certification Regime	Morses Club is an enhanced firm for the purposes of this legislation which became effective on 9 December 2019. The Group appointed a project team, advised by our external lawyers, with the result that the required processes were introduced in readiness for this new regime.
Climate change	Climate change is not currently seen as a principal risk to the business, but this is kept under review. Customers can request loans and make payments under the new customer portal. Technology is being introduced to allow for more meetings to be conducted remotely. Both of these initiatives will reduce the need to travel unnecessarily. The Group's environmental policy is reviewed annually.

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 3-year timeframe. This timeframe has been selected as it corresponds with the Board's strategic planning horizon.

The assessment has been made, at the date of signing these accounts, 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 25 to 30.

The strategy for the Group is included on Pages 16 to 17 and its business model is on Pages 12 to 13. 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 3-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 £40m, secured by a debenture on the assets of the business which expires at the end of November 2021. It is the Group's policy to renew its credit facilities well in advance of this date. Positive discussions have started with the existing lenders, and the renewal will be a major focus for the incoming CFO.

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

Covid-19

As a result of the impact of the Covid-19 pandemic, the Group has undertaken a revised budgeting exercise. This has already been stress-tested in practice in the first 8 months of trading in FY21, This clearly demonstrates that the Group will have sufficient funds to operate and meet its liabilities.

Covid-19 had begun to establish itself at the reporting date of 29 February 2020. The initial stages of Covid-19 impacted the Group's operations, particularly the Home Credit division, due to the face-to-face nature of .the business model from March onwards. However, management, in line with peers, anticipate that as a result of the flexibility shown during Covid-19 and high customer loyalty the non-standard sector of the market as a whole is likely to be more resilient than other financial sectors.

With regard to a going concern review or a 3-year viability period, management recognise the need for continued adaptation of the operating model whilst maintaining good customer outcomes, appropriate oversight and financial prudence.

Rather than taking the approach of adopting a base case and then running upside and downside cases, management have adopted an approach based on conservatism and the implications of Covid-19. The financial model which contains these assumptions was developed and shared with funders to support the new funding facility entered into on 28 April 2020.

Under the worst case, in the initial period of Covid-19, the plan reflects operational disruption with reduced sales, lower collections and increased impairment rates. The result of stressing these key variables is to create liquidity pressure against the Group's lending facility. A series of mitigating actions such as cost reductions, suspension of bonuses and limited loan book growth were then applied. A summary table of all these scenarios is included on Page 134.

Management's objective in this period is to de-leverage the Group, whilst maintaining an appropriate level of operational cash. Using these guidelines, our Covid-19 plan reduces borrowings compared to last year and maintains sufficient headroom to operate the business and deal with a reasonable range of business shocks.

Under the Covid-19 plan the Group remains profitable in all years during the viability period and there is no issue of solvency from a cash or asset perspective. For planning purposes management has assumed an extension of the current facility to the end of November 2021, to cover the remainder of the viability period. Based on current performance and initial discussions with existing lenders, management believe this to be a reasonable working assumption.

Management's Covid-19 plan meets the covenants set by the funders of the new facility for the going concern and viability period. Management consider this to be a prudent foreseeable worst case plan against which to assess the going concern and viability of the Group. This plan reflects both the impact on operational challenges and future prospects mentioned above.

Within the Covid-19 plan, the Group has assessed a number of possible events and scenarios which resulted in:

- Revision of future cash flows impacting the IFRS 9 Loan Loss Impairment Provision at the reporting date as well as cash flows in future periods.
- Reduced customer numbers, loan book size and collections as a result of continued operational limitations.
- Revised operational model resulting from a different sized business.

Management remain focused on ensuring the maintenance of sufficient headroom in cash reserves in light of the scenario planning outlined due to Covid-19.

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 significant adverse direct consequences of the current planned terms of EU separation.

Conclusion

Based on the above, in particular the assumptions made for Covid-19 the Board confirms that it expects the Group will continue to operate and meet its liabilities, as they fall due, for the next year.

Engaging with our Stakeholders

To secure our long-term success, it is important to engage with our stakeholders and take account of their perspectives.

Listening and engaging with stakeholders helps us to create a better business and improve outcomes for customers, society and the environment. The Board also proactively engages with stakeholders including customers, employees, debt providers and investors to understand their views across a range of issues; see Page 34 to 36 for more information.

In the table overleaf we set out our key stakeholder groups, the material issues that matter to them and how we engage with them. By understanding our stakeholders, we can factor into Boardroom discussions the potential impact of our decisions on each stakeholder group and consider their needs and concerns.

The Board's Statement on s172

The Board of Directors, in line with their duties under s172 of the Companies Act 2006, act in a way they consider, in good faith, would be most likely to promote the success of the Company for the benefit of its members as a whole, and in doing so have regard to a range of matters when making decisions for the long term. Key decisions and matters that are of strategic importance to the Company are informed by s172 considerations. The subjects of s172 and Directors' duties are included together as a standing item on the agenda of every Board meeting. Through an open and transparent dialogue with our key stakeholders, we are able to develop a clear understanding of their needs, assess their perspectives and monitor their impact on our strategic ambition and culture. As part of the Board's decision-making process, the Board and its Committees consider the potential impact of decisions on relevant stakeholders whilst also having regard to a number of broader factors, including the impact of the Company's operations on the community and environment, responsible business practices and the likely consequences of decisions in the long term.

In preparation for the Company's implementation of the UK Corporate Governance Code July 2018, and anticipating the new reporting requirements, during the year the Board undertook a review of the actions it currently undertakes to comply with s172. The review included an analysis of how the Board currently engages with its stakeholders and recommendations on how such engagement could be enhanced.

Engaging with our Stakeholders continued

OUR STAKEHOLDERS AND WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGE
CUSTOMERS The continued performance of our business would not be possible without understanding our customers' needs.	• Affordable and accessible credit. • Simple, transparent charging structure, with no penalties or late payment fees. • Support and forbearance during short-term difficulty.	• Monthly customer satisfaction survey, the results of which are reviewed by the Board. • Quarterly good customer outcomes survey across a randomised selection of customers to gather views on how well the service operates at each stage of the loan issue and collection service, as well as the service delivered by agents. The Company achieved an overall score of 97% across all 9 regions. • Ad hoc surveys, such as customer views on our online portal. Future surveys will include customer views on what they want from an online e-money current account. • Mystery shopping. • We are developing further approaches to reviewing customer satisfaction within Shelby Finance for FY21.
SELF-EMPLOYED AGENTS Our network of self-employed agents are our interface with customers in communities around the UK, and develop valued relationships with customers.	• Ability to work flexibly in the local community. • Support and tools to work efficiently, effectively and flexibly. • Competitive remuneration.	• Regular meetings with field managers. • Annual satisfaction survey, the results of which are reviewed by the Board. The overall score for FY20 was 63%.
EMPLOYEES Our experienced, diverse and dedicated workforce is a key asset of our business. We continue to seek to create the right environment to encourage and create opportunities for individuals and teams to realise their potential and career aspirations.	• Opportunities for personal development and career progression. • A culture of inclusion and diversity. • Remuneration and benefits.	• Open, collaborative culture with regular Company updates and opportunities for questions and feedback. • Annual appraisal process. • Annual employee satisfaction survey conducted independently and anonymously, whose results are reviewed by the Board. Our overall score for FY20 was 65%, reflective of the year of significant change undergone by the business. • Exit surveys for departing employees. 31 former employees gave feedback in FY20. • Non-Executive Director and former Operations Director, Les Easson, has been designated to represent the employee voice to the Board. Read more on Page 47. • Development of a detailed cultural review for FY21. • Whistle-blowing hotline, available to all employees.
SUPPLIERS Our suppliers are essential to provide our divisions with the goods and services required to enable us to continue to meet our customers' needs. They play a vital role in our operations so it is important that we develop strong supplier relationships with them.	• Professional and consistent relationship. • Alignment of business culture and customer service model. • Reliable and adhere to contractual terms.	• Due diligence conducted for all suppliers. • Check quality of products and services. • Ensure policies and procedures in place. • Maintain regular contact through procurement and account management approaches. • Annual reviews of the service and regular feedback.

OUR STAKEHOLDERS AND WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGE
DEBT PROVIDERS Our providers of debt facilities, along with our retained earnings, allow us to lend money to customers at competitive rates.	• Financial performance. • Transparency. • Proactive communication. • Credit rating.	• Monthly covenant reporting including loan book quality analysis. • Monthly submission of finance Board papers and additional schedules. • Monthly conference calls to discuss current performance and future expectations. • Quarterly independent review of lending process and loan book quality.
REGULATOR AND GOVERNMENT The nature of our customer base and the market in which we specialise makes the building and maintaining of open and trusting dialogue with policy makers and our regulators, the PRA, FCA and CBI, critical to a sustainable business model.	• Clear and transparent communication with the regulator. • Proactive approaches on any regulatory matters. • Clear TCF approaches in line with the market sector and customer needs.	• Regular dialogue with the regulator. • Proactive communication with the regulator regarding our approaches on lending and remote working due to Covid-19. • Respond proactively to feedback requests. • Member of the Smaller Business Practitioner Panel through the CEO. • Programme of contact with MPs through the CEO to share insights and ensure the business model is fully understood.
SHAREHOLDERS Our investors provide capital without which we could not grow and invest for future success.	• Strong cash generation and attractive dividend policy. • Responsible, sustainable and low-risk business model and strategy.	• Twice-yearly road shows by the CEO and CFO at the time of the interim and annual results. • Ad hoc queries and feedback from shareholders, dealt with by the CFO. The Chairman and the Senior Independent Director also make themselves available, and discuss feedback at Board meetings.
COMMUNITIES AND ENVIRONMENT We are committed to making a positive contribution to the communities within which we operate, including through payment of taxes, reducing our environmental impact and creating employment opportunities.	• Responsible lending and collecting of repayments. • Helping local economies by promoting financial inclusion. • Fundraising for local charities. • Minimising environmental impact.	• Acting in a fair and responsible manner is a core element of our business. Read more on Page 36.

How stakeholders influenced Board decision-making

We define principal decisions as those that are material to the Group, but also to any of our key stakeholder groups. In making the principal decisions outlined below, the Board considered the outcome from its stakeholder engagement as well as the need to maintain high standards of business conduct and to act fairly between the members of the Company. The Board's procedures have been updated to require a stakeholder impact analysis to be completed for all material decisions requiring its approval that could impact on 1 or more of our stakeholder groups. The stakeholder impact analysis assists the Directors in performing their duties under s172 of the Companies Act 2006 and provides the Board with assurance that the potential impacts on our stakeholders are being carefully considered by management when developing plans for Board approval.

The principal decisions made during the year relate to the acquisitions of online loan provider CURO Transatlantic Limited (now trading as Dot Dot Loans) and online current account provider U Holdings Limited, in February and June 2019 respectively. These transactions aligned with our strategy to enhance our digital capabilities and to broaden the services offered to our core customer demographic into online banking. Both of these elements had been highlighted in our regular customer research as areas of demand for non-standard finance customers. Our employees and shareholders were fully supportive of the acquisitions following announcements in light of the complementary fit with our existing operations and the growth opportunity.

During the year, the Company also considered acquiring another provider of non-standard financial services. During the due diligence exercise, it became clear that the target was profitable only due to charging customers at a level greater than Morses Club Directors would be comfortable with. The Directors therefore agreed not to pursue the acquisition.

Engaging with our Stakeholders continued

Lending responsibly to customers

Treating customers fairly is the foundation of our approach. As outlined on Page 12, our business model centres on responsible lending and collection of repayments. We assess every application for credit against stringent criteria, taking into account affordability and credit checks. A complete income and expenditure check is undertaken for every loan, and we only lend to customers who can afford the repayments. Last year, 75% of loan applications were not progressed. We have a clear, uncomplicated charging structure, with no penalties or fees for delays in repayments, and self-employed agents are paid in commission based on collections, not sales.

Supporting our people

Culture

The Group is built on trusted relationships and shared values that underpin our commitment to customers:

- Our customers will always be at the heart of everything we do.
- We will be honest and transparent in how we deal with everyone.
- Our systems and processes will be simple and clear.
- We will show forbearance and flexibility.

The culture that underlies these commitments is founded on behaviours that are honest, fair, responsible, supportive and understanding.

Given recent changes to the Group and as part of our ongoing work to ensure that we nurture an appropriate culture for all our employees, customers and key stakeholders, we are planning to undertake a cultural review. This will assess all aspects of the business, where possible providing benchmarks and measures, which together will form a cultural 'barometer' for the whole organisation.

Learning and development

All employees, from the CEO to the most recent recruit, undertake regulatory training each month. In addition, 81 of our managers are involved in an Institute of Leadership and Management self-learning programme, which can lead to a degree level qualification. During FY21 we are planning to deliver further tailored training to our senior management. This will subsequently be cascaded through the organisation.

Employee engagement

One of the ways in which we engage with employees is through an annual survey that allows colleagues the opportunity to provide feedback and suggestions on an anonymous basis. In the survey undertaken, 65% of respondents consider Morses Club a good company to work for. Although lower than the 79% score achieved in the previous survey, the result reflects a year of significant change. As we do every year, we undertook a detailed review of feedback gathered in the survey and have sought to act upon this, where appropriate. Linked to our work on SM&CR, we have moved from annual to 6-monthly salary reviews.

Employee wellbeing

Employee wellbeing is important to us. All our employees have access to Perkbox, a platform offering employees rewards and offers, as well as confidential advice and assistance. To provide greater flexibility to employees we now offer them the opportunity to buy (and sell) annual leave. These, as well as the all-employee share scheme outlined below and plans to increase staff training still further, are examples of initiatives introduced as a result of suggestions in the annual employee survey.

Employee shares

Employee share ownership is a key means of sharing the success of the business with colleagues. The Company issued shares under its award-winning approved employee share scheme, representing 3.25% of base annual salary in shares. 403 employees were awarded shares under the scheme. Eligibility is based on 12-months' service as at October 2019. The scheme was recognised at the 2019 Proshare awards, winning the 'Best overall performance in fostering Employee Share Ownership' category.

Supporting our communities

In addition to the indirect contribution we make to communities across the country by providing financial inclusion to people who are precluded from borrowing from mainstream lenders, and work opportunities for self-employed agents, we also raise money for charities. During the year we raised £15,000 for local community initiatives.

Minimising our impact on the environment

Each of our field managers is provided with a Company leased vehicle. We are undertaking a major review of the environmental impact of both the choice of car we provide and the fuel type. As part of this, we are balancing the practical needs of our employees and business with the need to ensure that environmentally we make changes to support the UK government target of being carbon-neutral by 2050.

Further information:

- 623 kg of shredded waste was recycled in the period.
- General waste – Nothing is sent to landfill – Biffa have confirmed that all waste is sent to a Refuse Derived Fuel (RDF) facility where it is sorted and recycled/used for electricity generation.
- We use c. 90t of carbon for utilities (estimate for gas and electricity).
- We consume c. 3,292t of carbon from our fleet (estimate based on last mileage submitted).

This Strategic Report was approved by the Board on 27 November 2020 and signed on its behalf by:

Paul Smith
Chief Executive Officer

Governance Report

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.

Paul Smith
CEO

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 £1.4bn in 2006. Paul is 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

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 4 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
Interim CFO

Date of appointment
1 March 2009 (Non-Executive Finance Director), 1 March 2016 (CFO), 1 July 2019 (Non-Executive Director), Interim CFO from 17 March 2020

Background and career
After graduating from Warwick University (accounting and financial analysis) and qualifying as a chartered management accountant at Cadbury-Schweppes and Tesco, Andy held a variety of senior finance roles in SMEs where he has been the most senior finance professional continuously since 1996. Involved in the RCapital acquisition of Morses Club in March 2009, he remained on the Board as a Non-Executive Director with responsibility for financial management. Andy led the finance function during the acquisition and integration of Shopacheck Financial Services in 2014/15, before his appointment as full-time CFO in 2016. On 1 July 2019, Andy retired from his role as CFO and remained on the Board as a Non-Executive Director. On 17 March 2020, Andy took on the position as Interim CFO.

Areas of expertise
Andy's analytical skills, expert knowledge of the sector and independent-mindedness are key to providing continuity and protecting shareholder interests.

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.

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.

Sir Nigel Knowles
Senior Independent Director

Date of appointment
14 April 2016

Background and career
Sir Nigel is a solicitor and CEO 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. Sir Nigel received a knighthood in 2009 in recognition of his services to the legal industry and in July 2011, received an Honorary Doctorate of Civil Law from the University of Sheffield.

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 is the Special Adviser to Dan Jarvis MP, the Mayor of Sheffield City Region, and he 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.

Baroness Simone Finn
Independent Non-Executive Director

Date of appointment
5 May 2019

Background and career
Baroness Finn is a chartered accountant by profession and is experienced in audit practice through her previous roles and her membership of the Audit Committee of Arbuthnot Latham. She has previously worked at the Financial Services Authority, the predecessor of the FCA. Baroness Finn is a member of the UK House of Lords.

Areas of expertise
Baroness Finn is a former government adviser on industrial relations, efficiency and Civil Service reform. She advises international governments in these fields, amongst others, through the consultancy business of which she is Managing Director. She also has a deep grounding in regulatory compliance and corporate governance excellence.

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.

Les Easson
Non-Executive Director

Date of appointment
1 September 2019

Background and career
Les Easson has worked for Morses Club for more than 36 years, starting his career as an agent and working through all the management levels culminating in his appointment to Operations Director in 2012. In 2014 he successfully managed field operations through the merger of Morses Club and Shopacheck which led to the flotation of the enlarged business in 2016. He has led the successful acquisition of 19 Home Collected Credit businesses and overseen significant operational and IT changes to ensure that field managers and agents deliver the best customer service with the 'Treating Customers Fairly' principle central to the whole operating model. He has been instrumental in transforming Morses Club's approach to customer-focused operations, ensuring that the close customer-agent relationship that defines Morses Club has remained at the heart of the business as it has expanded and evolved to meet changing customer needs. Les has been appointed as the Designated Director responsible for employee engagement.

Areas of expertise
By appointing Les as a Non-Executive Director, the Company is determined to retain his extensive operations expertise and industry knowledge within the business.

Chairman's Introduction to Governance

Dear Shareholder,

I am pleased to present our 2020 Corporate Governance Report for the Group which includes reports from the Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations & Succession and Disclosure Committees on Pages 42 to 69.

Stephen Karle
Chairman

The Board has always been committed to applying the highest standards of corporate governance and has adopted the main principles of the 2018 UK Corporate Governance Code (the Code), although as an AIM-listed Company, we are not required to comply.

By 29 February 2020, the only exceptions are (i) the Directors' Remuneration Report which has been prepared in accordance with AIM Rule 19 and (ii) Provision 11 of the 2018 Code which relates to the proportion of Non-Executive Directors whom the Board considers to be independent. However, the Board is satisfied that the arrangement regarding the proportion of non-independent Non-Executive Directors is correct for the business at this time and will keep the matter under review.

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.

I have also included a statement on Pages 6 to 8 of the Strategic Report.

Board of Directors

Much work was done 4 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 this financial year, Board membership has started to evolve.

I welcome the appointments of Baroness Simone Finn as an Independent Non-Executive Director, replacing the retiring Patrick Storey and Les Easson, who was for many years the highly successful Operations Director and who has also joined the Board as a Non-Executive Director.

The Board currently comprises 6 Non-Executive Directors and 2 Executive Directors, whose biographies are presented on Pages 38 and 39. All Directors submit themselves for re-election at each Annual General Meeting in accordance with the provisions of the Code.

As Chairman, I carried out a formal Board evaluation process between January and March 2020. 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 any personal development areas identified. In addition, the progress of each individual against their 2019/20 objectives was reviewed, and objectives for 2020/21 were set and agreed.

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 some Board meetings to provide specialist knowledge and experience.

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

Stephen Karle
Chairman
27 November 2020

Corporate Governance Report

At the heart of the Code are 5 main principles that emphasise the value of good corporate governance to long-term sustainable success. By applying the Principles, following the more detailed Provisions and using the associated guidance, a company can demonstrate through its reporting how the governance of the company contributes to its long-term sustainable success and achieves wider objectives.

The 5 main principles of the Code are as follows:

A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.

B. The board should establish the company's purpose, values and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example and promote the desired culture.

C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.

D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.

E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Application of the UK Corporate Governance Code

The 2018 Corporate Governance Code can be found in the Corporate Governance Code section of the FRC website, www.frc.org.uk.

From the date of the Initial Public Offering in May 2016, the Directors have generally adopted the principles and provisions of the Code, although, being AIM listed, the Group is not obliged to comply with this.

Except as stated in this and the following paragraph, throughout the year ended 29 February 2020, the Company has been in compliance with the provisions set out in the Code, except (i) the Directors' Remuneration Report, which has been prepared in accordance with AIM Rule 19, and (ii) the Provision 11 of the 2018 Code which relates to the proportion of Non-Executive Directors whom the Board considers to be independent. However, the Board is satisfied that the arrangement regarding the proportion of non-independent Non-Executive Directors is correct for the business at this time and will keep the matter under review.

In May 2019, Peter Ward, an Affiliated Director, and the then Executive Directors Paul Smith and Andy Thomson ceased to be members of the Risk & Compliance Committee in order that all of its members would be deemed as independent under the Code. In addition, the requirement to implement a procedure for employee engagement was satisfied in January 2020 by the appointment of Non-Executive Director Les Easson as the designated Director for workforce engagement.

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

The Directors have been fully briefed about the changes that were introduced by the Code.

Principle A – Effective Board

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 & Succession, and Disclosure Committees, and has appointed a Senior Independent Director, Sir Nigel Knowles.

Opportunities and risks to the future success of the business are considered and addressed at each Board meeting, with the CEO highlighting the challenges and successes in each report to the Board. When specific risks are highlighted, for example relating to a potential acquisition, the Risk & Compliance Committee has held special meeting(s) to consider the matter before the Board has made a final decision.

In Q1 2020, the Board's Risk & Compliance Committee reviewed and reassessed the Group's risk appetite statements and target residual ratings for each of the principal risks, all of which are included within the risk management system.

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 8 formal meetings each year, including one that concentrates solely on strategy. In addition, 2 teleconferences are convened each year in order to agree the final and interim results and dividend. Further teleconferences are arranged, when required. Members of the Executive Team have been 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 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. The Chairman encourages and promotes critical discussion and appropriate challenge. He ensures that Board decisions are taken on a sound and well-informed basis.

Chief Executive Officer

The CEO provides leadership and direction for the Group. He chairs the Executive Committee and is Chairman of the management team of Shelby Finance Limited subsidiary. The CEO makes decisions on matters affecting the operation, performance and strategy of the Group's business. He develops and recommends strategy and long-term objectives of the Group for approval by the Board, and is responsible for the day-to-day management of the Group. As Chairman of the Risk Executive Committee, the CEO is also responsible for ensuring that there are appropriate risk management and internal controls in place.

Non-Executive Directors

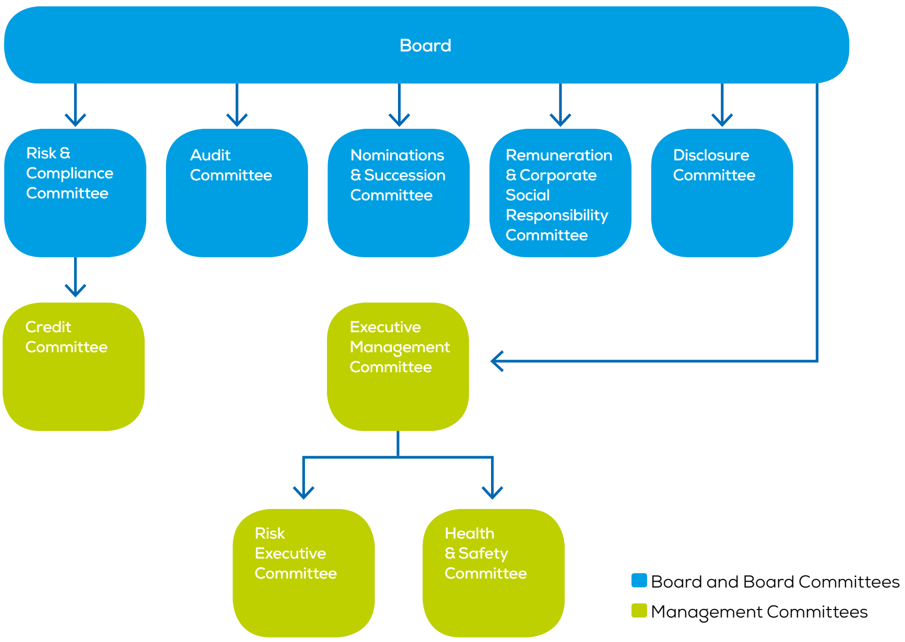
As part of their role as members of a unitary board, Non-Executive Directors are active at providing constructive challenge and helping develop proposals on strategy. They have also used their experience from other organisations, including public companies, to provide advice to many areas of the business.

Sir Nigel Knowles has been appointed the senior independent Director to provide a sounding board for the Chair and serve as an intermediary for the other Directors and shareholders.

Board structure

The Board has established a sub-committee structure comprising Risk & Compliance, Audit, Nominations & Succession, Remuneration & Corporate Social Responsibility and Disclosure Committees.

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



Corporate Governance Report continued

Principle B – Values and culture

Pages 16 and 17 of the Strategic Report deal with the subject of purpose, strategy and culture.

The Board has been active in promoting the development of purpose, strategy and culture within the business. Throughout the year, the Board has driven these matters forward, following the acquisition of the new businesses.

The Company has an excellent, customer-centric culture
- Customer surveys undertaken by an independent market research showed:
  - Overall customer satisfaction with Morses Club – 97%.
  - Overall customer satisfaction with the Morses Club Agent – 98%.
  - Likelihood of the customer recommending Morses Club – 95%.
- A separate Good Customer Outcomes survey also showed an overall satisfaction score of 97%.
- The Company's complaints handling process has been independently certified to the ISO 10002:2014 standard.

Further details about customer satisfaction are shown on Page 2 of the Strategic Report.

The Company undertakes a satisfaction survey of its employees each year. In 2019, overall engagement with the Company was 72% which is good, but we will be looking for improvements in future years.

Across the organisation, the 4 words which were strongly used to encapsulate the Company culture were:
- Customer (and customer focus) – as shown by the customer satisfaction rates.
- Friendly – all staff strive to be friendly in their approach, both to customers and colleagues.
- Fair – Treating Customers Fairly forms the basis of how the Company operates.
- Driven – colleagues are determined to achieve success for both themselves and the Company.

In addition, 90% of all respondents considered that the Company offered good customer service and 99% of all respondents agreed that Treating Customers Fairly was a central part of the mindset of the organisation.

The Board is already engaging in a programme of activities that will address many of the central themes emerging from the survey – these are broadly summarised below:
1. Development programmes to broaden the leadership and communication skills at Regional and Area Manager level – key parts of ensuring that cultural norms are cascaded and embedded at a grass roots level. Heads of Function will also be included in these programmes to ensure that we begin more proactive development for these key groups.
2. Targeted surveys to get better granular insights for key groups of employees. This is to ensure we get deeper insights into people's attitudes and motivations, rather than simply a snapshot of 'satisfaction', which can be impacted by events taking place at the time.

Principle C – Effectiveness

Composition of the Board
The Board currently comprises 6 Non-Executive Directors and 2 Executive Directors, whose biographies are presented on Pages 38 and 39.

The Board considers 3 of the Non-Executive Directors (Joanne Lake, Sir Nigel Knowles and Baroness Simone Finn) to be independent in character and judgement because while some may own shares in the Company, they all have significant other business interests and activities.

The Chairman was originally 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. Les Easson was previously part of the Company's Executive team and is also not considered to be independent.

Appointments to the Board
In May 2019, following the retirement of Patrick Storey, Baroness Simone Finn was appointed as a Non-Executive Director and Chair of both of the Audit and Risk & Compliance Committee.

Andy Thomson retired from his role as CFO on 1 July 2019 and remained on the Board as a Non-Executive Director.

Andrew Hayward joined the Group as CFO on 1 July 2019 and was also appointed as an Executive Director to the Morses Club Board. Andrew left the Company on 16 March 2020, and on 17 March Andy Thomson took on the position of Interim CFO.

Les Easson was appointed as a Non-Executive Director from 1 September 2019 upon his retirement as Operations Director.

Following these appointments, there are 4 Non-Executive Directors who have served for 4–6 years, one who has served for 1–2 years, and one who has served for less than 12 months.

Further information about the appointment process and succession planning is contained in the report of the Nominations & Succession Committee on Pages 49 to 52.

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 also 100% attendance during the previous year. Their record of attendance at meetings is shown on Page 47, and they have also demonstrated their commitment by the work and advice provided throughout the year.

Following guidance contained in the 2018 Code, members of the Board are 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.

The Company does not have a diversity policy at present, but is committed to promoting equal opportunities in employment. Since the appointment of Baroness Simone Finn on 5 May 2019, there have been 2 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 updates on corporate governance matters, with 2 separate briefings about the FCA's Senior Management & Certification Regime that became effective in December 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.

Board packs are provided to Directors in a timely fashion. Where a decision is required, this is clearly flagged. All Directors are encouraged to make a contribution. On the rare occasion that a Director has a potential conflict of interest, they remind the meeting that this is the case and absent themselves in the event of a vote being taken.

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 6 months by the Chairman. During the year, the Chairman has undertaken a formal internal Board evaluation, and Nigel Knowles, 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.

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 submitted 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 36, 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 74 and those of the auditor on Page 86.

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 24 to 30. 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.

Corporate Governance Report continued

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 both of 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 53 to 59 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. The Audit Committee is also responsible for the Company's Internal Audit function.

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 2018 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 Audit Committee is also responsible for looking after the Group's Internal Audit function.

Principle D – Stakeholder engagement

The s172 statement in the Strategic Report on Page 32 provides a summary of the Group's engagement with its various stakeholders.

In this part of the Annual Report, we believe it is important to demonstrate still further the excellent engagement the Company has with its shareholders.

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 promptly to all queries received verbally or in writing. All shareholders have at least 20 working days' notice of the AGM at which all Directors, including Committee Chairs, are usually present and available to answer questions. In 2020, the AGM was held virtually, with shareholders encouraged to ask questions prior to the meeting. The Board is aware of the importance of maintaining close relations with investors and analysts. Twice-yearly roadshows are conducted by the CEO and CFO when the performance and future strategy of the Group are discussed with larger shareholders. Within 7 days of the preliminary announcement of the interim results in October 2019, the CEO and CFO met 75% 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 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 make themselves 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 2019 AGM, at which 92.4% of its shareholders voted, with a minimum of 97.4% of votes being cast in favour of all of the resolutions proposed by the Board.

Principle E – Workforce engagement

The Strategic Report on Page 7 provides a summary of the Company's work on developing its purpose and values, and ensuring that workforce policies and procedures are consistent with these.

In January 2020, the Board appointed Les Easson, formerly the Company's Operations Director, as the Designated Director for employee engagement. This role has been developed during 2020, in association with the Company's continuing work on culture and values.

Information about the Company is provided through a number of methods, including regular business updates on the Company's intranet, videos made available to all employees, and presentations by the CEO.

As also noted in the Directors' Report, the Company has a very robust whistle-blowing policy and procedures. The Company has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our independent Non-Executive Directors.

Board Committees and Directors attendance at meetings

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 are available for inspection at each AGM at which shareholders can be present 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 & Succession Committee	Disclosure Committee
Meetings		8	3	4	7	1	1
Stephen Karle	Non-Executive Chairman	8	–	–	7	1	1
Paul Smith	Chief Executive Officer	8	–	–	–	–	1
Andrew Hayward	Chief Financial Officer	4/4	–	–	–	–	0/0
Sir Nigel Knowles	Senior Independent Director	8	2	3	5	0	1
Joanne Lake	Non-Executive Director	8	3	4	7	1	1
Patrick Storey	Non-Executive Director	2/2	1/1	1/1		0	1
Peter Ward	Non-Executive Director	8	–	2/2	–	1	1
Andy Thomson	Non-Executive Director	8	–	–	–	0/0	1
Baroness Simone Finn	Non-Executive Director	6/6	2/2	3/3	–	0/0	1
Les Easson	Non-Executive Director	4/4	–	–	–	–	0/0

On 5 May 2019, Baroness Simone Finn became Non-Executive Director and Chair of both of the Audit and Risk & Compliance Committee, replacing Patrick Storey.

On 1 July 2019, Andy Thomson retired from his role as CFO and remained on the Board as a Non-Executive Director.

Also on 1 July 2019, Andrew Hayward joined the Group as CFO and was also appointed as an Executive Director to the Morses Club Board.

On 1 September 2019, Les Easson was appointed as a Non-Executive Director upon his retirement as Operations Director.

On 16 March 2020, Andrew Hayward left the Company, and Andy Thomson took on the position of Interim CFO from 17th March.

Corporate Governance Report continued

Membership of Committees during the year were as follows:
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 would be deemed as independent under the July 2018 edition of the Corporate Governance Code.

Following these changes, the Company now complies with the 2018 Code regarding Committee membership.

Membership of the Committees during the year is shown below:
C = Chair
M = Member
UA = Upon appointment

	Position	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations & Succession Committee	Disclosure Committee	Considered Independent
Stephen Karle	Non-Executive Chairman	–	–	M	C	C	UA
Paul Smith	Chief Executive Officer	–	–	–	–	M	X
Andrew Hayward	Chief Financial Officer (1/7/2019–17/3/2020)	–	–	–	–	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Non-Executive Director	M	M	C	M	M	Y
Patrick Storey	Non-Executive Director (until 4/5/2019)	C	C	–	M	M	Y
Peter Ward	Non-Executive Director	–	–	–	M	M	X
Baroness Simone Finn	Non-Executive Director (from 5/5/2019)	C	C	–	M	M	Y
Andy Thomson	Non-Executive Director from 1/7/2019 (formerly CFO) Interim CFO from 17/3/2020	–	–	–	–	M	X
Les Easson	Non-Executive Director (from 1/9/2019)	–	–	–	–	M	X

On 16 March 2020, Andrew Hayward left the Company, and on that date, Andy Thomson took on the position of Interim CFO from 17th March.

Nominations & Succession Committee

Dear Shareholder,

I am pleased to present the report of the Nominations & Succession Committee which covers the year ended 29 February 2020.

The report provides insight into the composition of the Committee and the work that it undertakes.

We continue to assist the Board in the assessment of the appropriate skills and in developing succession plans to ensure we continue to deliver against our strategy.

Committee members

- **Stephen Karle** (Chairman)
- **Patrick Storey** (to 4 May 2019)
- **Baroness Simone Finn** (from 5 May 2019)
- **Sir Nigel Knowles**
- **Joanne Lake**
- **Peter Ward**

What does the Committee do?

1. Ensures 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. Identifies and nominates candidates to fill Board vacancies as and when they arise.
3. Evaluates the balance of skills, knowledge, experience and diversity of the Board in order to ensure an optimum mix.
4. Considers 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 and held 1 meeting during the year.

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

Nominations & Succession Committee continued

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 Company is committed to promoting equal opportunities in employment, ensuring that discrimination does not take place, and everyone receives equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. It does not currently have a formal diversity policy but is putting in place a number of steps that will seek to address the possibility of unconscious bias during the recruitment process. In 2020, the Company will be introducing a system of 'blind applications' whereby the personal details of the candidates (name, gender) will be initially hidden, thereby ensuring that shortlists are selected based solely on skills and experience.

The appointment with effect from 5 May 2019 of Baroness Simone Finn has resulted in a position whereby for the first time, 2 members of the Board, and two-thirds of the independent Directors, are women.

As at 29 February 2020, the Executive Management Team and Company Secretary comprised 7 men and 1 woman. Their direct reports consisted of 23 men and 10 women.

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; and
- made a number of recommendations in relation to appointments to the Board.

Internal Board evaluation

In terms of the evaluation of Board members, the Board succession planning process is set out in a clear, written policy which ensures consistency and rigour. It is underpinned by a Board profile matrix, in which the skills, competences and diversity needs of the Board are mapped against current composition. The matrix helps the Board focus its search and write relevant role descriptions that are Senior Manager & Certification Regime (SM&CR) compliant for the selection of any new Non-Executive Directors.

A further measure involves annual effectiveness reviews of individual Non-Executive Directors, led by the Chairman, but with the Chair being assessed by the Senior Independent Director with input from all Directors. The Committee has given consideration to a future evaluation by external consultants, to assist the Board in understanding its collective effectiveness and to help inform Non-Executive Directors of their strategic relevance to the Company. It is envisaged that this form of external evaluation would then be undertaken every 3 years.

Where changes to Board composition are considered necessary (as was the case during 2019), the Committee defines the Board's needs, identifies the talent required, and engages independent, reputable search consultants and/or key advisers to assist in the search for high-calibre candidates submitting its recommendations to the full Board for consideration.

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 & Succession 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. The Directors have been briefed on the Company's current pricing policies, together with a comparison against its competitors. They have also received training on the SM&CR regime that was introduced in December 2019; 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 a result of the Board evaluation, the Committee has concluded that the Board works effectively as a group in its current form, although this will remain under annual review.

Changes to the Board

There have been a number of changes to the Board during the year.

Appointment of Baroness Simone Finn as Independent Non-Executive Director
The Committee agreed to recommend the appointment of Baroness Simone Finn as a Non-Executive Director with effect from 5 May 2019, following the retirement as a NED of Patrick Storey, whose 3-year term of office expired on 4 May 2019.

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', ie, 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 3 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 PWC 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; and
- she has worked as a consultant at a very high-level advising governments.

Retirement of Andy Thomson as CFO and his appointment as Non-Executive Director
Andy Thomson retired from his role as CFO on 1 July 2019 and it was agreed that he would remain on the Board as a Non-Executive Director.

The Committee was aware that recent experience elsewhere in the Home Collected Credit sector has demonstrated that a loss of expertise at main Board level in relation to this specific form of consumer lending can potentially lead to financial problems that are adverse to the interests of all stakeholders.

The Committee was determined to retain the expert knowledge and deep sector experience of Andy Thomson. He served as a Non-Executive Director of the Company prior to becoming the Executive CFO at the time of its IPO and has been a shareholder throughout the period since the IPO; hence the Committee believed that he was well placed to protect shareholder interests in his role as a Non-Executive Director.

Appointment of Andrew Hayward as CFO
Andrew Hayward joined the Group as CFO on 1 July 2019 and was also appointed as an Executive Director to the Morses Club Board. Andrew joined the Group from eServGlobal, the ASX and AIM listed digital financial transactions technology Company, where he had been CFO for more than two and a half years.

Appointment of Les Easson as Non-Executive Director
The Committee was also determined to retain the operations expertise and industry knowledge of Les Easson, built up over 36 years at Morses Club. It therefore recommended his appointment as Non-Executive Director upon his retirement as Operations Director on 1 September 2019. Amongst his other tasks as a Director, Les has been appointed the designated Director for employee engagement and he will also mentor his replacement as Operations Director.

Directorate changes after the end of the financial year
On 16 March 2020, Andrew Hayward left the Company. The Committee unanimously agreed to recommend to the Board that it appointed Andy Thomson to the position of Interim CFO.

Corporate Governance Code
The Committee is aware that the Group does not comply with the Provision 11 of the 2018 Corporate Governance Code which relates to the proportion of Non-Executive Directors whom the Board considers to be independent. However, the Committee and the Board as a whole are satisfied that this arrangement is correct for the business at this time and will keep the matter under close review.

Succession planning
The Company has developed a policy for both Board and Executive succession planning that sets out a process by which the Nominations & Succession Committee plans ahead for the replacement of Executive and Non-Executive Board members and the Chair, either because of a vacancy or a possible future vacancy. This process looks at the medium term and longer term, together with potential contingencies.

The plan has been developed to ensure:

- continuity in key roles;
- sustainability of the Company's performance;
- high standards of corporate governance; and
- appropriate investor dialogue.

Nominations & Succession Committee continued

It addresses the issues of competence, integrity, transparency, diversity and independence by seeking to define the shape of the Board and Executive teams by assessing on an ongoing basis:

- the required levels of knowledge, skills, experience and specific expertise;
- the proportion of the Board that should be composed of independent Non-Executive Directors;
- the issue of diversity in the widest sense of the word, especially gender diversity;
- the effectiveness of Board refreshment through the periodic appointment of new members and the scheduled retirement of incumbent Directors; the primary aim being to align skill sets with the Company's evolving strategic direction; and
- whether effective risk management is in place to minimise the vulnerability to narrow 'group thinking'.

Board service is strictly contingent on individual Director performance and annual re-election, founded upon on satisfactory evaluations of his or her contribution to the Board. The position will be kept under close review by the Nominations & Succession Committee alongside the delivery of the Company's strategy.

It is the intention of the Committee to widen the inclusiveness of the nominations process, allowing for consultations with key shareholders and stakeholders (for example, management, funders and employees).

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 & Succession Committee

Stephen Karle
Chairman
27 November 2020

Audit Committee

Dear Shareholder,

As Chair of the Audit Committee, I am pleased to present my first report for the year ended 29 February 2020.

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.

Committee members

- **Baroness Simone Finn** (Chair from 5 May 2019)
- **Patrick Storey** (Chairman to 4 May 2019)
- **Sir Nigel Knowles**
- **Joanne Lake**

Both Baroness Simone Finn and Joanne Lake are Chartered Accountants with extensive experience within the financial services sector, whilst Sir Nigel Knowles is the CEO of global legal business DWF plc, having been a managing partner at the global law firm DLA Piper for nearly 20 years.

What does the Committee do?

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

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

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

The Committee held 4 meetings during the year, in alignment with its terms of reference and the Group's financial reporting timetable. In addition to its regular meetings, following the year end the Committee held 2 additional meetings to review the impact of Covid-19 on the financial results of the business.

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.

Audit Committee continued

Composition and governance

In addition to my role as Chair of the Audit Committee, I am also Chair 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 other Directors are also invited to attend meetings, as are senior representatives of the external auditor, together with appropriate members of the Executive team in order to ensure that all relevant information is available to the Committee.

The Committee meets with the external auditor without the presence of Executive Management 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 Chair, 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 4 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. This was achieved by comparing the Committee's Terms of Reference with the Committee's actions and considerations during the year.

Following this review, the meeting that reviewed the preliminary judgement paper was re-scheduled to the end of February. At the same time, a separate meeting was scheduled in late January with the sole purpose of reviewing the proposed audit plan. The result is that the audit plan and the preliminary judgement paper are both reviewed and agreed at the most appropriate times in the audit process.

Significant areas of judgement

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

The Committee considers there to be 5 significant areas of judgement and these are detailed below.

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.

The management approach to loan loss provisioning was reviewed with the Committee and the external auditors at one of the Committee's scheduled meetings. This underlying approach has remained consistent with the previous year.

After discussion with management and the external auditor, the Committee considered the 2014/18 cash curves to be appropriate for the purposes of determining the base level of impairment provision required at year end in order to establish the normalised adjusted profit before tax.

- The adoption of cohorts to construct the cash curves remained consistent with the Company's IFRS 9 policy. The impact of transitioning from 2013/17 cash curves used in FY19 to the 2014/18 curves used in FY20 was only £0.1m.
- 2020 actual cash collections were within 2% of those forecast in FY19 using this method.
- Cash collection levels and default levels have been relatively consistent with prior periods.

Based on the review described above, the Committee concluded that the underlying provisions held against the loan book prior to the Covid-19 adjustment are reasonable.

The impacts of Covid-19 on impairments are detailed in section 2 below.

2. Covid-19 impact on impairment
IFRS9 requires the Group to consider likely future cash flows and therefore to assess the estimated impact of Covid-19 on the recoverability of the closing loan book as at February 2020 and if necessary, increase the value of the impairment provision accordingly. This was a complex issue to assess since whilst Covid-19 was virtually unheard of as a European business threat at the end of January 2020 and the UK national lockdown in March meant that the threat was widely known at the end of March 2020, as at our year end of 29 February 2020 the threat was still emerging. Indeed, as the threat was rapidly increasing daily it was understandably difficult to assess what the threat was at that time of our year end without the benefit of hindsight.

The Audit Committee had to consider, in line with IFRS9, what the potential impacts of Covid-19 might be in different scenarios and the probability weighting of each different scenario. In addition, the Committee had to consider IAS10 – Events After the Reporting Period – and decide whether Covid-19 was an Adjusting Event or a Non-Adjusting Event for the purpose of the FY20 accounts and any Post Balance Sheet Event reporting. These deliberations were in the context of the recovery of the closing loan book at 29 February 2020, and to what degree we expected the projected cash flows used to calculate the Expected Credit Losses (ECLs) might differ from the underlying ECL calculations.

The Group had prepared a downside case business plan (Covid-19 Plan) for the debt funders during March 2020 and used as a baseline for them to assist their decision to extend the loan facility agreement for 15 months from August 2020 to the end of November 2021. We decided that this would be an appropriate scenario for the Group to use as a worst case as it had been independently vetted and agreed by 3 external commercial organisations. This plan assumed reductions in cash collections in both the opening loan book and ongoing collections as detailed in the table on Page 116.

Having established a downside scenario we then had to consider the probability of this scenario becoming a reality based on what we knew about Covid-19 as at 29 February 2020. This proved to be a difficult debate with much conflicting information available to us at the time. Ultimately, the directors determined that there was only a small probability of a major impact of Covid-19 and applied a probability weighting of 10%. We also considered whether the UK lockdown announced on 23 March was an Adjusting Post Balance Sheet Event under IAS10 and concluded that it was not.

The impact of these decisions is that we have recognised a relatively small increase in ECLs for FY20 of £1.7m and identified with the benefit of hindsight a larger impact of Covid-19 and the subsequent lockdown of £5.2m which is reported as a Post Balance Sheet Event and could be adjusted in our first half-year results for FY21.

3. Revenue recognition
IFRS 9 requires management to recognise interest using the effective interest rate (EIR) method based on the stage of credit impairment.

In order to arrive at the average expected life for each product type, management has taken an average of the expected lives of loans within the December 2014, 2015, 2016, 2017 and 2018 cohorts. This approach is deemed reasonable given the data sets align with those used to construct the cash collection curves for loan loss provisioning purposes (as described above), thereby resulting in consistency across management's IFRS 9 modelling methodology.

The Committee has reviewed the expected life assumptions and management's judgement paper.

The Committee also challenged whether there was evidence of a change in the expected life assumptions as a result of Covid-19 and concluded that as at 29 February 2020 there was no new empirical evidence that any change had occurred.

The management treatment of revenue recognition was reviewed with management and the external auditors at one of the Committee's scheduled meetings. This treatment has remained consistent with the previous year. The Committee 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. As a result of this review, the Committee has concluded that the Group's treatment of this is reasonable.

Audit Committee continued

4. Goodwill impairment
A fourth significant area of judgement has been introduced following the acquisition of U Holdings Limited in June 2019, that of goodwill impairment.

Management is required by accounting standards to perform an annual impairment review for goodwill balances. Assessment of impairment involves estimating the fair value less costs to sell and value in use of certain intangible assets at each reporting period. This requires an assessment of whether there are any impairment triggers which, given the nature of the assets, focuses on performance and cash flows.

The Committee has reviewed the forecast cash flows in the goodwill impairment model for U Holdings Limited, in particular the long-term growth rate and discount rate used, given these are the key assumptions underpinning the forecast. The Company used a pre-tax weighted average cost of capital (WACC) of 13.22% in order to discount future cash flows.

The Committee was mindful that the price of the acquisition of U Holdings Limited was set in a competitive bid and that the price paid, whether measured in price per customer or multiple of revenue, represented a significant discount to the valuations placed on some of U Holdings Limited's larger mainstream competitors.

In considering the future projected cash flows, the Committee reviewed the performance of the business since acquisition against the objectives that were set for it. In addition, the Committee also had to consider whether Covid-19 or the temporary suspension of services in June 2020 as a result of the FCA freezing Wirecard's activities for approximately 4 days would also have a material impact on these projections.

As a result of considering all of these factors it was concluded that as at the balance sheet date, and events post balance sheet date, that there was no requirement to impair the goodwill that arose from the acquisition of U Holdings Limited.

5. Covid-19 impact on going concern
As the Covid-19 pandemic developed, the business had to quickly react to the new challenges facing it. This was particularly the case in the HCC side of the business where pre Covid-19 lockdown, 100% of loan sales and c 60% of collections were dependent on human interaction. As it became clearer that offices might be closed, the Company had to redesign parts of its operations.

The Committee was reassured by the operational resilience demonstrated by the Company as customer loan repayments moved to being made remotely, and today over 75% of payments are still made remotely mainly through remote debit card payments and the portal. The Company also rapidly developed a remote sales application with the ability to deliver funds to customers through direct bank transfers. Our customer support staff were equipped with laptop computers and set up to work from home through remote telephony. As a result, short term cash flows were very positive.

The timing of the impact of Covid-19 on the Group, being just 3 weeks into the new financial year, meant that the budgets and management goals put in place for the year were no longer relevant. At the same time, we were in discussions with our funders to extend the existing debt facility from August 2020 to the end of November 2021. We therefore had to prepare a revised business plan taking into consideration the adverse impacts of the national lockdown and subsequent impacts of post Covid-19 world such as the likely move to a more digital relationship with our customers. The assumptions for this were agreed with the funding syndicate and then modelled during late March/early April.

This Covid-19 scenario was then used to assess our going concern status and long-term viability of the business.

During the negotiations to extend the facility, the Covid-19 scenario was used in order to give the funding syndicate sufficient assurance about the security of the asset as this stressed the cash flows and covenant performance metrics to the full. As a result of this stress test, the funders agreed to make changes to 2 covenants in the agreement:

The cash collections covenant was reduced for the remainder of the 2020 calendar year to reflect the reduced performance during the early weeks of lockdown. Since early May 2020 our collections performance was already back to a level that exceeded the original covenant and at no point in time was the original covenant breached.

The interest cover ratio covenant (EBITDA/interest cost), previously reported x 5.0, automatically reduced on expiry of the mezzanine facility to x3.25. We agreed with the funders to carry out this calculation on a rolling 12-months basis rather than a 6-months rolling basis because the impact of Covid-19 on month to month impairments performance can be more volatile than is normal. We also agreed, once the magnitude of the Covid-19 adjustment to impairment was understood, to define this as an exceptional item in accordance with the facility agreement and therefore exclude it from the interest cover calculation.

On 30 April 2020, the Group was pleased to announce that it had successfully extended its current facilities that were due to expire in August 2020 out to the end of November 2021. This was at a reduced committed level of £40m, all in the Revolving Credit Facility (RCF), compared to £50m RCF and £5m mezzanine finance previously in place. The Committee believes that to achieve this in such an economic and societal upheaval for which there is no historic comparison showed great confidence by our lending syndicate in the robustness of our business model.

The Committee is happy that there are no going concern issues for the Group. We have adequate headroom in our facilities to meet our projected cash flows, have never breached a loan covenant and our forecasts based on current performance metrics do not lead to any forecasted breach. Additional comfort is taken from the debt balance at the end of October 2020 being £13.0m which compares to £17.5m forecast in the Covid-19 business plan provided to the funders and £22.5m of drawn down debt at the same point last year.

Critical accounting judgements and key sources of estimation uncertainty

There are both critical accounting judgements and key sources of estimation uncertainty contained within this Annual Report. Further details can be found on Page 106.

Meetings of the Committee

The Committee met on 4 occasions during the year ending 29 February 2020 all of which were scheduled. Attendance records can be found on Page 47.

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. Providing advice (where requested by the Board) on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- In reviewing these documents and determining whether they were fair, balanced and understandable, the Committee also considered the work and recommendations of management.
- An interim results' review.
- A consideration of the appropriateness of accounting policies and critical accounting estimates and judgements, including a review of information from the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements in the financial statements.
- A review of the external auditor's management letter arising from their external audit of the Company's 2019 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.
- Reviewing the implementation of an upgraded finance system.
- Reviewing access controls, and especially the procedure to cover employee joiners, leavers and reassignments.
- 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.

Audit Committee continued

Review of the 2020 Annual Report and Financial Statements

At the request of the Board, the Committee considered whether, in its opinion, the 2020 Annual Report and Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the necessary information for the reader to assess the Group's position and performance, business model and key audit matters.

Process

In justifying this statement, the Committee considered the process in place to create the Annual Report and Financial Statements including:

- the timely involvement of the Committee in the preparation of the Annual Report and Financial Statements which enabled it to provide input into the overall messages and tone;
- the input provided by Group senior management and the process of review, evaluation and verification to ensure balance, accuracy and consistency;
- the reviews conducted by external advisers appointed to advise on best practice;
- the regular review of the Group's internal audit reports which are presented at Committee meetings and the opportunity for the Non-Executive Directors to meet both the external auditors and the Head of Internal Audit without any executive of the Group being present via the private sessions of the Committee;
- the Committee meetings reviewed and considered the draft Annual Report and Financial Statements in advance of the final sign-off; and
- the final sign-off process by the Board.

When forming its opinion, the Committee reflected on the information it had received and its discussions through the year. In particular, the Committee considered whether:

The report is fair

- Are the key messages in the narrative reporting reflective of the financial reporting; and
- are the KPIs disclosed appropriate to understanding the underlying performance of the Group?

The report is balanced

- Is there a good level of consistency between the narrative reporting and the financial reporting and is the messaging in each consistent when read independently of each other?
- Are both the statutory and adjusted financial measures explained clearly and given equal priority and prominence?
- Are the key judgements referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures and critical judgements set out in the financial statements?
- How do these judgements and issues compare with the risks that the external auditor will include in its report?

The report is understandable

- Is there a clear and understandable structure to the report?
- Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found?
- Is the narrative within the Annual Report and Financial Statements straightforward and transparent?

This assessment was also underpinned by the following:

- The papers on critical accounting judgements and key sources of estimation uncertainty presented by management to the Audit Committee which documents the approach taken to the critical accounting judgements and key sources of estimation uncertainty documented in the financial statements on Page 106. The assumptions and the going concern statement were challenged by the Committee as part of the year-end process.
- The consistency between the risks identified and the issues that are of concern to the Committee.
- The comprehensive reviews of the Annual Report and Financial Statements 2020 undertaken at different levels in the Group which aims to ensure consistency and overall balance.
- The external auditor's report on the Annual Report and Financial Statements 2020.

Conclusion

Following its review, and having taken into account all the matters considered by the Audit Committee and brought to their attention during the year, the Committee reported to the Board that it was satisfied that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable.

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 previous year, the Committee had carefully considered a proposal from the previous CFO that management 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 had agreed that the Company should select whoever it believes to be the most appropriate provider under the circumstances.

During the year to 29 February 2020, the level of audit fees amounted to £410k (FY19: £254k), and non-audit fees amounted to £85k (FY19: £119k). The ratio of non-audit fees to audit fees was 20.7% (FY19: 46.8%). The non-audit work carried out during FY20 related to (i) the review of the interim results and (ii) due diligence work in respect 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. Being on AIM, the Company is not a Public Interest Entity and therefore is not required to review its external auditor after 10 years.

Following consultation with the management team, and especially the Finance Department, the Committee is satisfied with Deloitte's performance. Deloitte have significant experience and expertise within the Home Collected Credit market and the management team has confirmed that they are content with the competence and performance of the team at Deloitte.

During the year, the Committee reviewed whether it wishes to put the external audit service out to tender and has concluded that it is not in the Company's interests to do so during the next 12 months. On this basis, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the forthcoming 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.

Internal audit function

The Group has an internal audit function headed by an experienced and highly qualified Head of Internal Audit who reports directly to me, as Audit Committee Chair. 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 reviews. This year saw the delivery of multiple audits which gave assurance over the business's software development processes at the request of the responsible Director. A review into Internal Information Security controls was also conducted in order to provide assurance over the specific non-technical information security controls utilised by the business.

During the year, the Head of Internal Audit recruited an additional internal auditor in order to assist with the delivery of the plan.

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, and 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 Chair of the Committee, I hold one-to-one meetings every month with the Head of Internal Audit.

During 2019, the Internal Audit function increased its internal staffing significantly, with additional recruitment being undertaken in 2020 in order to ensure that there are sufficient resources available to monitor the Group's new acquisitions. The Committee annually assesses the effectiveness of the Internal Audit function and has satisfied itself that the quality, independence, experience and expertise of the function is appropriate for the business.

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

Baroness Simone Finn
Chair
27 November 2020

Risk & Compliance Committee

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Dear Shareholder,

As Chair of the Risk & Compliance Committee, I am pleased to present my first report which covers the year ended 29 February 2020.

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.

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 ensures that there is an on-going process for identifying, evaluating and managing the principal risks faced by the Company.

The Board and its Committees discharges its duties in this area through:
• the review of financial performance including budgets, KPIs, forecasts and debt covenants on a monthly basis;
• the receipt of regular reports which provide an assessment of key risks and controls and how effectively they are working;
• scheduling annual Board reviews of business strategy, including reviews of the material risks and uncertainties facing the business;
• the receipt of reports from senior management on the risk and control framework as well as culture within the Group; and
• the presence of a clear organisational structure with defined hierarchy and clear delegation of authority.

These arrangements are regularly reviewed by the Committee and have been in place for the year under review and up to the date of approval of the Annual Report and Accounts. Reports are also received from management in respect of key controls as set out in the Compliance Monitoring Plan and reviewed on a regular basis. The Committee closely monitors any areas where a requirement for improvement has been highlighted. These are addressed by an improvement to policies and procedures supported by the introduction of enhanced technology for the Agents and operational management. The Committee's terms of reference are available on the Group's website.

The Committee held 3 meetings during the year.

Committee members

- **Baroness Simone Finn**
  (Chair from 5 May 2019)
- **Sir Nigel Knowles**
- **Joanne Lake**
- **Patrick Storey**
  (Chair resigned 4 May 2019)

Composition and governance

In addition to my role as Chair of the Risk & Compliance Committee, I am also Chair of the Audit Committee. The Committee consists of all of the independent Non-Executive Directors.

The other Directors are also invited to attend meetings, together with appropriate members of the Executive team in order to ensure that all relevant information is available to the Committee.

How the Committee discharged its responsibilities

The Committee held 3 meetings during the year in accordance with its terms of reference.

Both the Risk Executive Committee and the Credit Risk Committee of the Morses Club division have reported directly to this Risk & Compliance Committee and their minutes are sent to all members of this Committee.

Following the acquisition of certain assets of CURO Transatlantic Limited and U Holdings Limited by the Company's subsidiary Shelby Finance Limited during 2019, the Committee is now receiving reports and updates from that subsidiary in addition to the Morses Club division.

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 Chair, I am satisfied with the functioning of the Committee, and the management information provided by the Company.

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;
- 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 formal 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 Money Laundering Reporting Officer (MLRO) Report.
- 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.
- Business continuity and disaster recovery plan and testing thereof.
- The Group's overall levels and types of insurance.
- Customer complaints.
- Financial crime.
- Whistle-blowing.
- Regulatory matters, including those relating to the FCA.

Risk & Compliance Committee continued

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, regulatory matters, customer complaints, the introduction of the SM&CR regime as an Enhanced Firm and further enhancements to our system for checking each customer's affordability.

Identifying risks

The Committee regularly reviews the procedures adopted by the Company to manage its risk. The Committee and the Board take a generally low-risk approach to risk. Risks with a relatively high likelihood and/or impact are kept under regular review.

Defined risk analysis criteria enable the Internal Audit function to identify areas of focus on the Board Risk Register. In consultation with the Audit Committee, the risk analysis criteria have been set as the following:

- **A significant variance between inherent and residual risk**. A large variance indicates where the business is placing significant reliance on controls to be designed and operating effectively to bring the risk to an acceptable level.
- **A high inherent rating**. Within the business's risk registers, all risks with a high inherent rating have the possibility of causing significant harm to the business if mitigations are ineffective.

Using the above criteria, Internal Audit has been able to identify focus areas on the Board Risk Register.

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 using external specialists. Regular phishing exercises are conducted in order to maintain employee vigilance against genuine attacks. Most data is now encrypted at rest.

Regulatory matters

The Committee has been actively involved in the Group's continuing constructive dialogue with the FCA. The Committee has overseen the successful implementation of the Senior Managers and Certification Regime in time for its effective date in December 2019.

Treating Customers Fairly

At each meeting, the Committee reviews the Company's dashboard for Conduct Risk and Treating Customers Fairly. In addition, the Committee reviewed the first change in pricing by its HCC Division for 3 years, driven mainly by the increase in compliance costs during this time, and also the reduction of the cooling off period from 3 hours to 1 hour, so making this consistent with others in the sector.

During the year, the HCC division has implemented enhanced affordability procedures incorporating additional external data. This, together with a new loan optimisation initiative has enhanced our affordability process and the customer journey for Agents and customers at the point of sale.

Whistle-blowing

During the year, the Committee reviewed the Company's whistle-blowing procedures. The subject has been included in 2 online training courses which are mandatory for staff to complete. They have also featured on the staff intranet and there are posters in all Company offices. The Company has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our independent Non-Executive Directors.

Customer complaints

The Group generates excellent customer satisfaction rates (as shown on Page 2) and has had a very good track record with the Financial Ombudsman Service over a significant period of time. The Committee continues to play a part in ensuring that management maintains its clear focus on Treating Customers Fairly and good customer outcomes. During the year, the Committee has invited the Group's Customer Experience Director to its meetings.

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 renewed its ISO 10002:2014 certification for complaints handling in July 2019. The Committee was also pleased to see that the Company won 2 awards in the 2019 UK Complaint Handling Awards.

The Committee has also closely monitored the level of complaints brought both by claims management companies and the developing approach of the Financial Ombudsman Service that the Committee does not consider is appropriate to the highly regulated Home Collected Credit sector, and appears to be based more on the experiences of PayDay loan providers. More details on this are contained in the Principal Risks section on Page 27.

Business continuity

The Committee was pleased to see that the Group has contracted with a third-party disaster recovery site that will be available to all parts of the business, should the need arise.

The future

The Committee intends to initiate an external review of the Group's Financial Crime and Risk & Compliance functions during the next 2 years. This will bring an outside perspective which can be valuable every few years. A section on the Group risks can be found on Pages 25 to 30.

Covid-19
The Committee has been kept fully informed of the actions taken by the Company in response to the unprecedented effects of the Covid-19 virus. It reviewed these actions and was very encouraged by the speed of response and the diligence of the Company and its employees to the challenges posed by this pandemic. Further details are included in Page 11.

Covid-19 features in the Group's risk register and the Committee will continue to monitor the wellbeing of the business, its customers, agents, staff and other stakeholders, particularly in light of changes that are or might be required as a result of any longer term new ways of working.

Approval

On behalf of the Risk & Compliance Committee

Baroness Simone Finn
Chair
27 November 2020

Directors' Remuneration Report

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 2019/20. As part of the development of the Executive team, there have been a number of changes to the Executive team during the year. The CFO, Andy Thomson, retired, taking up a NED role on 1 July 2019. He subsequently returned on 17 March 2020 as the Interim CFO. Andrew Hayward was the CFO for the period of 1 July 2019 to 16 March 2020. Les Easson, retired as the Operations Director, taking up a NED role in September 2019. Mark Jakeman was appointed as the Operations Director in September 2019. Gary Marshall was appointed as the COO in July 2019, with responsibility for Shelby Finance Limited.

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 3 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 Report is due for approval at the General Meeting in December 2020, 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, including the Senior Manager Certification Regime 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 and acquisitions have been delivered. We have also made significant progress in continuing to develop new products and services for our customers.

Directors' remuneration

Name	Role	Base Salary	Allowance and Benefits	Pension Contribution	Bonus	Deferred Share Bonus Scheme	Expenses	Total
Paul Smith[1]	CEO	301,950	34,513	14,603	155,925	77,306	21,702	605,999
Andy Thomson[2]	CFO	82,468	5,724	5,313	119,543	56,776	2,227	272,051
Andrew Hayward[3]	CFO	121,551	28,206	5,542	–	–	4,143	159,442
Total		**505,969**	**68,443**	**25,458**	**275,468**	**134,082**	**28,072**	**1,037,492**

Non-Executive Directors

Name	Role	Base Salary	Allowance and Benefits	Expense and Emoluments
Stephen Karle	Chairman	120,000	–	4,754
Sir Nigel Knowles	Senior Independent NED	50,000	7,500	1,318
Joanne Lake	NED and Chair of Remuneration Committee	50,000	7,500	–
Patrick Storey[4]	NED and Chair of Audit and Risk & Compliance Committees	8,910	2,673	591
Peter Ward	NED	50,000	–	1,557
Baroness Simone Finn[4]	NED and Chair of Audit and Risk & Compliance Committees	41,090	8,218	2,514
Andy Thomson[2]	NED	33,333	–	31
Les Easson[5]	NED	25,000	–	761
Total		**378,333**	**25,891**	**11,526**

1 P Smith is the highest paid Director
2 Stepped down as CFO on 1 July 2019 and became a NED on the same date
3 Appointed as CFO 1 July 2019
4 P Storey stepped down as a NED on 4 May 2019 and S Finn was appointed as a NED on 5 May 2019
5 L Easson appointed as a NED on 1 September 2019

Directors' Remuneration Report 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 (ie not a fixed-term) and a notice period of 6 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 which have been updated in line with the requirements of the Senior Manager Certification Regime.

The appointments are for 3 years but they are subject to annual re-election. 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 4 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. In addition, Directors can purchase an additional 10 days' holiday in each calendar year.

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 29 February 2020 is outlined in the table on Page 65.

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

1 Definitions are set out in the Glossary of Alternative Performance Measures on Pages 136 to 139

Deferred share plan (this section is subject to audit)

Executive Directors may participate in a deferred share plan, a 3-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 Deferred Share Plan (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 1 year's satisfactory audits), compliance training, and individual executive performance.
- Awards will be granted on an annual basis.
- The issue price on 3 May 2019 was £1.65. The maximum earnings from the 2019/20 deferred share bonus scheme are outlined in the table below.

Name	Role	Percentage of Salary	Share Award
Paul Smith	CEO	100	175,140
Andrew Hayward	CFO	100	73,230

No shares were awarded for 2019/20 since the TSR performance condition measure was not met.

The table below details the maximum earnings from the deferred share bonus scheme in 2018/19. The issue price of the shares was £1.54.

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

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.

2016 vesting

The Committee confirmed that the performance conditions for the 2016 scheme were satisfied and the awards due vested in July 2019. The CEO and CFO exercised only that element of the option to satisfy HMRC obligations (sell to cover). No further shares have been exercised.

Name	Role	Shares Vested	Sell to Cover	Shares Retained
Paul Smith	CEO	240,686	(113,693)	126,993
Andy Thomson	CFO	181,853	(85,903)	95,950

Directors' shareholdings

The table below details the shareholdings and other share interests of the Directors as at 29 February 2020.

Name	Role	Ordinary Shares	Percentage Shareholding
Paul Smith	CEO	454,413	0.25
Andy Thomson	CFO	3,134,121	2.34
Stephen Karle	Chairman	227,991	0.18
Peter Ward	NED	400,000	0.31
Les Easson[1]	NED	84,661	0.06
Sir Nigel Knowles	Ind NED	35,148	0.03
Joanne Lake	Ind NED	23,148	0.02

1 Les Easson holds an interest through Hay Wain Ltd

Directors' Remuneration Report continued

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

The Company issued shares to Morses Club employees under the framework of the approved employee share option scheme.

CEO pay ratio
We have detailed the CEO pay ratio below.

FY20

Percentile	Value	CEO Pay Ratio
25th	£26,715.78	19:1
Median	£32,734.00	15:1
75th	£41,702.56	12:1

FY19

Percentile	Value	CEO Pay Ratio
25th	£23,366.00	24:1
Median	£31,061.00	18:1
75th	£41,251.56	14:1

The variation from the ratio in FY19 is due to changes in pay and staffing structures due to acquisition activity in the year.

Relative importance of spend on pay

The total pay (including performance bonuses) for all Morses Club PLC employees for FY20 is £20,853,848 compared to £20,702,173 for FY19. The total pay for Shelby Finance Limited for FY20 is £6,753,487.

Corporate Social Responsibility (CSR)

The Company has undertaken small localised CSR programmes during FY20. We are developing similar CSR programmes, based on local communities for FY21. The Company's central Support Centre team has supported a teenage cancer charity trust, Lorna Crane, throughout the course of the year, raising over £10,000 for the charity, and continues to support a local Yorkshire hospice.

Joanne Lake
Chair – Remuneration and Corporate Social Responsibility Committee
27 November 2020

Disclosure Committee

Committee members

- **Stephen Karle**
  (Chairman)
- **Sir Nigel Knowles**
- **Joanne Lake**
- **Baroness Simone Finn**
  (from 5 May 2019)
- **Peter Ward**
- **Andy Thomson**
- **Les Easson**
  (from 1 September 2019)
- **Paul Smith**
  (CEO)
- **Andrew Hayward**
  (CFO) (1 July 2019–16 March 2020)
- **Patrick Storey**
  (to 4 May 2019)

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 AIM-listed companies are no longer required 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.

Acquisitions were subject to class tests based on the Nomad's template and reviewed by them. The only acquisition to fail the class tests was U Holdings Limited, based on the materiality of their historic losses. This resulted in an increased level of disclosure in the RNS announcement to comply with the required reporting guidelines. Any individuals that were not Persons Discharging Managerial Responsibilities (PDMR) involved in the project were signed up to confidentiality agreements and the importance of market sensitive information emphasised to them.

The Risk & Compliance Committee, the Audit Committee, and ultimately the Board itself were all heavily involved in the discussions and resulting disclosures regarding Covid-19. The Disclosure Committee did not therefore believe it was necessary to duplicate this effort.

The Committee held 1 meeting during the year.

Approval

On behalf of the Disclosure Committee

Stephen Karle
Chairman
27 November 2020

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. The Risk & Compliance Director and Finance Director are invited to attend the majority of the Board meetings. Other members of the Executive Committee attend by invitation.

The Executive Committee has 2 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 29 February 2020 and up to the date of signing the financial statements.

The Corporate Governance Statement set out on Pages 42 to 72 forms part of this report.

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 27 to the financial statements.

Dividend

The Directors have a general policy of assessing dividend payments in the context of consolidation opportunities, new product investment requirements and the broader growth strategy of the Company. Under normal circumstances, 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. On 30 March 2020, the Board announced that it would postpone the decision as to whether to make a final dividend payment until later in the year when the impact of Covid-19 was better understood. Following detailed reviews of the performance of the business and its working capital requirements, and taking into consideration that the Group did not furlough any staff, defer any liabilities to HMRC or take advantage of any government-backed loan scheme during the Covid-19 pandemic, the Board has concluded that it is able to make a final dividend payment. Therefore, subject to shareholder approval at the General Meeting on 7 January 2021, the Board proposes to pay a final dividend of 1.0p per Ordinary Share payable on 12 February 2021 to Shareholders on the register at close of business on 15 January 2021. This would represent a total dividend of 3.6 pence per Ordinary Share for 2020.

Directors

The Directors of the Company who served during the year ended 29 February 2020, are:

Stephen Karle
Non-Executive Chairman

Sir Nigel Knowles
Senior Independent Director

Joanne Lake
Independent Non-Executive Director

Peter Ward
Non-Executive Director

Paul Smith
Chief Executive Officer

Andrew Hayward**
Chief Financial Officer from 1 July 2019

Andy Thomson**
Chief Financial Officer to 1 July 2019, then Non-Executive Director

Baroness Simone Finn
Independent Non-Executive Director from 5 May 2019

Les Easson
Non-Executive Director from 1 September 2019

Patrick Storey
Independent Non-Executive Director to 4 May 2019

** On 17 March 2020, Andrew Hayward left the Company and Andy Thomson stepped down from his role as Non-Executive Director and resumed the position of Chief Financial Officer on an interim basis.

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 64 to 68.

Biographical details of the current Directors are given on Pages 38 and 39. As recommended by the July 2018 edition of the UK Corporate Governance Code, all continuing Directors stand for re-election at the Company's Annual General Meetings.

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 22.

As at 29 February 2020, the Company had 131,244,444 Ordinary Shares of 1 pence each in issue (2019: 129,729,122)

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 Pages 42 and 43.

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 25 to 30.

The Company's environmental policies and actions are contained in the Strategic Report on Page 36.

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.

Whistle-blowing

The Company has a very robust whistle-blowing policy and procedures. The Company has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our independent Non-Executive Directors. The subject has been included in 2 online training courses which are mandatory for staff to complete. They have also featured on the staff intranet and there are posters in all Company offices.

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.

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.

The Company uses an online Learning Management System to train and assess all employees who undertake monthly regulatory training modules. These monthly modules are compulsory for all employees and completion is monitored and reported at Board level. This ongoing training and assessment cycle ensure that our employees have the necessary skills to work in this highly regulated industry providing great customer service and treating customers fairly.

The Company also provides development programmes for each level of management that are endorsed by the Institute of Leadership & Management (ILM), the UK's leading provider of leadership, coaching and management qualifications and training. These programmes are designed around each role and relate to work-based activities designed to improve a manager's skills and assist with career progression. The online programme consists of 6 courses with a work-based project and assessment. There are 22 employees currently on the programme and a further 6 employees who have already successfully completed it.

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.

Directors' Report continued

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, all 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 3 years, and employees who participate in the SIP will lose their award if they resign or are dismissed from their employment during this 3-year period.

During the time that the shares are held in the Trust, employees are able to vote at the AGM and receive dividends, so giving them a real stake in the business in which they work.

In December 2019, all eligible employees received a further award of 3.25% of salary. 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.

The Directors were delighted that the Company was presented with the award of Best Overall Performance in Fostering Employee Share Ownership (<500 employees) by ProShare, the voice of the employee share ownership industry in the UK. At the time, ProShare declared that "The Morses Club Board have clearly demonstrated their desire to foster employee share ownership by their deeds as well as their words."

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. This scheme has now been extended to all employees for the 2020 holiday year.

The Company offers a defined contribution pension scheme, matching employee contributions up to a maximum of 7% of salary.

The Company has had a Health & Safety Committee for many years. Its monthly reports are reviewed at each Board meeting.

Employee engagement

The Directors regard employee involvement as essential to the healthy development of the business.

Since the Company's IPO in May 2016, the Company's objective has been clear and resolute – to ensure that as many employees hold Morses Club shares as possible. Following the share awards described above, 100% of the Company's employees who were employed prior to October 2018 hold shares under the Share Incentive Plan.

The Company has also introduced Perkbox to all of its employees which provides access to hundreds of perks and discounts.

Under the 2018 Corporate Governance Code, the Board is expected to engage with the workforce using 1 or a combination of the following 3 methods:

- A Director appointed from the workforce.
- A formal workforce advisory panel.
- A designated Non-Executive Director.

After considering the options, the Board unanimously appointed Les Easson as the Company's designated Director responsible for employee engagement, with effect from January 2020. As Operations Director for many years, Les had been responsible for engaging with, and motivating, the large Operations team, and is therefore the ideal person to fulfil this role.

Substantial interests in shares

As at 30 October 2020, 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	47,691,363	36.34
Premier Miton Investors	17,681,850	13.48
Artemis Investment Management	11,213,960	8.55
J O Hambro Capital Management	8,919,426	6.80
Amati Global Investors	4,800,770	3.66
Legal & General Investment Management	4,687,425	3.57
Canaccord Genuity Wealth Management	4,639,658	3.54

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 2020 (2019: £nil).

Post Balance Sheet Events

Covid 19

In addition to the Directors having determined that Covid-19 is a non-adjusting event at the reporting date, the impact of Covid-19 has continued to develop. The impacts on the business as a whole are discussed in detail in the CEO and CFO sections and financial impacts in the going concern and notes to the accounts on Page 135.

Funding

In April 2020 an extension of the funding arrangement from August 2020 to the end of November 2021 was signed with the incumbent lender consortium. The facility limit was reduced from £55m committed to £40m to better match the needs of the business post Covid-19. By reducing this unused headroom and repaying the £5m mezzanine layer, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

Wirecard

Following issues with its Parent Company (Wirecard AG), the services provided to the Group by Wirecard UK were suspended by the FCA on 26 June 2020 and re-instated on 29 June 2020. As a result of this action, customers of the Group's U Account e-money current account service were unable to access their funds during this period. The Group is replacing Wirecard as a supplier by Modulr Finance Limited during November 2020.

Ffrees

The directors are aware of a contingent liability in connection with a claim against Shelby Finance Limited ("Shelby"). This relates to the acquisition of U Holdings Limited which in turn had acquired certain assets of Ffrees Family Finance Limited (in Administration) ("FFFL"). The Administrator of FFFL has asserted that the acquisition of U Holdings by Shelby Finance Limited has triggered an anti-embarrassment clause in their sale document of FFFL to Shelby, and that a further sum of £850k is due to them.

The directors do not believe that the administrators of FFFL have a valid claim since they are basing it on wording that does not appear in the sale document. However, in a preliminary hearing held in July 2020, the Master determined that the contract could be re-written, and that Shelby Finance should place the disputed sum of £850k into an escrow account. Shelby Finance has appealed this decision, their legal advisors believe there to have been a material error on the part of the Master and remain confident that the claim is baseless. However, given the Master's initial verdict, there is a chance of the liability arising and therefore a contingent liability has been disclosed.

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 General Meeting to reappoint Deloitte LLP as the Company's auditor and to give the Directors the authority to determine the auditor's remuneration.

Notice of General Meeting

The notice convening the General Meeting to be held virtually on 7 January 2021, 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
27 November 2020

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 27 November 2020 and is signed on its behalf by:

Paul Smith
Director
27 November 2020

Andy Thomson
Director
27 November 2020

Financial Statements
For the 53-week period ended 29 February 2020

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

Report on the audit of the financial statements

1. Opinion

In our opinion:
- the financial statements of Morses Club PLC (the 'Parent 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 29 February 2020 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent 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 consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statements; and
- the related notes 1 to 30.

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.

2. 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 Parent 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.

3. Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Going concern assessment and related disclosures • Loan loss provisioning • Revenue recognition • Impairment of goodwill Within this report, key audit matters are identified as follows: Newly identified Increased level of risk Similar level of risk Decreased level of risk
Materiality	The materiality that we used for the Group financial statements was £706,000 which was determined on the basis of 1% of net assets.

Scoping	The Group is made up of Morses Club PLC which is the main trading entity and its four subsidiaries being Shopacheck Financial Services Limited, Shelby Finance Limited, U Holdings Limited and U Accounts Limited. Our full audit scope covered 100% of revenue, 100% of profit before tax and 100% of net assets across the Group.
Significant changes in our approach	There have been four key changes to our audit approach this year: • Given the rapid spread of Covid-19 and the ongoing uncertainty surrounding its impact, we have focused a greater degree of audit effort on the Directors' judgements. This was both in determining the company's and Group's ability to continue as a going concern over a period of at least 12 months from the date of approval of the annual report and accounts, and over the disclosure of post balance sheet events. • We have expanded our key audit matter around loan loss provisioning to also include the expert credit judgement applied by management to capture the implications of Covid-19. This was based on reasonable and supportable information available at the balance sheet date and resulted in the loan loss provision increasing by £1.7m from initial estimates; • We have identified a new key audit matter in relation to impairment of goodwill based on the size of the goodwill balance recognised on the acquisition of U Holdings Limited on 21 June 2019, the inherent judgement involved in determining goodwill impairment and the fact that the performance of U Holdings Limited to date has been below original expectations; and • We have amended our materiality benchmark during the FY20 audit process. In previous years we have adopted 5% of pre-tax profit as the basis for determining materiality, however following the significant reduction to the statutory pre-tax profit figure, we have moved to use 1% of net assets as our materiality benchmark. Net assets has been used due it being a more stable basis on which to determine materiality going forwards and furthermore it is a relevant benchmark to users of the financial statements and the company's regulators.

4. Conclusions relating to going concern, principal risks and viability statement

4.1 Going concern

We have reviewed the directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's and company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

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 the Covid-19 pandemic and 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 state whether we have anything material to add or draw attention to in relation to that statement that would be required by Listing Rule 9.8.6R(3) if the Group had a premium listing and report if the statement is materially inconsistent with our knowledge obtained in the audit.

Going concern is the basis of preparation of the financial statements that assumes an entity will remain in operation for a period of at least 12 months from the date of approval of the financial statements.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

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

4.2 Principal risks and viability statement
Based solely on reading the directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the directors' assessment of the Group's and the company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on Pages 24 to 30 that describe the principal risks, procedures to identify emerging risks, and an explanation of how these are being managed or mitigated;
- the directors' confirmation on Page 93 that they have carried out a robust assessment of the principal and emerging risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity; or
- the directors' explanation on Page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We also report whether the directors' statement relating to the prospects of the Group that would be required by Listing Rule 9.8.6R(3) if the Group had a premium listing is materially inconsistent with our knowledge obtained in the audit.

Viability means the ability of the Group to continue over the time horizon considered appropriate by the directors.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

5. 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.

5.1 Going concern assessment and related disclosures (!)

Key audit matter description	The rapid spread and ongoing uncertainty surrounding the impact of Covid-19 has increased complexity associated with the directors' assessment of the group's and company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. In addition, there is an increased risk associated with the adequacy of disclosures over the going concern assessment and events after the reporting date. In making their assessment, the Directors consider that the going concern basis of accounting is appropriate and that there is no material uncertainty related to going concern. Management's assessment includes the following: (i) the group's and company's profitability, liquidity and funding positions, particularly in light of remodelling the potential impact on financial position and prospects as a result of Covid-19, and the signing of a new borrowing facility in April 2020; and (ii) the capability of the operational resilience framework in place and supplier viability over the assessment period. Due to the increased audit effort and level of judgements involved in the going concern assessment we have considered the going concern assessment and related disclosures as a key audit matter. Management's associated consideration of the impact of Covid-19 on the company's and group's ability to continue as a going concern are detailed on pages 115 and 93 within the director's statement and note 1 to the financial statements. Details of the impact of events after the reporting date are presented in note 30 to the financial statements.

How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the review and challenge of management's going concern assessment. We challenged and assessed management's evaluation of forecast profitability, liquidity and funding position, as well as operational resilience: **Profitability, liquidity and funding** We challenged the internal governance process followed by management in order to prepare the worst-case scenario. We challenged the forecast changes to the Group's and company's profitability and liquidity plan, with reference to the Group's and company's internal risk appetite, given current market conditions. We tested the mechanical accuracy of the forecasts and challenged their reasonableness by assessing the key assumptions underpinning them and reviewing management's historic forecasting accuracy. We inspected the terms and conditions of the renewed borrowing facility and assessed compliance with the covenant conditions attached to the borrowing facility. We also tested the forecast covenant compliance. **Operational resilience and supplier viability** We assessed management's internal monitoring processes which have been recently introduced in order to monitor the operational impact of Covid-19 on a regular basis. We assessed oversight of service providers' operational and financial resilience, or where necessary, the contingency plans in place where a supplier has been deemed at risk. **Events after the reporting date** We read the most recent Board minutes and regulatory correspondence to identify items of interest. We evaluated management's assessment of the impact of the significant business developments that occurred after the year end, including the spread of Covid-19 and the resulting actions taken by the UK Government. We assessed the impact of recent developments on loan impairment provisions (see section 5.2 for specific details) and challenged management's assessment of the impact of recent events on the carrying value of the Group's assets and liabilities. **Disclosures** We evaluated the disclosures made by management in relation to events after the reporting date and going concern, to assess whether they adequately reflect the impact on the Group, and checked the consistency of the disclosures with our knowledge of the Group based on our audit.
Key observations	Based on the work performed, having taken account of the assumptions and other matters disclosed in the Going Concern Statement made by the directors and elsewhere in the annual report and accounts, we concurred with the directors' conclusion that the significant economic disruption associated with the Covid-19 pandemic does not give rise to a material uncertainty over the company's and Group's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements. We also concluded that the disclosures in relation to going concern and events after the reporting date are appropriate.

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

5.2 Loan loss provisioning

Key audit matter description	The Group held loan loss provisions of £46.4m (2019: £42.5m), prior to the impact of Covid-19, against gross loan carrying amounts of £120.9 million (2019: £115.5 million). After management had applied expert credit judgement on the implications of Covid-19, which was based on reasonable and supportable information available at the balance sheet date, the loan loss provision increased to £48.1m, representing an increase of £1.7m. Amounts receivable from customers are valued using collections curves to estimate the twelve 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 collection curves are based on collections levels from outstanding amounts receivable from customers over 2014-2018. We have determined our key audit matters 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; and • the expert credit judgement applied to account for the implications of Covid-19. Covid-19 is a non-adjusting post balance sheet event, it does not impact any other areas of the financial statements except for loan loss provisioning as IFRS 9 requires forward looking scenarios to be taken into account. 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. 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. Management's associated accounting policies are detailed on Pages 93 to 105 with detail about judgements in applying accounting policies and critical accounting estimates on Page 104 and within the Audit Committee report on Pages 54 to 57. The revenue note is on Page 98.

How the scope of our audit responded to the key audit matter	**Estimation of future cash flows** We obtained an understanding of the relevant controls over the estimation of future cash flows, including the review of management's judgement paper. We involved 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, involving 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. We involved 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 assumption used in the impairment calculations being 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 IFRS 9 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. **Expert credit judgement** We obtained an understanding of the relevant controls over the derivation of the Covid-19 overlay, including the review of management's judgement paper. We challenged the key assumptions being the impact of a Covid-19 downturn scenario and the probability weighting associated to this, in order to obtain an independent range for the Covid-19 overlay. We challenged the scenarios used by management through assessing the forecast changes to future cash collections and staging movements in light of Covid-19. We also tested the mechanical accuracy of management's scenario calculations. We challenged the probability weightings used by management through involving internal economics specialists in order to derive a reasonable range. We also performed an assessment over the potential requirement for macroeconomic overlays.
Key observations	**Estimation of future cash flows** We concluded that the Covid-19 overlay recorded by management sits at the conservative end of an acceptable range. We concluded that the estimation of future cash flows within the models was reasonable and thus the impairment provision recorded was appropriate. **Expert credit judgement** We concluded that the Covid-19 overlay recorded by management sits at the conservative end of an acceptable range. We identified a control deficiency regarding the timely review of management's judgement papers in relation to the Covid-19 overlay, with insufficient focus being placed on the key assumptions and providing clear rationale for their adoption.

Independent Auditor's Report continued

To the Members of Morses Club PLC

5.3 Revenue recognition

Key audit matter description	The Group recognised revenue of £133.7m (2019: £117.0m) against amounts receivable from customers during the 53 weeks (2019: 52 weeks) ended 29 February 2020. 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. 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. Management's associated accounting policies are detailed on Pages 93 to 105 with detail about judgements in applying accounting policies and critical accounting estimates on Page 104 and within the Audit Committee report on Pages 53 to 57.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the determination of the expected lives, including the review of management's judgement paper. We involved internal IT specialists to review the methods used by management to extract loan data from the lending system. We involved our IT specialists to independently reconstruct the expected lives using historical data and then challenged the lives by reference to both historical and forecast data and comparability with the contractual life under IFRS 9. 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 53 weeks ended 29 February 2020.
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 appropriate.

5.4 Impairment of goodwill

Key audit matter description	Upon acquiring U Holdings Limited on 21 June 2019, Shelby Finance Limited recognised a goodwill balance of £9.4m. We have identified a key audit matter in relation to impairment of goodwill based on the size of the goodwill balance, the inherent judgement involved in determining goodwill impairment and the fact that the performance of U Holdings Limited to date has been lower than original expectations. Management is required by IAS 36 to perform an annual impairment review for goodwill balances. Estimation is involved in assessing the fair value less costs to sell and value in use of certain intangible assets at each reporting period for assessment of impairment. This requires an assessment of whether there are any impairment triggers which, given the nature of the assets, focuses on performance and cash flows. Management concluded that no impairment of goodwill was required. We have identified a key audit matter around the forecast cash flows in the goodwill impairment model for U Holdings Limited, in particular the growth rates and discount rate used given these are the key assumptions underpinning the forecast. 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 93 to 105 with detail about judgements in applying accounting policies and critical accounting estimates on Page 104 and within the Audit Committee report on Pages 54 to 57. The goodwill note is on Page 112.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the determination of the growth rates and discount rate, including the review of management's judgement paper. We reviewed the EBITDA forecast used in the model against the historical trading of the related division and challenged the assumptions underpinning the forecast, including review of the long term and short term growth rates and discount rate used. We involved our valuation specialists to independently determine an estimate of the discount rate in order to challenge the rate selected by management. We assessed the appropriateness of the short term growth rates through challenging the key assumptions underpinning the forecast growth, with peer benchmarking used to assess the appropriateness of the long term growth rate. We tested the mechanical accuracy and completeness of the impairment model by comparing to the forecasts used in the going concern assessment, prior to the impact of Covid-19. We also considered management's allocation and classification of the cash generating units ('CGU's') of the business into Home Collected Credit and Digital divisions, upon the acquisition of U Holdings Limited.
Key observations	We concur with management's conclusion that no impairment of goodwill was required. We identified a control deficiency regarding the timely review of management's judgement papers in relation to impairment of goodwill, with insufficient focus being placed on the key discount rate and growth rate assumptions and providing clear rationale for their adoption.

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

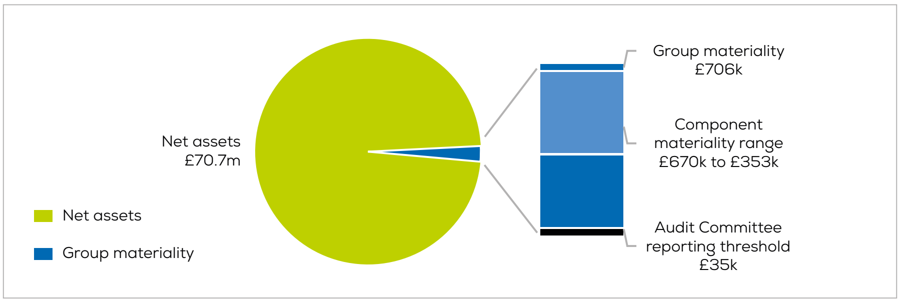
6. Our application of materiality

6.1 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	£706,000 (2019: £1.03m)	£670,000 (2019: £1.02m)
Basis for determining materiality	1% of net assets (2019: 5% of pre-tax profit). This equates to 6.2% of pre-tax profit and 0.5% of revenue.	
Rationale for the benchmark applied	Net assets has been used due to the volatility in the pre-tax profit after the Covid-19 expert credit judgement was applied to the loan loss provision, is considered to be a more stable basis on which to determine materiality going forward and is a relevant benchmark to users of the annual report and accounts and the company's regulators.	



6.2 Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole. Group performance materiality was set at 70% of Group materiality for the 2020 audit (2019: 70%).

We determined performance materiality with reference to factors such as our understanding of the Group and its complexity, the quality of the control environment and ability to rely on controls and the low level of uncorrected misstatements in the prior year audit.

6.3 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £35,300 (2019: £51,100), 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.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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 four subsidiaries being Shopacheck Financial Services Limited, Shelby Finance Limited, U Holdings Limited and U Accounts 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 Group level only.

All entities in the Group are within our full audit scope and the audit procedures for these entities are performed directly by the Group audit team.

7.2. Our consideration of the control environment

We identified key IT systems for the group in respect of the financial reporting system and lending system. We performed testing of the general IT controls ('GITCs') associated with these systems and relied upon IT controls across the systems identified.

We adopted a controls reliance approach in relation to the lending business cycle. We tested the relevant automated and manual controls for the business cycle where a control reliance approach was planned. We adopted a controls reliance approach across the lending cycle when performing our substantive audit procedures.

8. Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- **Fair, balanced and understandable** – the statement given by the directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting** – the section describing the work of the audit committee does not appropriately address matters communicated by us to the audit committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code** – the parts of the directors' statement that would be required if the company had a premium listing relating to the company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

9. 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 Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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

10. 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

11. 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 the Parent 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.

12. 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.

13. Matters on which we are required to report by exception
13.1 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 Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

13.2 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.

14. 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
27 November 2020

Consolidated Income Statement

For the 53-week period ended 29 February 2020

	Notes	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Revenue			
Existing Operations	1	**128,528**	116,803
Acquisitions during the period	26	**5,123**	203
		133,651	117,006
Impairment		**(36,358)**	(26,169)
Cost of sales		**(27,669)**	(28,296)
Gross profit		**69,624**	62,541
Administration expenses	2 & 4	**(54,918)**	(40,579)
Operating profit before amortisation of intangibles and exceptional items		**13,593**	22,987
Amortisation of acquisition intangibles	12	**(1,222)**	(1,025)
Exceptional items	3	**2,335**	–
Operating profit			
Operating Profit Existing Operations		**11,667**	21,875
Operating Profit Acquisitions during the period	26	**3,039**	87
		14,706	21,962
Finance costs	6	**(3,255)**	(1,745)
Profit before taxation	4	**11,451**	20,217
Tax on profit on ordinary activities	7	**(1,974)**	(4,042)
Profit after taxation		**9,477**	16,175

Earnings per share		29.2.20 Pence	23.2.19 Pence
Basic	9	**7.26**	12.48
Diluted	9	**7.21**	12.30

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 29 February 2020

Registered Number: 06793980

	Notes	Group 29.2.20 £000	Group 23.2.19 £000	Company 29.2.20 £000	Company 23.2.19 £000
Assets					
Non-current assets					
Goodwill	11	**12,981**	3,501	**3,293**	3,309
Other intangible assets	12	**7,362**	6,221	**5,606**	5,283
Investment in subsidiaries	14	**–**	–	**11,011**	2,861
Property, plant & equipment	13	**818**	378	**196**	378
Right-of-Use asset	15	**2,783**	–	**2,113**	–
Deferred tax	21	**659**	958	**797**	1,097
Amounts receivable from customers	16	**657**	206	**586**	206
		25,260	11,264	**23,602**	13,134
Current Assets					
Amounts receivable from customers	16	**72,171**	72,840	**67,294**	72,819
Taxation receivable		**501**	–	**501**	–
Other receivables	16	**4,256**	2,369	**22,159**	2,211
Cash at bank		**11,868**	7,893	**9,585**	7,758
		88,796	83,102	**99,539**	82,788
Total assets		**114,056**	94,366	**123,141**	95,922
Liabilities					
Current Liabilities					
Taxation payable		**–**	(1,830)	**–**	(1,830)
Trade and other payables	17	**(6,723)**	(7,482)	**(6,629)**	(8,285)
Lease liabilities	19	**(1,286)**	–	**(1,228)**	–
		(8,009)	(9,312)	**(7,857)**	(10,115)
Non-current liabilities					
Bank and other borrowings		**(33,838)**	(14,075)	**(33,838)**	(14,075)
Lease liabilities		**(1,553)**	–	**(848)**	–
Deferred tax	21	**–**	–	**–**	–
		(35,391)	(14,075)	**(34,686)**	(14,075)
Total liabilities		**(43,400)**	(23,387)	**(42,543)**	(24,190)
Net assets		**70,656**	70,979	**80,598**	71,732
Equity					
Called up share capital	22	**1,312**	1,298	**1,312**	1,298
Group reconstruction reserve	23	**–**	–	**(9,276)**	(9,276)
Retained earnings	23	**69,344**	69,681	**88,562**	79,710
Total equity		**70,656**	70,979	**80,598**	71,732

The Parent Company's profit for the financial period was £18,705,113 (2019: £17,253,045). The consolidated and Company financial statements of Morses Club PLC were approved by the Board of Directors on 27 November 2020.

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

Andrew Thomson
Director

Consolidated Statements of Changes in Equity

For the 53-week period ended 29 February 2020

Group	Notes	Called Up Share Capital £000	Retained Earnings £000	Total Equity £000
As at 25 February 2018		**1,295**	**61,993**	**63,288**
Profit for year		–	16,175	16,175
Total comprehensive income for the period		–	16,175	16,175
Share issue		3	–	3
Share-based payments charge	28	–	1,104	1,104
Dividends paid	8	–	(9,591)	(9,591)
As at 23 February 2019		**1,298**	**69,681**	**70,979**
Impact of adoption of IFRS 16	1	–	154	154
As at 24 February 2019		**1,298**	**69,835**	**71,133**
Profit for year		–	9,477	9,477
Total comprehensive income for the period		–	9,477	9,477
Deferred tax on acquisitions		–	39	39
Share issue		14	–	14
Share-based payments charge	28	–	155	155
Dividends paid	8	–	(10,162)	(10,162)
As at 29 February 2020		**1,312**	**69,344**	**70,656**

Company	Notes	Called Up Share Capital £000	Group Reconstruction Reserve £000	Retained Earnings £000	Total Equity £000
As at 24 February 2018		**1,295**	**(9,276)**	**70,944**	**62,963**
Profit for year		–	–	17,253	17,253
Total comprehensive income for the period		–	–	17,253	17,253
Share-based payments charge		–	–	1,104	1,104
Share issue		3	–	–	3
Dividends paid	8	–	–	(9,591)	(9,591)
As at 23 February 2019		**1,298**	**(9,276)**	**79,710**	**71,732**
Impact of adoption of IFRS 16	1	–	–	154	154
As at 24 February 2019		**1,298**	**(9,276)**	**79,864**	**71,886**
Profit for year		–	–	18,705	18,705
Total comprehensive income for the period		–	–	18,705	18,705
Share issue		14	–	–	14
Share-based payments charge	28	–	–	155	155
Dividends paid	8	–	–	(10,162)	(10,162)
As at 29 February 2020		**1,312**	**(9,276)**	**88,562**	**80,598**

Cash Flow Statements

For the 53-week period ended 29 February 2020

		Group		Company	
	Notes	29.2.20 £000	23.2.19 £000	29.2.20 £000	23.2.19 £000
Net cash inflow from operating activities	1	**21,418**	20,467	**7,234**	20,612
Cash flows used in financing activities					
Dividends paid	8	**(10,162)**	(9,591)	**(10,162)**	(9,591)
Proceeds from additional long-term debt		**36,000**	(1,052)	**36,000**	(1,052)
Arrangement costs associated with additional funding		**–**	(425)	**–**	(425)
Repayment of long-term debt		**(16,500)**	–	**(16,500)**	–
Principal paid under lease liabilities		**(1,385)**	–	**(1,433)**	–
Interest received		**13**	–	**1,067**	–
Interest paid		**(2,533)**	(1,745)	**(2,533)**	(1,745)
Interest paid (leases liabilities)		**(472)**	–	**(399)**	–
Net cash inflow/(outflow) from financing activities		**4,961**	(12,813)	**6,040**	(12,813)
Cash flows used in investing activities					
Purchase of intangibles		**(4,277)**	(2,411)	**(2,511)**	(2,368)
Purchase of property, plant and equipment including RoU assets		**(2,180)**	(31)	**(347)**	(31)
Additional investment in subsidiary		**–**	–	**(8,150)**	(250)
Acquisitions		**(15,947)**	(2,187)	**(439)**	(2,187)
Net cash (outflow) from investing activities		**(22,404)**	(4,629)	**(11,447)**	(4,836)
Increase in cash and cash equivalents		**3,975**	3,025	**1,827**	2,963
Reconciliation of increase in cash and cash equivalents					
Movement in cash and cash equivalents in the period		**3,975**	3,025	**1,827**	2,963
Movement in cash and cash equivalents in the period					
Cash and cash equivalents, beginning of year		**7,893**	4,868	**7,758**	4,795
Cash and cash equivalents, end of year		**11,868**	7,893	**9,585**	7,758

Notes to the Consolidated Cash Flow Statement

For the 53-week period ended 29 February 2020

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

	Group		Company	
	29.2.20 £000	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Profit before taxation and exceptional items	**9,116**	20,217	**20,755**	21,449
Exceptional items	**2,335**	**–**	**–**	–
Profit before taxation	**11,451**	20,217	**20,755**	21,449
Interest received included in financing activities	**(13)**	**–**	**(1,067)**	–
Interest paid included in financing activities	**2,533**	1,745	**2,533**	1,745
Interest paid (leases liabilities)	**472**	–	**399**	–
Share issue	**14**	3	**14**	3
Depreciation charges	**2,436**	475	**1,896**	475
Share-based payments charge	**155**	1,104	**155**	1,104
Impairment of goodwill	**16**	–	**16**	–
Amortisation of intangibles	**3,136**	2,209	**2,188**	1,455
Write off of Right-of-use assets	**142**	–	**142**	–
Decrease/(increase) in Debtors	**6,702**	(3,901)	**(14,631)**	(4,091)
(Decrease)/increase in Creditors	**(1,466)**	2,170	**(1,006)**	2,027
	14,127	3,805	**(9,361)**	2,718
Taxation paid	**(4,160)**	(3,555)	**(4,160)**	(3,555)
Net cash inflow from operating activities	**21,418**	20,467	**7,234**	20,612

Notes to the Consolidated Cash Flow Statement continued

For the 53-week period ended 29 February 2020

2 Reconciliation of liabilities arising from financial activities

Group	Long-term Borrowings £000	Lease Liabilities £000	Total £000
At 24 February 2018	15,552	–	15,552
Cash flows:			
– Repayments	(1,500)	–	(1,500)
– Proceeds	–	–	–
– Arrangement costs associated with additional funding	23	–	23
At 23 February 2019	14,075	–	14,075
Impact of IFRS 16	**–**	**3,391**	**3,391**
At 24 February 2019	14,075	3,391	17,466
Non-cash changes			
- Amortised fees	263	–	263
- Interest	(2,533)	(472)	(3,005)
Cash flows:			
– Repayments	(16,500)	(1,385)	(17,885)
– Proceeds	36,000	–	36,000
– Lease additions & disposals	–	833	833
– Interest	2,533	472	3,005
– Arrangement costs associated with additional funding	–	–	–
At 29 February 2020	**33,838**	**2,839**	**36,377**

Company	Long-term Borrowings £000	Lease Liabilities £000	Total £000
At 24 February 2018	15,552	–	15,552
Cash flows:			
– Repayments	(1,500)	–	(1,500)
– Drawdown	–	–	–
– Arrangement costs associated with additional funding	23	–	23
At 23 February 2019	14,075	–	14,075
Impact of IFRS 16	–	3,391	3,391
At 24 February 2019	14,075	3,391	17,466
Non-cash changes			
- Amortised fees	263	–	263
- Interest	(2,533)	(399)	(2,932)
Cash flows:			
– Repayments	(16,500)	(1,433)	(17,933)
– Proceeds	36,000	–	36,000
– Lease additions & disposals	–	118	118
– Interest	2,533	399	2,932
– Arrangement costs associated with additional funding	–	–	–
At 29 February 2020	**33,838**	**2,076**	**35,914**

Notes to the Consolidated Financial Statements

For the 53-week period ended 29 February 2020

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.

Basis of preparation

The financial statements of the Group and Company are prepared in accordance with IFRS adopted for use in the European Union (EU), International Financial Reporting Interpretations Committee (IFRIC) interpretations and the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention, as modified by the revaluation of derivative financial instruments and investments held at fair value through other comprehensive income. In preparing the financial statements, the Directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the Group and Company's accounting policies.

For further information on the approach adopted for post balance sheet events see Note 30 on Page 135.

The Group and Company's principal accounting policies under IFRS have been consistently applied to all the years presented with the exception of the adoption of IFRS 16 'Leases' and IFRIC 23 'Uncertainty over Income Tax Treatments'.

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 3-year business plan which is a continuation of its strategy of generating growth through organic and acquisitive means.

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

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

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

With regards to a going concern review or a 3-year viability period, the major challenge for the business will be one of operational resilience and adapting to the demand of a Covid-19 world, whilst maintaining good customer outcomes, appropriate oversight and financial prudence.

Rather than taking the approach of adopting a base case and then running upside and downside cases, management have opted to conduct the going concern against what it considers to be the worst case under Covid-19. The financial model which contains these assumptions was initially drawn up and shared with funders to support the new funding facility entered into on 28 April 2020.

Management consider this to be a prudent foreseeable worst case plan against which to assess the going concern and viability of the Group. This plan reflects both the impact on operational challenges and future prospects mentioned above.

Within the worst case the Group has assessed a number of possible events and scenarios which resulted in:

- Revision of future cash flows impacting the IFRS 9 Loan Loss Impairment Provision at the reporting date as well as cash flows in future periods.
- Reduced customer numbers, loan book size and collections as a result of continued operational limitations.
- Revised operational model resulting from a different sized business.
- Maintenance of adequate facility headroom whilst maintaining sufficient operational cash resources.
- Appropriate cash conservation measures such as non-payment of external dividend.

These comments do not represent management's confirmed actions, they represent a number of possible mitigants which may need to be implemented if the worst case transpires.

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

1. Accounting policies continued

New and amended standards adopted by the Group and Company

IFRS 16	Leases
IFRS 9	Amendments to Prepayment Features with Negative Compensation
IAS 28	Amendments to Long-term Interests in Associates and Joint Ventures
IFRS 2015–2017 Cycle	Annual Improvements to IFRS Standards
IAS 19	Amendments to Plan Amendment, Curtailment or Settlement
IFRIC 23	Uncertainty over Income Tax Treatments

IFRS 16 Leases

In the current period, the Group, for the first time, has applied IFRS 16 Leases. The date of initial application of IFRS 16 for the Group is 24 February 2019.

IFRS 16 introduces new or amended requirements with respect to lease accounting. It introduces significant changes to equipment leases as lessee by removing the distinction between operating and finance lease, requiring the recognition of a right-of-use asset and a lease liability at commencement for all leases, except for short-term leases and leases of low value assets. In contrast to lessee accounting, the requirements for lessor accounting have remained largely unchanged.

The Group is not party to any material leases where it acts as a lessor, but the Group does have a large number of material property, vehicle and equipment lessee.

Details of the Group's accounting policies under IFRS 16 are set out below, followed by a description of the impact of adopting IFRS 16. Significant judgements applied in the adoption of IFRS 16 included determining the lease term for those leases with termination or extension options and determining an incremental borrowing rate where the rate implicit in a lease could not be readily determined. Optional lease payments relate to the property portfolio and are made up of payments in relation to lease extensions, these account for 27.9% in volume of all lease payments. Optional leases not included in the lease liability measurement make up 13.2% of all lease payments. Extension and termination options provide the Group with a level of flexibility to match the relevant resource to business requirements.

Accounting policies under IFRS 16 Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:
- fixed lease payments (including in substance fixed payments), less any lease incentives;
- variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- the amount expected to be payable by the lessee under residual value guarantees;
- the exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified, and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Group did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Group incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognised and measured under IAS 37. The costs are included in the related right-of-use asset, unless those costs are incurred to produce inventories.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Group expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The Group does not have any leases that include purchase options or transfer ownership of the underlying asset.

The right-of-use assets are presented within the same line item as that within which the corresponding underlying assets would be presented if they were owned – for the Group this is property, plant and equipment.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The Group does not have any lease payments which fall under the definition of variable lease payments.

For short-term leases (lease term of 12 months or less) and leases of low-value assets (such as personal computers and office furniture), the Group has opted to recognise a lease expense on a straight-line basis as permitted by IFRS 16. This expense is presented within Administrative expenses in the consolidated income statement.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Group has used this practical expedient for property leases for which the business rate is included in the lease contract.

Approach to transition

The Group has applied IFRS 16 using the modified retrospective approach, without restatement of the comparative information. The leases the Group previously treated as operating leases have been measured following the approach in IFRS 16.C8(b)(ii), whereby right-of-use assets are set equal to the lease liability, adjusted for prepaid or accrued lease payments, including un-amortised lease incentives.

The Group's weighted average incremental borrowing rate applied to lease liabilities as at 24 February 2019 is 13.82%.

Practical expedients adopted on transition

The Group has made use of the practical expedient available on transition to IFRS 16 not to reassess whether a contract is or contains a lease. Accordingly, the definition of a lease in accordance with IAS 17 and IFRIC 4 will continue to be applied to those leases entered into or modified before 24 February 2019.

As part of the Group's adoption of IFRS 16 and application of the modified retrospective approach to transition, the Group also elected to use the following practical expedients:

- a single discount rate has been applied to portfolios of leases with reasonably similar characteristics; and
- hindsight has been used in determining the lease term.

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

1. Accounting policies continued

Impact on lessee accounting

Former operating leases

IFRS 16 changes how the Group accounts for leases previously classified as operating leases under IAS 17, which were off-balance sheet.

Applying IFRS 16, for all leases (except as noted above), the Group now recognises right-of-use assets and lease liabilities in the consolidated balance sheet, initially measured at the present value of the future lease payments as described above.

Lease incentives (eg rent-free periods) are recognised as part of the measurement of the right-of-use assets and lease liabilities whereas under IAS 17 they resulted in the recognition of a lease incentive liability, amortised as a reduction of rental expenses on a straight-line basis.

Under IFRS 16, right-of-use assets will be tested for impairment in accordance with IAS 36 Impairment of Assets. This replaces the previous requirement to recognise a provision for onerous lease contracts.

Under IFRS 16 the Group recognises depreciation of right-of-use assets and interest on lease liabilities in the consolidated income statement, whereas under IAS 17 financing leases previously gave rise to a straight-line expense in other operating expenses.

Under IFRS 16 the Group separates the total amount of cash paid for leases that are on balance sheet into a principal portion (presented within financing activities) and interest (presented within financing activities) in the consolidated cash flow statement. Under IAS 17 operating lease payments were presented as operating cash outflows.

Former finance leases

The main differences between IFRS 16 and IAS 17 with respect to assets formerly held under a finance lease is the measurement of the residual value guarantees provided by the lessee to the lessor. IFRS 16 requires that the Group recognises as part of its lease liability only the amount expected to be payable under a residual value guarantee, rather than the maximum amount guaranteed as required by IAS 17. This is not applicable to the leases operated by the Group and as such has no impact on the Group's consolidated financial statements.

Financial impact

The application of IFRS 16 to leases previously classified as operating leases under IAS 17 resulted in the recognition of right-of-use assets and lease liabilities. Provisions for onerous lease contracts have been derecognised and operating lease incentives previously recognised as liabilities have been derecognised and factored into the measurement of the right-to-use assets and lease liabilities.

The Group has chosen to use the table below to set out the adjustments recognised at the date of initial application of IFRS 16.

	23 February 2019 As Originally Presented £000	IFRS 16 Adjustment £000	24 February 2019 Restated £000
Non-Current Assets			
Right-of-use asset	–	3,621	3,621
Current Assets			
Other receivables	2,369	(51)	2,318
Total impact on assets	2,369	3,570	5,939
Current Liabilities			
Lease liability	–	1,446	1,446
Trade and other payables	7,482	(7)	7,475
Deferred tax	–	32	32
Non-current Liabilities			
Lease liability	–	1,945	1,945
Total impact on liabilities	7,482	3,416	10,898
Retained Earnings	(5,113)	154	(4,959)

Of the total right-of-use assets of £3.6m recognised at 24 February 2019, £1.5m related to leases of motor vehicles, £0.9m to leases of servers and £1.2m to leases of properties. The table on Page 97 presents a reconciliation from operating lease commitments disclosed at 23 February 2019 to lease liabilities recognised at 24 February 2019.

	£000
Operating lease commitments disclosed under IAS 17 at 23 February 2019	2,613
Discounted using the lessee's incremental borrowing rate of 13.82% as at the date of initial application	(860)
(Less): short-term leases recognised on a straight-line base as expense	(40)
(Less): low-value leases recognised on a straight-line base as expense	–
Add: adjustments as a result of a different treatment of extension and termination options	1,678
Lease liabilities recognised at 24 February 2019	3,391

In terms of the income statement impact, the application of IFRS 16 resulted in a decrease in other operating expenses and an increase in depreciation and interest expense compared to IAS 17. During the period ended 29 February 2020, in relation to leases under IFRS 16 the Group recognised the following amounts in the consolidated income statement:

	Motor Vehicles £000	Servers £000	Properties £000
Depreciation	808	335	553
Interest expense	165	119	188
Variable lease payments (not depending on an index or rate)	–	–	–
Short-term lease expense	–	–	68
Low-value lease expense	–	–	–

Total cash outflows from leases during the period ended 29 February 2020 was £1,857,000.

IFRIC 23

The Group and Company has adopted IFRIC 23 'Uncertainty over Income Tax Treatments' from the mandatory adoption date of 1 January 2019. The interpretation sets out how to determine the accounting tax position when there is uncertainty over income tax treatments and requires the Group and Company to: (1) determine whether uncertain tax positions are assessed separately or as a Group; and (2) assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, in its income tax filings. If it is considered probable the accounting tax position should be consistent with the tax treatment used or planned to be used in the income tax filing. If it is not considered probable the effect of the uncertainty in determining the accounting tax position should reflect the most likely amount or the expected value method. The interpretation has not had a material impact on either the Group or Company.

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

IFRS 17	Insurance contracts
IFRS 3	Definition of a business
IAS 1 and IAS 8	Definition of material
Conceptual Framework	Amendments to References to the Conceptual Framework in IFRS Standards

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

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 136 to 138 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 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.

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

1. Accounting policies continued

Basis of consolidation
The Group financial statements drawn up to 29 February 2020 consolidate the financial statements of the Company and its subsidiary undertakings from the date control passes to the Group until the date control ceases. Control is achieved when the Group:
• has the power over the investee;
• is exposed, or has rights, to variable returns from its involvement with the investee; and
• has the ability to use its power to affect returns.

All intra-Group transactions, balances and unrealised gains on transactions between Group companies are eliminated on consolidation. The accounting policies of subsidiaries are consistent with the accounting policies of the Group.

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.

Digital revenue for recurring monthly management fees in relation to current accounts is recognised in accordance with IFRS1 5.

See *Critical accounting judgements and key sources of estimation uncertainty* on Page 104 for more information.

Net loan book
All customer receivables are initially recognised at the amount loaned to the customer ie 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 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 Effective Interest Rate (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, represented by 2 missed payments in a 13-week period. Stage 3 represents a customer in default, equivalent to 10 missed payments in a 13-week period. The 2 missed payments in a 13-week period are considered to be a point of significant increase in credit risk based on historical loan book performance.

Stage 1 – Accounts at initial recognition. The Impairment Provision is based on 12-month's 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.

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.

Impairment provisions under IFRS 9 are calculated based on historic loan experience as a basis for estimating the Expected Credit Loss and considers the outlook for macroeconomic conditions.

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* on Page 104 for more information.

Macroeconomic overlay
Through involvement in the Regional CBI, Morses Club PLC receives good insight into the current macroeconomic landscape. Most economic analysis from the Bank of England and HM Treasury recognises the likelihood of a downturn in the economy as a result of COVID-19, with a recession and increased levels of unemployment.

In terms of the impact of increased unemployment, the home credit sector has historically 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.

Covid-19 overlay
With specific reference to the current situation regarding COVID-19 the directors have given consideration to the potential for increased levels of default, and considered a range of possible outcomes at the end of February 2020. These outcomes reflect a range of outcomes which were thought possible at the reporting date, ranging from a very short period of disruption and impact to one which impacted most of the following financial year. A probability was attached to each outcome, details of this are shown in Note 30.

The main impact of COVID-19 will be operational, economic and credit risk factors. Operational challenges relate to the movement restricting the ability of agents to carry out home visits, and support staff working from home from March onwards. These have been mitigated in part through technology. There will be customer repayment difficulties and some increase in credit risk arising from lower customer income and/or health situations, but these will be mitigated by government support, as well as the forbearance and experience of our skilled customer support staff. Based on these mainly operational considerations, an overlay for Covid-19 has been applied to the Group accounts resulting in an impact in FY20 of £1.7m (FY19: nil). The pandemic will continue to have a negative impact on recoverability and collections through 2020/21 as set out in the PBSE note.

Write off
Write off is when a customer has made no payments on their account for 17 weeks and the account is transferred out of field operations to customer support.

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 with the fair value of deferred contingent consideration determined by considering the expected payment, discounted to present value using a risk adjusted discount rate. The expected payment is determined separately in respect of each individual earn-out agreement taking into consideration the expected level of profitability of each acquisition. Post acquisition the discounted consideration is unwound on an EIR basis as a finance cost before being physically paid in line with the share purchase agreement.

At the acquisition date the identifiable assets acquired, and the liabilities assumed are recognised at their fair value except that:
- deferred tax assets or liabilities are recognised and measured in accordance with IAS 12 Income Taxes.

The provision for deferred contingent consideration arising in the year was in respect of the acquisition of U Holdings Limited, see Note 26.

On 21 February 2020, the trade and assets of U Holdings Limited, a subsidiary undertaking, were transferred to Shelby Finance Limited at book value, see Note 26 for further details.

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

1. Accounting policies continued

Classification and measurement of financial liabilities
The Group's financial liabilities include borrowings and trade and other payables.

Trade payables are obligations to pay for goods or services that have been acquired from suppliers in the ordinary course of business and are classified as current liabilities if payment is due within 1 year or less, otherwise they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Borrowings are recognised initially at fair value, being issue proceeds less any transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between proceeds less transaction costs and the redemption value is recognised in the income statement over the expected life of the borrowings using the effective interest rate. Borrowings are classified as current liabilities unless the Group or Company has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

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.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or Groups of cash-generating units) expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata based on the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

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

See *Critical accounting judgements and key sources of estimation uncertainty* on Page 104 for more information.

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

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

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

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

Software and licences	– 20%–33% on cost

Amortisation is included within administration expenses. Other intangible assets are valued at cost less subsequent amortisation and impairment, and are tested at least annually. An impairment loss is recognised for the amount by which the asset's carrying value exceeds the higher of the asset's value in use and its fair value less costs to sell.

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 and fittings	– 20% on cost

Impairment
At each reporting date, the Group reviews the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest Group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with an indefinite useful life are tested for impairment at least annually and whenever there is an indication at the end of a reporting period that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than the carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease and to the extent that the impairment loss is greater than the related revaluation surplus, the excess impairment loss is recognised in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss to the extent that it eliminates the impairment loss which has been recognised for the asset in prior years.

Right-of-Use assets are tested for impairment annually whenever there is an indication at the end of the reporting period that the asset may be impaired.

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 with maturities of 3 months or less. 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.

Intercompany
Intercompany transactions are recorded at fair value on initial recognition and then amortised cost to enable recognition of any expected credit losses. Expected credit losses on intercompany balances are assessed at each balance sheet date. The Probability of Default (PD) and Loss Given Default (LGD) are determined for each loan based on the subsidiary's available funding and cash flow forecasts.

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

1. Accounting policies continued

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.

As detailed on Pages 94 to 97, the Group has applied IFRS 16 using the modified retrospective approach and therefore comparative information has not been restated. This means comparative information is still reported under IAS 17 and IFRIC 4.

Accounting policy applicable from 23 February 2019
The Group and Company as a lessee
For any new contracts entered into on or after 23 February 2019, the Group and Company considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Group and Company assesses whether the contract meets 3 key evaluations which are whether:
- The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group and Company.
- The Group and Company has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract.
- The Group and Company has the right to direct the use of the identified asset throughout the period of use.
- The Group and Company assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee
At lease commencement date, the Group and Company recognises a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group and Company, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Group depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group and Company also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group and Company measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Group's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property, plant and equipment and lease liabilities have been included in trade and other payables.

The Group as a lessor
The Group's accounting policy under IFRS 16 has not changed from the comparative period and the Group and Company held no arrangements as a lessor.

Accounting policy applicable before 23 February 2019
The Group and Company as a lessee
Finance leases
The Group and Company did not hold any arrangements classified as finance leases during the comparative period.

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

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

Leasehold
Costs incurred in refurbishing or fitting out leasehold properties are capitalised and depreciated over the length of the relevant lease. At period end these assets had a £nil carrying value having been fully depreciated 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 3 equity-settled share-based compensation schemes for Directors and 3 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 income and costs are recognised in the income statement in the period they are incurred. Exceptional items for the year ended 29 February 2020 comprises the release of the deferred consideration for U Holdings £2,335,000 (2019: £nil).

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

1. Accounting policies continued

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

The accounting policies of the reportable segments are consistent with the accounting policies of the Group as a whole. Segment profit represents the profit earned by each segment. This is the measure of profit that is reported to the Board of Directors for the purpose of resource allocation and the assessment of segment performance.

When assessing segment performance and considering the allocation of resources, the Board of Directors review information about segment assets and liabilities. For this purpose, all assets and liabilities are allocated to reportable segments with the exception of intangible assets and current and deferred tax assets and liabilities.

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
In the process of applying the Group's accounting policies the directors have made a crucial judgement around the possible adverse impact of Covid-19 on the impairment of our closing loan book, that would have been foreseen at the year end. Having established a downside scenario the Directors had to consider the probability of this scenario becoming a reality based on what was known about Covid-19 as at 29 February 2020. This proved to be a difficult debate with much conflicting information available to the Directors at the time. After applying expert credit judgement on the implications of Covid-19, the directors determined that there was only a small probability of a major impact of Covid-19 and applied a probability weighing of 10%. This has the effect of recognising a small proportion of the total anticipated impact in relation to Covid-19 in the FY20 results, with the remainder of the impact being recorded in FY21, as highlighted in the PBSE note on Page 135.

Key sources of estimation uncertainty
Impairment
Under IFRS 9 an impairment provision is recognised for expected credit losses on financial assets measured at amortised cost based on expected future credit losses. At the reporting date £48.1m (2019: £42.5m) was recognised as an impairment provision against amounts receivable from customers.

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 2 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 5-year average of actual performance.

A key estimate within the impairment provision is the estimate of future cash collections. This is estimated based on a five-year average of actual performance. Based on past experience, actual cash collections could vary by up to 5% from this estimate. If estimated cash collections were 5% higher/lower than this estimate the impact on the impairment provision would be £11.0m (2019: £11.2m) higher/lower.

Another key estimate is the determination of whether there has been a significant increase in credit risk on financial assets since initial recognition which determines whether 12 month or lifetime expected credit losses are recognised. If lifetime expected credit losses were recognised on all assets this would result in an increase in expected credit losses of £0.5m (2019: £0.5m). The sensitivity is of a small magnitude due to the short-term nature of the products.

Covid-19
The group has run a number of scenarios to establish the impact of Covid-19. A probability weighting was given to each one, using economic research and actual events at the reporting date. These scenarios are detailed on Page 115. If the probability weighted outcomes for the Covid-19 scenarios were to vary by +/- 10 percentage points then the cash value would change by c.£10.4m and impairment provision by £6.2m. Changing the weighting on the upside or downside from 0 to 100% creates an impact of between £0 and £16.7m with the applied weighting generating an impact of £1.7m in the year to 29 Feb 2020.

Revenue recognition
Under IFRS 9 interest income is recognised by applying the EIR to the carrying value of a loan. The EIR is calculated at inception and represents the rate which exactly discounts the future contractual cash receipts from a loan to the amount of cash advanced under that loan.

If the expected life of the loan lengthens by 2 weeks, as has been seen under Covid-19 as detailed in Note 30, it is estimated that revenue would be approximately £0.8m (2019: £1.0m) lower. The maximum movement in the average life year on year for the last 5 years has been 2 weeks, therefore this is considered to be a reasonable basis for the sensitivity analysis performed.

Average lives are calculated over 5 years and are capped at term plus 9 weeks. In the prior year, the movement in average lives affected c.6.5% of live accounts, with a negligible financial impact. This sensitivity is based on a 1 week increase of the average life across all accounts. Given the current economic conditions, the level of payments is expected to fall, but this will be mitigated across the coming year by the anticipated economic recovery and the need for existing customers to obtain credit. Given that customer renewals are largely dependent on payment performance and that the loan book comprises c.86% of existing accounts, a 1 week sensitivity is deemed to be a reasonable measure.

Impairment of non-financial assets and goodwill
In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses a Weighted Average Cost of Capital (WACC) of 13% to discount them. The Compound Average Growth Rate (CAGR) for the first 3 years at Group level is 22% and every +/- 1% change in the CAGR results in a +/- £1.1m change to the Group cumulative discounted cash flow over the same period. Every +/- 1% change in the discount rate results in a +/- £2.1m change in the estimated recoverable amount. The terminal growth rate used in the calculation is 2% and every +/- 0.5% change in the terminal growth rate results in a +/- £1.1m. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate and future growth rates.

2. Staff costs

	Group		Company	
	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000	**53 weeks ended 29.2.20 £000**	52 weeks ended 23.2.19 £000
Wages and salaries	**22,519**	18,064	**16,772**	17,898
Social security costs	**2,589**	2,059	**2,026**	2,052
Other pension costs	**1,038**	579	**792**	577
Total staff costs	**26,146**	20,702	**19,590**	20,527
Redundancy costs	**933**	–	**734**	–
Total staff costs	**27,079**	20,702	**20,324**	20,527

Redundancy costs are a combination of post-acquisition integration costs and business as usual restructuring costs. The table above excludes the network of self-employed agents.

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

	Group		Company	
	53 weeks ended 29.2.20	52 weeks ended 23.2.19	**53 weeks ended 29.2.20**	52 weeks ended 23.2.19
Management	**201**	145	**164**	145
Clerical & field staff	**439**	364	**335**	364
	640	509	**499**	509

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

3. Exceptional (income)/costs

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Deferred consideration on acquisition	**(2,335)**	–
Total Exceptional (Income)	**(2,335)**	–

Exceptional income is made up of the release of Deferred Consideration in relation to the acquisition of U Holdings Limited, see Note 26.

4. Profit before taxation

The operating profit is stated after charging/(crediting):

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Depreciation – owned assets	**740**	475
Amortisation of intangibles	**3,135**	2,209
Depreciation of right-of-use assets	**1,696**	–
Impairment	**36,358**	26,169
Lease liability finance costs	**472**	–
Operating lease rentals – Motor vehicles	**339**	1,368
Operating lease rentals – Property	**710**	1,127

Directors' and key management personnel remuneration includes the following expenses:

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Short-term employee benefits	**979**	920
Post-employment benefits	**25**	24
Long-term benefits	**275**	371
Share-based payments	**134**	242
	1,413	1,557
The number of Directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**3**	2

Information regarding the highest paid Director is as follows:

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Emoluments	**570**	552
Pension contributions to money purchase schemes	**15**	9

The analysis of auditor's remuneration is as follows:

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	**410**	254
Total audit fees	**410**	254
Audit related assurance services	**30**	27
Corporate Finance services	**55**	92
Total non-audit fees	**85**	119

5. Segment reporting

IFRS 8 requires segment reporting to be determined by the internal financial and operational information reported to the chief operating decision maker. The Group's chief operating decision maker is deemed to be the ExCo whose primary responsibility is to support the CEO in managing the Group's day-to-day operations and trading performance. The Group's segments comprise Home Collected Credit (Morses Club) and Digital (Shelby Finance Limited and U Holdings Limited). The Group's operations are all located in the United Kingdom and all revenue is attributable to customers in the United Kingdom.

	Revenue		Profit/(loss) before taxation	
Group	**53 weeks ended 29.2.20 £000**	52 weeks ended 23.2.19 £000	**53 weeks ended 29.2.20 £000**	52 weeks ended 23.2.19 £000
Home Collected Credit	**119,269**	116,645	**22,940**	22,904
Digital	**14,382**	361	**(11,225)**	(478)
Total Group before amortisation of acquisition intangibles and exceptional items	**133,651**	117,006	**11,715**	22,426
Intra-Group elimination	**–**	–	**750**	–
Group acquisition costs	**–**	–	**(213)**	–
Amortisation of acquisition intangibles	**–**	–	**(3,136)**	(2,209)
Exceptional items	**–**	–	**2,335**	–
Total Group	**133,651**	117,006	**11,451**	20,217

	Segment assets		Segment liabilities		Net assets/(liabilities)	
Group	**29.2.20 £000**	23.2.19 £000	**29.2.20 £000**	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Home Collected Credit	**124,462**	97,243	**(42,543)**	(24,190)	**81,919**	73,053
Digital	**21,145**	535	**(22,691)**	(510)	**(1,546)**	25
Total before intra-Group elimination	**145,607**	97,778	**(65,234)**	(24,700)	**80,373**	73,078
Eliminations*	**(11,103)**	(2,927)	**1,386**	828	**(9,717)**	(2,099)
Intra-Group elimination	**(20,448)**	(485)	**20,448**	485	**–**	–
Total Group	**114,056**	94,366	**(43,400)**	(23,387)	**70,656**	70,979

* Group assets includes fixed asset investment of £11,011,000 (2019: £2,861,000), a tax asset of £72,000 (2019: £247,000) which are offset by intangible assets on acquisition £380,000 (2019: £817,000), goodwill on acquisition £192,000 (2019: £192,000) and inter-company provision £750,000 (2019: nil) which are not attributable to a specific segment.

	Capital expenditure		Depreciation		Amortisation	
Group	**29.2.20 £000**	23.2.19 £000	**29.2.20 £000**	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Home Collected Credit	**2,586**	2,898	**257**	475	**2,186**	699
Digital	**2,872**	43	**483**	–	**950**	755
Total Group	**5,458**	2,941	**740**	475	**3,136**	1,454

6. Finance costs

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Lease liabilities	**472**	–
Other interest payable	**2,783**	1,745
Total interest payable	**3,255**	1,745

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

7. Taxation

Analysis of the tax charge
The tax charge on profit before tax for the period was as follows:

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Current tax:		
UK corporation tax	**1,866**	4,166
Adjustment in respect of prior years	**(3)**	114
Deferred tax on Acquisitions	**–**	(95)
Origination and temporary timing differences	**124**	(39)
Adjustment in respect of prior years	**1**	(104)
Effect of change of tax rates	**(14)**	–
Total deferred tax	**111**	(143)
Tax on profit on ordinary activities	**1,974**	4,042

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

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Profit before exceptional items	**9,116**	20,217
Exceptional items	**2,335**	–
Profit on ordinary activities before tax	**11,451**	20,217
Profit on ordinary activities before exceptional items multiplied by the standard rate of corporation tax	**2,176**	3,841
Effects of:		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2019: 19%)	**2,176**	3,841
Effects of:		
Expenses not deductible for tax purposes	**85**	123
Release of deferred consideration	**(290)**	–
Deferred Tax on Acquisitions taken to CT P&L	**–**	(95)
Effect of changes in tax rate	**(13)**	111
Movement in amounts not provided in deferred tax	**3**	53
Adjustment in respect of prior periods	**13**	9
Tax on profit on ordinary activities	**1,974**	4,042

The standard rate of corporation tax applicable for the period ended 29 February 2020 is 19% (2019: 19%).

8. Dividend per share

	53 weeks ended 29.2.20	52 weeks ended 23.2.19
Dividend (£000)	**10,162**	9,591
Weighted average number of shares (000s)	**130,531**	129,570
Per share amount (pence)	**7.78**	7.40

Subject to shareholder approval at the General Meeting on 7 January 2021, the Board proposes to pay a final dividend of 1.0 pence per Ordinary Share payable on 12 February 2021 to all shareholders on the register at the close of business on 15 January 2021.

9. Earnings per share

	53 weeks ended 29.2.20	52 weeks ended 23.2.19
Earnings (£000)	**9,477**	16,175
Number of shares		
Weighted average number of shares (000s)	**130,531**	129,570
Effect of dilutive potential Ordinary Shares through share options (000s)	**843**	1,977
Weighted average number of shares for the purposes of diluted earnings per share (000s)	**131,374**	131,547
Basic earnings per share amount (pence)	**7.26**	12.48
Diluted earnings per share amount (pence)	**7.21**	12.30

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.

10. Profit of Parent Company

As permitted by Section 408 of the Companies Act 2006, the profit and loss account of the Parent Company is not presented as part of these financial statements.

The Parent Company's profit for the financial period was £18,705,113 (2019: £17,253,045).

11. Goodwill

	Note	Group Goodwill £000	Company Goodwill £000
Cost			
At 24 February 2018		3,167	2,975
Additions 2018/19		667	667
At 23 February 2019		3,834	3,642
Additions 2019/20	**26**	9,496	–
At 29 February 2020		**13,330**	**3,642**
Impairment			
At 24 February 2018 and 23 February 2019		(333)	(333)
Impairment loss for the period		(16)	(16)
At 29 February 2020		**(349)**	**(349)**
Net Book Value			
At 29 February 2020		**12,981**	**3,293**
At 28 February 2019		3,501	3,309
At 25 February 2018		2,834	2,642

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

11. Goodwill continued

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 13% and an initial growth rate over the first 3 years of 22% followed by 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 3 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. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented. The impairment loss for the period of £16,632 arose due to the final settlements of the consideration for the Eccles and Hayes loan book acquisitions undertaken in the prior financial year.

The value of the goodwill arising on the acquisition of U Holdings Limited has been revised downwards by £180,574 due to a correction to the valuation of the acquired intangible, which was present at the point of acquisition and has been identified by management within a 12-month period from its acquisition.

The carrying amount of goodwill has been allocated to cash-generating units (see Note 5) as follows:

	53 weeks ended 29.2.20 £000	52 weeks ended 29.2.19 £000
HCC	**3,293**	3,309
Digital	**9,688**	192
	12,981	3,501

12. Other intangible assets

Group	Software & Licences £000	Customer Lists £000	Agent Networks £000	Totals £000
Cost				
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
Additions	3,897	380	–	4,277
At 29 February 2020	**12,761**	**21,621**	**874**	**35,256**
Accumulated Amortisation				
At 24 February 2018	3,041	18,740	768	22,549
Charge for the period	1,185	984	40	2,209
At 23 February 2019	4,226	19,724	808	24,758
Charge for the period	1,914	1,191	31	3,136
At 29 February 2020	**6,140**	**20,915**	**839**	**27,894**
Net Book Value				
At 29 February 2020	**6,621**	**706**	**35**	**7,362**
At 23 February 2019	4,638	1,517	66	6,221
At 24 February 2018	3,412	2,026	82	5,520

Company	Software & Licences £000	Customer Lists £000	Agent Networks £000	Totals £000
Cost				
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
Additions	2,511	–	–	2,511
At 29 February 2020	**11,198**	**3,689**	**154**	**15,041**
Accumulated Amortisation				
At 24 February 2018	3,017	2,668	108	5,793
Charge for the period	1,154	289	11	1,454
At 23 February 2019	4,171	2,957	119	7,247
Charge for the period	1,734	438	16	2,188
At 29 February 2020	**5,935**	**3,395**	**135**	**9,435**
Net Book Value				
At 29 February 2020	**5,293**	**294**	**19**	**5,606**
At 23 February 2019	4,516	732	35	5,283
At 24 February 2018	3,302	544	22	3,869

Research and development expenditure expensed during the year was £nil (2019: nil).

IAS 38.122 requires the Group to disclose the carrying value and remaining amortisation period of individually material intangible assets, the table below includes all intangible assets that are considered to be individually material as at 29 February 2020, at both Group and Company level. Intangibles from acquisition activities represent the estimated fair value arising on the point of acquisition. The amounts in respect of customer lists and broker relationships are calculated on the discounted cash flows associated with the specific business area and based on the realisation of the expected benefits from these relationships. These amounts are amortised over the maximum useful life of 10 years from the date of acquisition.

Significant Group intangible assets

Group

Intangible Assets	Carrying Value as at 29 February 2020 £000	Amortisation period Years
Morses Club acquired customer lists	**706**	10 years
Morses Club IT software development (CAP/MAP)	**5,293**	Various at 20%–33% PA
Shelby IT software development (Anchor/Sentinel)	**1,056**	Various at 20%–33% PA

Company

Intangible Assets	Carrying Value as at 29 February 2020 £000	Amortisation period Years
Morses Club acquired customer lists	**294**	10 years
Morses Club IT software development (CAP/MAP)	**5,293**	Various at 20% –33% PA

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

13. Property, plant & equipment

Group	Computers & Tablets £000	Fixtures & Fittings £000	Leasehold £000	Totals £000
Cost				
At 24 February 2018	2,422	168	3	2,593
Additions	31	–	–	31
At 23 February 2019	2,453	168	3	2,624
Additions	688	492	–	1,180
At 29 February 2020	**3,141**	**660**	**3**	**3,804**
Depreciation				
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
Charge for period	673	67	–	740
At 29 February 2020	**2,779**	**204**	**3**	**2,986**
Net Book Value				
At 29 February 2020	**362**	**456**	**–**	**818**
At 23 February 2019	347	31	–	378
At 24 February 2018	772	50	–	822

Company	Computers & Tablets £000	Fixtures & Fittings £000	Leasehold £000	Totals £000
Cost				
At 24 February 2018	2,014	157	–	2,171
Additions	31	–	–	31
At 23 February 2019	2,045	157	–	2,202
Additions	64	11	–	75
At 29 February 2020	**2,109**	**168**	**–**	**2,277**
Depreciation				
At 24 February 2018	1,242	107	–	1,349
Charge for period	456	19	–	475
At 23 February 2019	1,698	126	–	1,824
Charge for period	240	17	–	257
At 29 February 2020	**1,938**	**143**	**–**	**2,081**
Net Book Value				
At 29 February 2020	**171**	**25**	**–**	**196**
At 23 February 2019	347	31	–	378
At 24 February 2018	772	50	–	822

14. Investment in subsidiaries

	Company £000
Cost	
At 24 February 2018	2,611
Additions – Shelby share issue	250
At 23 February 2019	2,861
Additions – Shelby share issue	8,150
At 29 February 2020	**11,011**

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 (SFL), 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.

As the net assets of SFL are insufficient to cover the investment value, a review of the investment carrying value in Shelby and the exposure of intercompany loans has been performed using forecast future cash flows of the Digital business. As the discounted future cash flows equate to a multiple of the investment value with headroom of £3.7m no provision for impairment has been made.

Shopacheck Financial Services Limited qualifies for an exemption to audit under the requirements of Section 480 of the Companies Act 2006. Shelby Finance Limited and U Holdings 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.

15. Right-of-use assets

Group	Building £000	Equipment £000	Vehicles £000	Totals £000
Right-of-use assets				
At 24 February 2019	1,193	920	1,507	3,620
Additions	779	97	124	1,000
Disposals	(84)	(47)	(94)	(225)
At 29 February 2020	**1,888**	**970**	**1,537**	**4,395**
Accumulated depreciation				
Costs at 24 February 2020	–	–	–	–
Charged to the income statement	553	335	808	1,696
Disposals	(38)	(7)	(39)	(84)
At 29 February 2020	**515**	**328**	**769**	**1,612**
Net Book Value				
At 29 February 2020	**1,373**	**642**	**768**	**2,783**

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

15. Right-of-use assets continued

Company	Building £000	Equipment £000	Vehicles £000	Totals £000
Right-of-use assets				
Cost				
At 24 February 2019	1,193	920	1,507	3,620
Additions	52	97	124	273
Disposals	(84)	(47)	(94)	(225)
At 29 February 2020	**1,161**	**970**	**1,537**	**3,668**
Depreciation				
At 24 February 2019	–	–	–	–
Charged to the income statement	496	335	807	1,638
Disposals	(38)	(7)	(38)	(83)
At 29 February 2020	**458**	**328**	**769**	**1,555**
Net Book Value				
At 29 February 2020	**703**	**642**	**768**	**2,113**

16. Trade and other receivables

Amounts receivable from customers

	Group		Company	
	29.2.20 £000	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Amounts falling due within one year:				
Net receivable from advances to customers	**72,171**	72,840	**67,294**	72,819
Amounts falling due after one year:				
Net receivable from advances to customers	**657**	206	**586**	206
Net loan book	**72,828**	73,046	**67,880**	73,025
Other debtors	**1,718**	625	**1,167**	617
Intercompany funding	**–**	–	**19,698**	–
Prepayments	**3,039**	1,744	**1,795**	1,594
	77,585	75,415	**90,540**	75,236

Within the Company, an impairment provision of £0.8m (2019: nil) is held against amounts owed by Group undertakings due in less than 1 year. The Company has assessed the estimated credit losses representing the probability of default and loss given default for these intercompany loans by considering the forecast future cash flows of the Digital business, as a result of which, there has been a £0.8m charge to the Company income statement in 2020 (2019: nil).

Amounts receivable from customers

	Group		Company	
	29.2.20 £000	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Amounts receivable from customers	**72,828**	73,046	**67,880**	73,025
Analysis by future date due				
– due within one year	**72,171**	72,840	**67,294**	72,819
– due in more than one year	**657**	206	**586**	206
Amounts receivable from customers	**72,828**	73,046	**67,880**	73,025
Analysis by security				
Other loans not secured	**72,828**	73,046	**67,880**	73,025
Amounts receivable from customers	**72,828**	73,046	**67,880**	73,025

Impairment provisions are recognised on inception of a loan based on the expected 12-month losses or the lifetime losses of the loan. Further details can be found on Pages 98 to 99.

Covid-19

The Group ran a number of scenarios to establish the impact of Covid-19. The scenarios were based on the impact on trading activity and in particular, future cash flows as a result of, and a consequence of, the Covid-19 outbreak.

All of these scenarios would impact the level of additional loan loss provision required both in terms of expected credit losses and the discounting impact of delayed or late payments.

The table below shows the impact on cash collections under each scenario:

	Monthly Cash Reductions from 'normal' levels	
	Covid-19 Downside Case	Zero impact Base case
Mar-19	12.5%	0.0%
Apr-19	50.0%	0.0%
May-19	30.0%	0.0%
Jun-19	30.0%	0.0%
Jul-19	20.0%	0.0%
Aug-19	20.0%	0.0%
Sep-19	20.0%	0.0%
Oct-19	15.0%	0.0%
Nov-19	15.0%	0.0%
Dec-19	10.0%	0.0%
Jan-20	10.0%	0.0%
Feb-20	10.0%	0.0%
£m	16.7	–
Probability weighting	10.0%	90.0%
Probability Weighted Impact £m		1.7

The key area of uncertainty for Covid-19 is the extent to which collections in each month are impacted. The range of outcomes from the above table gives an impact of between £0 and £16.7m with the weightings in the table above generating an impact of £1.7m in the year to 29 Feb 2020; the impact on 2020/21 is likely to be greater, as demonstrated in the PBSE note.

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

16. Trade and other receivables continued

Covid-19 continued
At 29 February 2020 the amounts receivable from customers are as follows:

	Group		Company	
	29.2.20 £000	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Gross carrying amount	**120,946**	115,538	**112,773**	115,443
Impairment provision	**(48,118)**	(42,492)	**(44,893)**	(42,418)
Net Amounts Receivable	**72,828**	73,046	**67,880**	73,025

Amounts receivable from customers can be reconciled as follows:

Group	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2019/20 IFRS 9 Total £'000
Gross carrying amount					
At 23 February 2019		**58,305**	**35,190**	**22,041**	**115,536**
New financial assets originated	1	190,293	5	14	190,312
Net transfers and changes in credit risk:					–
From Stage 1 to Stage 2	2	(51,735)	51,735	–	–
From Stage 1 to Stage 3	2	(18,309)	–	18,309	–
From Stage 2 to Stage 1	2	2,031	(2,031)	–	–
From Stage 2 to Stage 3	2	–	(11,679)	11,679	–
From Stage 3 to Stage 1	2	51	–	(51)	–
From Stage 3 to Stage 2	2	–	1,849	(1,849)	–
Write-offs	3	(6,111)	(7,763)	(18,787)	(32,661)
Collections	4	(242,302)	(44,722)	(7,086)	(294,110)
Revenue	5	121,149	11,930	572	133,651
Other movements	6	6,974	88	1,156	8,218
At 29 February 2020		**60,345**	**34,602**	**25,999**	**120,946**
Loan loss provision account					
At 23 February 2019		**8,179**	**15,949**	**18,362**	**42,490**
Movements through income statement:					
New financial assets originated	7	31,747			31,747
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(19,497)	22,263	–	2,766
From Stage 1 to Stage 3	2	(11,160)	–	14,148	2,988
From Stage 2 to Stage 1	2	401	(447)	–	(46)
From Stage 2 to Stage 3	2	–	(9,826)	9,826	–
From Stage 3 to Stage 1	2	10	–	(11)	(1)
From Stage 3 to Stage 2	2	–	1,142	(1,142)	–
Remeasurements within existing stage	3	2,310	(5,025)	(51)	(2,766)
Covid-19 overlay	8	1,134	461	75	1,670
Total movements through income statement		**4,945**	**8,568**	**22,845**	**36,358**
Other movements:					
Write-offs	3	(6,111)	(7,763)	(18,787)	(32,661)
Other movements:	6	2,097	133	(299)	1,931
Loan loss provision account at 29 February 2020		**9,110**	**16,887**	**22,121**	**48,118**
Reported amounts receivable from customers at 29 February 2020		**51,235**	**17,715**	**3,878**	**72,828**
Reported amounts receivable from customers at 23 February 2019		50,126	19,241	3,679	73,046

* References above indicate what each line of the table demonstrates:

(1) New loans issued in the year
(2) Staging movements of new loans issued and existing debt brought forward
(3) Net write-offs per Stage
(4) Collections per Stage
(5) Revenue per Stage
(6) Other movements, including acquisitions
(7) Impairment provision associated with new loans issued in the year
(8) Covid-19 overlay

Group Credit Risk Grade	2019/20 Stage 1 £'000	 Stage 2 £'000	 Stage 3 £'000	 Total £'000
Very Good	39,037	13,770	10,861	63,668
Good	18,918	17,492	10,230	46,640
Satisfactory	1,924	2,586	1,426	5,936
Lower Quality	467	754	3,481	4,702
Total	**60,346**	**34,602**	**25,998**	**120,946**

Internal credit risk rating reflects the internal credit risk grade of customers at the year end. The table above illustrates the split of the gross carrying value at the year end by the latest customer credit scores at the time of issue. Customers are re-scored if they decide to renew.

17. Amounts falling due within 1 year

	Group **29.2.20** **£000**	 23.2.19 £000	Company **29.2.20** **£000**	 23.2.19 £000
Trade creditors	**6,331**	2,019	**2,887**	2,003
Amounts owed to Group undertakings	**–**	–	**1,321**	836
Social security and other taxes	**571**	501	**571**	501
Other creditors	**537**	1,445	**522**	1,445
Accrued expenses	**2,284**	3,061	**1,328**	3,044
Deferred consideration	**–**	456	**–**	456
	6,723	7,482	**6,629**	8,285

18. Bank and other borrowings: amounts falling due after 1 year

	Group and Company **29.2.20** **£000**	 23.2.19 £000
Bank loans	**34,000**	14,500
Unamortised arrangement fees	**(162)**	(425)
	33,838	14,075

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. No fees were incurred in relation to these transactions and prior arrangement fees continue to be amortised over the life of the arrangements.

In April 2020 an extension of the funding arrangement from August 2020 to the end of November 2021 was signed with the incumbent lender consortium. The facility limit was reduced from £55m committed to £40m to better match the needs of the business post Covid-19. By reducing this unused headroom and repaying the £5m mezzanine layer, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

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. The net carrying value of the loan book at the reporting date was £72,827,727 (2019: £73,046,148).

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

19. Leases

	Group 29.2.20 £000	Company 29.2.20 £000
Current	**1,286**	**1,228**
Non-current	**1,553**	**848**
	2,839	**2,076**

	Group	Company	Group	Company	Group	Company
	Other operating leases		Land & buildings		Total	
	29.2.20 £000	29.2.20 £000	29.2.20 £000	29.2.20 £000	29.2.20 £000	29.2.20 £000
Existing:						
Within one year	**909**	**909**	**377**	**319**	**1,286**	**1,228**
Between one and five years	**575**	**575**	**533**	**267**	**1,108**	**842**
In more than five years	**–**	**–**	**445**	**6**	**445**	**6**
	1,484	**1,484**	**1,355**	**592**	**2,839**	**2,076**

The total cash outflow from leases in the 53 weeks ended to 29 February 2020 amounted to £1,968,679 for the Group including short-term lease cash outflows of £68,440. At the end of the period, the Group is also committed to £11,001 for short-term leases. Total cash outflows for the Company amounted to £1,930,268.

20. Operating lease commitments

The following lease obligations fall outside of the scope of IFRS 16. The amounts committed to be paid under the terms of these lease agreements are as follows:

	Other operating leases		Land & buildings	
Group and Company	29.2.20 £000	23.2.19 £000	29.2.20 £000	23.2.19 £000
Existing:				
Within one year	**–**	1,127	**158**	424
Between one and five years	**–**	970	**45**	92
	–	2,097	**203**	516

Other operating lease commitments included in the comparative period amounts relate to the fleet of Company cars. As disclosed earlier in these financial statements, these amounts have subsequently been reclassified as finance leases under IFRS 16.

21. Deferred tax

	Group		Company	
	29.2.20 £000	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
Fixed asset temporary differences	**(165)**	126	**(165)**	126
Other temporary differences	**824**	832	**962**	971
Deferred tax asset	**659**	958	**797**	1,097

	Group £000	Company £000
Balance as at 23 February 2019	958	1,097
IFRS 16 adjustment	(32)	(32)
Accelerated Capital Allowances		
Deferred Tax charge in profit and loss account for period – CY	(95)	(46)
Deferred Tax charge in profit and loss account for period – PY	(30)	(5)
Deferred Tax rate change	10	5
Short-Term Timing Differences		
Deferred Tax charge in profit and loss account for period – CY	(59)	(59)
Deferred Tax charge in profit and loss account for period – PY	30	30
Deferred Tax rate change	(7)	(7)
Intangibles		
Arising on acquisition	(64)	–
Deferred Tax charge in profit and loss account for period – CY	214	84
Deferred Tax charge in profit and loss account for period – PY	–	–
Deferred Tax rate change	(9)	(9)
Share-based payments		
Deferred Tax charge in profit and loss account for period – CY	(184)	(184)
Deferred Tax charge in profit and loss account for period - PY	–	–
Deferred Tax rate change	19	19
Deferred Tax charge on Share-based payments	(96)	(96)
Recognised after intercompany transfer	4	–
Balance as at 29 February 2020	659	797

	Group £000	Company £000
Asset values for which deferred tax has not been recognised in relation to the Tax Written Down Value (TWDV) of intangible fixed assets which is not available to deduct against profits until the intangibles are realised	508	508
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	46	128
Total value of assets on which deferred tax has not been recognised	554	636

22. Called up share capital

Authorised, allotted, issued and fully paid:

Number:	Class:	Nominal Value:	**29.2.20 £000**	23.2.19 £000
129,500,000	Ordinary	£0.01	**1,295**	1,295
292,100	Ordinary	£0.01	**3**	3
1,452,400	Ordinary	£0.01	**14**	–
			1,312	1,298

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For the 53-week period ended 29 February 2020

23. Reserves

Group	Retained earnings £000	Total £000
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
Impact of adoption of IFRS 16	154	154
At 24 February 2019	69,835	69,835
Profit for the period	9,477	9,477
Deferred Tax on Acquisitions	39	39
Share-based payment charge	155	155
Dividends paid	(10,162)	(10,162)
At 29 February 2020	**69,344**	**69,344**

Company	Group reconstruction reserve £000	Retained earnings £000	Total £000
At 25 February 2018	(9,276)	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
Impact of adoption of IFRS 16	–	154	154
At 24 February 2019	(9,276)	79,864	70,588
Profit for the period	–	18,705	18,705
Share-based payment charge	–	155	155
Dividends paid	–	(10,162)	(10,162)
At 29 February 2020	**(9,276)**	**88,562**	**79,286**

24. 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 £1,012,918 (2019: £578,906) 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 £181,195 (2019: £102,920).

25. Ultimate Parent Company

The Directors consider there to be no ultimate Parent Company.

26. 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.

U Holdings Limited

As part of the Group's documented strategy of having a wide range of financial products available to its customers, on the 21 June 2019 Shelby Finance Limited (100% subsidiary of Morses Club PLC) acquired U Holdings Limited. The acquisition was carried out through the cash purchase of 100% of the shares of U Holdings Limited. The costs incurred in relation to this acquisition of £213,544 were expensed to the Income Statement through Administration expenses.

As per IFRS 3, a review was carried out to ensure the identification of assets and liabilities of U Holdings Limited is complete, and that measurements appropriately reflect consideration of all available information. A fair value exercise was performed and reflected in the financial statements. The valuation of assets and liabilities was performed under IFRS rules and the Company accounts consolidated into Group financial statements accordingly.

The value of the contingent consideration as stated per the agreement is subject to the future profit performance of U Holdings Limited and is capped at £5.0m. The value of the contingent consideration recognised at the date of acquisition is £2.78m. Management's current expectation is that the agreed financial targets will be met. However, in future if the entity is not performing as expected the value of contingent consideration will be reviewed if required.

Shelby Finance Limited is expected to provide a good level of synergy as the nature of both businesses is similar. In this respect goodwill is recognised and tested for impairment under IFRS. All financial information in regard to the major financial components is presented in the table below.

U Holdings Limited incurred a loss of £2,326,000 for the 8 months from 21 June 2019 to the hive-up date. U Holdings limited has been the subject of significant organisational review since acquisition and these losses were expected. The focus has been on the integration of the new business alongside existing operations and process alignment. Revenue for the 8 months up to the hive-up was £739,731. Loss for the entire financial reporting period (ie pre and post-acquisition) up to the hive-up date was £3,635,400 and the revenue was £1,161,366.

U Holdings Limited	Book value £000	Adjustments £000	Fair value £000
Non-current assets			
Intangible assets	2	377	379
Tangible fixed assets	126	–	126
Current assets			
Debtors	475	–	475
Total assets	603	377	980
Non-current liabilities			
Other creditors	(1,957)	1,195	(762)
Deferred tax	–	(64)	(64)
Total liabilities	(1,957)	1,131	(826)
Net assets	(1,354)	1,508	154

Goodwill arising on acquisition	£000
Consideration transferred settled in cash	6,742
Fair Value of contingent consideration	2,781
Less net assets acquired	(154)
Goodwill	9,369

The value of the goodwill arising on the acquisition of U Holdings Limited has been revised downwards by £180,574 since the interim reporting period. This revision was due to the identification of a larger intangible asset balance and has been done within the prescribed 12-month retrospective timeframe.

The contingent consideration was payable 5 years after acquisition based on various performance targets and although management still expects to achieve these targets the contingent consideration has been released as the individuals qualifying for this have left the business during the year, and forgone this additional remuneration. See Note 3.

Notes to the Consolidated Financial Statements continued
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26. Acquisitions continued

CURO Transatlantic Limited
On 26 February 2019 Shelby Finance Limited (a 100% subsidiary of Morses Club PLC) acquired the trade and assets of CURO Transatlantic Limited via a cash purchase. This acquisition is part of the Group's stated strategic priority to increase its online offering in response to a growing demand. The costs incurred in relation to this acquisition of £368,327 were expensed to the Income Statement in the period ending 23 February 2019 through Administration expenses. The valuation of goodwill was performed under IFRS 3. This resulted in a positive value (goodwill) which was calculated as the difference between consideration against the net assets acquired. This was due to the business being placed in administration immediately prior to acquisition resulting in a purchase at a lower market value than perhaps would ordinarily have been the case. The measurement of goodwill is complete and reflects consideration of all available information.

As per IFRS 3, a review was carried out to ensure the identification of assets and liabilities of CURO Transatlantic Limited was complete, and that measurements appropriately reflect consideration of all available information. A fair value exercise was performed and reflected in the financial statements. The valuation of assets and liabilities was performed under IFRS rules and the Company accounts consolidated into Group financial statements accordingly.

The acquired assets of CURO Transatlantic Limited generated revenue of £4,333,482 and incurred a loan book impairment charge of £180,338 for the 12 months from 26 February 2019 to the reporting date, primarily due to collections on the acquired loan book.

CURO Transatlantic Limited	Book value £000	Adjustments £000	Fair value £000
Non-current assets			
Tangible fixed assets	409	–	409
Current assets			
Debtors	7,615	–	7,615
Total assets	8,024	–	8,024
Non-current liabilities			
Onerous lease	(183)	–	(183)
Total liabilities	(183)	–	(183)
Net assets	7,841	–	7,841

Goodwill arising on acquisition	£000
Consideration transferred settled in cash	4,267
Fair Value of contingent consideration	3,701
Less net assets acquired	(7,841)
Goodwill	127

Upon acquisition, the gross contractual amounts receivable in respect of debtors were £21.5m, and a carrying value of £17.0m. The best estimate, based on a discounted cash recovery projection and using existing management data, resulted in an expectation that £9.6m of the contractual amounts would not be collected.

The contingent consideration in relation to CURO Transatlantic Limited was settled in full after acquisition and prior to the year end.

The bargain purchase recognised on the acquisition of CURO in the interim reporting period has been reversed and a goodwill balance of £127,000 has been recognised. This revision was due to an issue identified on transition to our operating systems and reduced the fair value of the loan book on acquisition. This has been done within the prescribed 12-month retrospective timeframe.

Subsequent to the acquisition of U Holdings Limited by Shelby Finance Limited, the trade and assets of U Holdings Limited were hived up into Shelby Finance Limited at the values detailed in the table shown overleaf. The difference between the consideration paid and the book value at hive-up has been taken to the reconstruction reserve within Shelby Finance Limited as it is convention for no gain or loss to arise on a hive-up of 2 subsidiaries under common control.

U Holdings Limited	£000
Non-current assets	
Intangible assets	537
Tangible fixed assets	10
	547
Current assets	
Debtors	625
Stock	3
Cash at bank	105
	733
Total assets	1,280
Current liabilities	
Other creditors	(2,142)
Total liabilities	(2,142)
Net assets	(862)

Acquisition Cash Flows	£000
U Holdings Limited	
Consideration transferred settled in cash	6,742
Overpayment held by solicitors	8
Consideration	6,750
Fair value of contingent consideration	2,781
Unwind of deferred consideration	344
Release of deferred consideration	(2,500)
Deferred consideration paid	625
CURO Transatlantic Limited	
Consideration transferred settled in cash	4,267
Consideration	4,267
Fair value of contingent consideration	3,701
Unwind of deferred consideration	165
Deferred consideration paid	3,866
Eccles	183
Hays	256
	439
Cash outflow	15,947

The operating profit from acquisitions disclosed in the Income Statement does not include an allocation of operating overheads.

27. 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 29 February 2020 the Company and Group's indebtedness amounted to £34m (2019: £14.5m).

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

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

27. Financial instruments continued

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 29 February 2020 is the carrying value of amounts receivable from customers of £72,827,727 (2019: £73,046,149).

The Company's maximum exposure to credit risk on amounts receivable from customers as at 29 February 2020 is the carrying value of amounts receivable from customers of £67,880,532 (2019: £73,024,841).

Home Collected Credit
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 22 and 53 weeks (2019: between 20 and 52 weeks), with an average value of approximately £355 (2019: £350). 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.

Write off is when a customer has made no payments on their account for 17 weeks and the account is transferred out of field operations to customer support.

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.

During the period, loans to the contractual value of £298,061,173 (2019: £300,865,544) were provided to customers.

Digital
The loans provided by Dot Dot Loans are only available online with applications coming directly through the website or via brokers; c.90% of new customer loans coming via broker applications.

Credit risk is managed using a combination of lending policy criteria, credit scoring (including behavioural scoring for returning customers), policy rules, full income and expenditure validation leading to individual lending approval limits. Only 7% of applications received are accepted through the lending rules. There is a central underwriting team who review applications with discrepancies, prior to funding, on approximately 25% of the loans.

The loans offered to customers are short term, typically a contractual period of between 3 months and 9 months (2019: between 3 and 6 months), with an average value of approximately £333 (2019: £285). Once a loan has been made, the customer makes monthly repayments.

The primary repayment method is via direct debit, however, repayments can also be made by a card payment or online transfer to the Company.

Write off is when a customer has made no payments on their account for 13 weeks and the account is transferred out of field operations to customer support.

Arrears management is a combination of central letters, central telephony, emails and SMS text messages. This will often involve a phone call to discuss the customer's reasons for non-payment and to agree a suitable resolution. Where customers cannot make the monthly repayments our Collections team may discuss an appropriate payment plan to help ensure the loan repayments are manageable for the customer. We do not charge missed payment or late fees. The Collections team are not paid commission on what they collect.

During the period, loans to the contractual value of £27,552,501 (2019: £790,415) were provided to customers.

(ii) Bank counterparties
The Group's maximum exposure to credit risk on bank counterparties as at 29 February 2020 was £11,868,037 (2019: £7,893,230).

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 £5m revolving asset-based credit facility and a separate £5m 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 1 year which results in a positive liquidity position.

Following the year end an extension to the funding arrangement from August 2020 to the end of November 2021 was signed with the incumbent lender consortium with the facility limit reduced from £55m committed to £40m to better match the needs of the business post Covid-19. By reducing this unused headroom and repaying the £5m mezzanine layer, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

Group At 29 February 2020	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	72,672	657	–	–	–	73,329
Other Assets	4,256	–	–	–	24,603	28,859
Cash at bank and in hand	11,868	–	–	–	–	11,868
Total assets	88,796	657	–	–	24,603	114,056
Shareholders' funds	–	–	–	–	(70,656)	(70,656)
Other liabilities	(8,009)	(35,391)	–	–	–	(43,400)
Total liabilities and shareholders' funds	(8,009)	(35,391)	–	–	(70,656)	(114,056)
Cumulative Position	80,787	46,053	46,053	46,053	–	–

Notes to the Consolidated Financial Statements continued

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27. Financial instruments continued

Liquidity risk continued

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	–	–

Company **At 29 February 2020**	**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	**67,794**	**586**	**–**	**–**	**–**	**68,380**
Other Assets	**22,159**	**–**	**–**	**–**	**23,017**	**45,176**
Cash at bank and in hand	**9,585**	**–**	**–**	**–**	**–**	**9,585**
Total assets	**99,538**	**586**	**–**	**–**	**23,017**	**123,141**
Shareholders' funds	**–**	**–**	**–**	**–**	**(80,598)**	**(80,598)**
Other liabilities	**(7,857)**	**(34,686)**	**–**	**–**	**–**	**(42,543)**
Total liabilities and shareholders' funds	**(7,857)**	**(34,686)**	**–**	**–**	**(80,598)**	**(123,141)**
Cumulative Position	**91,681**	**57,581**	**57,581**	**57,581**	**–**	**–**

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	–	–

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 ensuring these adhere to the criteria set out in the external loan facility.

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.

While the Group was not previously subject to any externally imposed capital requirements, it entered into a new funding arrangement during the period which limited capital expenditure in any given period. The limit of this expenditure is £5m.

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 29 February 2020 was:

	29.2.20 £000	23.2.19 £000
Gross Debt	**34,000**	14,500
Equity	**70,656**	70,979
Gearing	**0.48**	0.20

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 29 February 2020.

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

Fair values of financial assets and liabilities

The Group has adopted the following fair value hierarchy in relation to its financial instruments that are carried in the balance sheet at the fair values at the year end:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – inputs, other than quoted prices included within Level 1, that are observable for the asset or liability either directly (as prices) or indirectly (derived from prices); and
- Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair values of amounts receivable from customers, bank loans and overdrafts and other assets and liabilities are considered to be 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 (ie without modification or repackaging) and based on available observable market data. The fair value hierarchy is derived in accordance with IFRS 13 as follows: Level 1 for cash, Level 2 for borrowings and Level 3 for loan book, normal trade receivables, other payables and lease liabilities.

The following table sets out the carrying value of the Group's financial assets and liabilities in accordance with the categories of financial instruments:

Group At 29 February 2020	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	11,868	–	–	11,868
Amounts receivable from customers	72,828	–	–	72,828
Trade and other receivables	4,757	–	–	4,757
Property, plant and equipment	–	–	818	818
Right-of-use asset	–	–	2,783	2,783
Goodwill	–	–	12,981	12,981
Deferred tax assets	–	–	659	659
Other Intangible assets	–	–	7,362	7,362
Total assets	**89,453**	**–**	**24,603**	**114,056**
Liabilities:				
Bank and other borrowings	–	(33,838)	–	(33,838)
Trade and other payables	–	(6,723)	–	(6,723)
Lease liabilities	–	(2,839)	–	(2,839)
Total Liabilities	**–**	**(43,400)**	**–**	**(43,400)**

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

27. Financial instruments continued

Fair values of financial assets and liabilities continued

Company At 29 February 2020	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	9,585	–	–	9,585
Amounts receivable from customers	67,880	–	–	67,880
Trade and other receivables	22,660	–	–	22,660
Property, plant and equipment	–	–	196	196
Right-of-use asset	–	–	2,113	2,113
Goodwill	–	–	3,293	3,293
Investment in subsidiary	–	–	11,011	11,011
Deferred tax assets	–	–	797	797
Other Intangible assets	–	–	5,606	5,606
Total assets	100,125	–	23,016	123,141
Liabilities:				
Bank and other borrowings	–	(33,838)	–	(33,838)
Trade and other payables	–	(6,629)	–	(6,629)
Lease liabilities	–	(2,076)	–	(2,076)
Total Liabilities	–	(42,543)	–	(42,543)

Group At 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 At 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 assets	–	–	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)

The tables below show the fair value of financial assets and liabilities not presented at fair value in the balance sheet:

	29.2.20		23.2.19	
Group	**Fair Value £000**	**Book Value £000**	Fair Value £000	Book Value £000
Assets:				
Cash and cash equivalents	**11,868**	**11,868**	7,893	7,893
Amounts receivable from customers	**98,857**	**72,828**	110,818	73,046
Trade and other receivables	**4,757**	**4,757**	2,369	2,369
Total assets	**115,482**	**89,453**	121,080	83,308
Liabilities:				
Bank and other borrowings	**(34,000)**	**(33,838)**	(14,500)	(14,075)
Trade and other payables	**(6,723)**	**(6,723)**	(7,482)	(7,482)
Lease liabilities	**(2,839)**	**(2,839)**	–	–
Total liabilities	**(43,562)**	**(43,400)**	(21,982)	(21,557)

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

27. Financial instruments continued

Fair values of financial assets and liabilities continued

Company	29.2.20 Fair Value £000	29.2.20 Book Value £000	23.2.19 Fair Value £000	23.2.19 Book Value £000
Assets:				
Cash and cash equivalents	**9,585**	**9,585**	7,758	7,758
Amounts receivable from customers	**91,338**	**67,880**	110,792	73,025
Trade and other receivables	**22,660**	**22,660**	2,211	2,211
Total assets	**123,583**	**100,125**	120,761	82,994
Liabilities:				
Bank and other borrowings	**(34,000)**	**(33,838)**	(14,500)	(14,075)
Trade and other payables	**(6,629)**	**(6,629)**	(8,285)	(8,285)
Lease liabilities	**(2,076)**	**(2,076)**	–	–
Total liabilities	**(42,705)**	**(42,543)**	(22,786)	(22,360)

Key considerations in the calculation of fair values of those financial assets and liabilities not presented at fair value in the balance sheet are set out below. Where there is no significant difference between carrying value and fair value no additional information has been presented. Fair value of amounts receivable from customers has been derived by discounting expected future cash flows (net of collection costs) at the credit risk-adjusted discount rate at the balance sheet date. They are categorised within Level 3 as the expected future cash flows and discount rate are deemed to be significant unobservable inputs.

Group At 29 February 2020	Repayable 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	–	3,331	–	–	–	3,331
Tax liabilities	–	–	–	–	–	–
Accruals and deferred income	–	3,392	–	–	–	3,392
Bank loans	–	–	–	33,838	–	33,838
Lease liabilities	–	1,286	721	387	445	2,839
At 29 February 2020	**–**	**8,009**	**721**	**34,225**	**445**	**43,400**

Company At 29 February 2020	Repayable demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 1 years but not more than 2 years £000	More than 5 years £000	Total £000
Trade and other payables	–	2,887	–	–	–	2,887
Tax liabilities	–	–	–	–	–	–
Accruals and deferred income	–	3,742	–	–	–	3,742
Bank loans	–	–	–	33,838	–	33,838
Lease liabilities	–	1,228	671	170	7	2,076
At 23 February 2020	**–**	**7,857**	**671**	**34,008**	**7**	**42,543**

Group At 23 February 2019	Repayable 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

Company At 23 February 2019	Repayable 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

The table below summarises the movement in contingent consideration.

	Group		Company	
Contingent consideration	**29.2.20 £000**	23.2.19 £000	**29.2.20 £000**	23.2.19 £000
As at 23 February 2019	**–**	–	**–**	–
Contingent consideration arising on acquisitions	**6,482**	–	**–**	–
Unwind of discount on contingent consideration	**509**	–	**–**	–
Paid	**(4,491)**	–	**–**	–
Write-off	**(2,500)**	–	**–**	–
As at 29 February 2020	**–**	–	**–**	–

28. 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 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. During the period covered by this report, share options were issued as follows:

Grant date	Share options issued
5 May 2019	624,800
1 July 2019	73,200
22 July 2019	60,752
1 September 2019	34,700

The initial Awards granted to the Company's senior management team on Admission are subject to 3 performance conditions. The first of these conditions was measured over a period of 1 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.

28. Share-based payments continued

The Deferred Share Plan (DSP) - Senior Management Team continued

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 2 further performance conditions measured up to the end of the financial year ending February 2019 (ie the full 3-year performance period). In order for these Awards to vest, the Company will have to achieve the budgeted level of profit before tax for each of the financial years ending in February 2017, 2018 and 2019. The vesting of the initial Awards is also conditional on the Remuneration Committee determining that, over the period finishing at the end of the financial year ending in February 2019:

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

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

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

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

As of the balance sheet date, the estimated market value of each share option granted is £1.08 (2019: £1.56). This has resulted in a charge to the profit or loss account of £156,594 (2019: £632,544) 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	5 May 2019	1 July 2019	22 July 2019	1 Sept 2019
Expected volatility	26%	45%	30%	30%	31%	33%	35%
Expected term	1	1	1	1	0.83	0.75	0.67
Risk-free rate	0.34%	0.34%	0.34%	1.05%	0.88%	0.88%	0.88%
Dividend yield	0%	0%	0%	0%	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 23 February 2019	2,956,110	–
Awarded/granted	793,452	–
Lapsed	(1,444,719)	–
Exercised	(1,002,310)	–
Outstanding at 29 February 2020	**1,302,533**	**–**
Exercisable as at 29 February 2020	**–**	**–**

For the share options outstanding at 29 February 2020, the weighted average remaining contractual life is 8.1 years (2019: 8.2 years).

All options are expected to be equity settled.

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 £1.08 (2019: £1.56). This has resulted in a charge to the profit or loss account of £77,549 (2019: £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	5 December 2019
Expected volatility	40%	40%	36%
Expected term	1	1	1
Risk-free rate	0.75%	0.68%	0.98%
Dividend yield	4.75%	5.21%	6.14%

Expected volatility is calculated based on movements in the Company's share price in the 12 months preceding the grant date.

	Number	Weighted Average Exercise Price (£)
Outstanding at 23 February 2019	242,393	0.01
Awarded/granted	19,285	0.01
Lapsed	(15,881)	0.01
Outstanding at 29 February 2020	**245,797**	**0.01**
Exercisable as at 29 February 2020	**–**	**–**

For the share options outstanding at 29 February 2020, the weighted average remaining contractual life is 7.9 years. (2019: 8.7 years).

All options are expected to be equity settled. The estimated amount to be transferred to the tax authority to settle the employee's tax obligations is £502,042.

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 £1.08 (2019: £1.56). This has resulted in a charge to the profit or loss account of £100,375 (2019: £32,422) during the period.

	SIP	
Grant date	5 December 2018	5 December 2019
Expected volatility	41%	36%
Expected term	1	1
Risk-free rate	0.68%	0.98%
Dividend yield	0%	6.14%

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

Notes to the Consolidated Financial Statements continued

For the 53-week period ended 29 February 2020

28. Share-based payments continued

The Share Incentive Plan (SIP) – Employees continued

	Number	Weighted Average Exercise Price (£)
Outstanding at 23 February 2019	281,999	–
Awarded/granted	311,011	–
Lapsed	(38,037)	–
Outstanding at 29 February 2020	**554,973**	**–**
Exercisable as at 29 February 2020	**–**	**–**

For the share options outstanding at 29 February 2020, the weighted average remaining contractual life is 9.3 years (2019: 9.7 years).

All options are expected to be equity settled.

29. 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
53 Weeks ended 29 February 2020			
Hay Wain Holdings Limited	**–**	**–**	**–**
Hay Wain Group Limited	**(4,293)**	**–**	**–**
Shopacheck Financial Services Limited	**–**	**–**	**–**
Shelby Finance Limited	**–**	**–**	**–**
	(4,293)	**–**	**–**
52 Weeks ended 23 February 2019			
Hay Wain Holdings Limited	–	–	–
Hay Wain Group Limited	(3,412)	–	–
Shopacheck Financial Services Limited	–	–	–
Shelby Finance Limited	–	–	–
	(3,412)	–	–

At the period end the following balances were outstanding:

	29.2.20 £000	23.2.19 £000
Hay Wain Holdings Limited	**–**	–
Hay Wain Group Limited	**–**	–
Shopacheck Financial Services Limited	**(1,321)**	(1,321)
Shelby Finance Limited	**20,448**	486
Amounts owed from/(to) Related Parties	**19,127**	(835)

The amounts outstanding are unsecured and will be settled in cash. No guarantees have been given or received. No provisions have been made for doubtful debts in respect of the amounts owed by related parties.

30. Post balance sheet events

Since 29 February 2020 the impact of the Covid-19 pandemic has crystallised more fully than was known at the balance sheet date and has had adverse impacts across many business sectors including our own.

The first UK lockdown had a dramatic impact on the HCC business since 60% of repayments and 100% of new loans were made through face to face interactions with the customer. Both the HCC and Digital businesses were affected further by the rapid deterioration of a proportion of our customer base being able to make re-payments on their loans. Whilst many of our customer forbearance procedures already fell in line with new forbearance rules and guidelines issued by the FCA in early April 2020, these were now being required for a higher proportion of our customer base.

It was expected that the business would suffer in 3 ways as a result of Covid-19:
1. An increase in expected credit losses.
2. Reduced income from being able to forward flow non-paying debt to debt collection agencies.
3. Because revenue is fixed and is recognised over the expected contract life, deferred loan repayments lead to the same revenue having to be recognised over a longer period thus resulting in a reduction in revenue in the accounting period.

As at the signing date of these accounts we have a great deal of empirical evidence with which to assess the impact that Covid-19 has had on the business during the subsequent period.
1. For expected credit losses in HCC we have been able to compare actual debt write offs compared to the historical norms. This was calculated by looking at the actual write off in the first 26 weeks of FY21 of £16.0m and comparing it to last year's write off over the same period of £13.8m. Last year's number was adjusted down by reference to the relative loan book size in FY21 which is smaller than in FY20 to calculate the normal expected write off. With the Digital business we have less historical data but were able to look at the write off patterns of loan cohorts affected by the national lockdown in March and identify the abnormal level of write off. This was correlated with the write off in connection with customers that were reporting Covid-19 as the reason for their difficulty in making repayments.
2. At the year end we carried an asset of £752k for the likely future realisations from the onward sale of non-paying debt to debt collection agencies. Whilst we largely recovered the sum relating to Digital of £337k due to the sale of pre-Covid-19 debt, for HCC we have not been able to make any realisations and have no indication when we will be able to recommence the process. Since the onward value of a debt asset diminishes over time and we are still unable to sell it, we concluded that its value is impaired and should be valued at 35% of its year end value of £415k, resulting in a write down of £270k.
3. As expected, we have analysed customer behaviour post year end and seen the average loan repayment duration extend by up to 2 weeks leading to a loss of revenue. The full impact of this, were we to recognise it as a permanent behavioural shift, would be £822k.

The estimated impacts as at November 2020 are summarised in the table below (unaudited) (FY19: nil).

£000	FY20
Increased expected credit losses	5,810
Loss of forward flow income	270
Extended loan lives	822
Total	6,902
Less: IFRS9 provision recognised in FY20	(1,670)
Net post balance sheet event	5,232

On 28 April the Group renewed its funding facility with its existing lenders until the end of November 2021. The facility size was reduced from £50m to £40m as a result of the lower cash requirement in a post Covid-19 economy.

Following issues with its parent company (Wirecard AG), the services provided to the Group by Wirecard UK were suspended by the FCA on 26 June 2020 and reinstated on 29 June 2020. As a result of this action, customers of the Group's U Account banking service were unable to access their funds during this period. The Group is replacing Wirecard as a supplier by Modulr Finance Limited during November 2020.

The directors are aware of a contingent liability in connection with a claim against Shelby Finance Limited ("Shelby"). This relates to the acquisition of U Holdings Limited which in turn had acquired certain assets of Ffrees Family Finance Limited (in Administration) ("FFFL"). The Administrator of FFFL has asserted that the acquisition of U Holdings by Shelby Finance Limited has triggered an anti-embarrassment clause in their sale document of FFFL to Shelby, and that a further sum of £850k is due to them.

The directors do not believe that the administrators of FFFL have a valid claim since they are basing it on wording that does not appear in the sale document. However, in a preliminary hearing held in July 2020, the Master determined that the contract could be re-written, and that Shelby Finance should place the disputed sum of £850k into an escrow account. Shelby Finance has appealed this decision, their legal advisors believe there to have been a material error on the part of the Master and remain confident that the claim is baseless. However, given the Master's initial verdict, there is a chance of the liability arising and therefore a contingent liability has been disclosed.

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

ALTERNATIVE PERFORMANCE MEASURES

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

APM	Closest Statutory Measure	Definition and Purpose
Income Statement Measures		
Impairment as % of Revenue (%)	None	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business 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.
Gross Profit before Covid-19 adjustment	Gross Profit	Gross Profit per the Income statement adjusted for the Covid-19 overlay. This is used to provide a measure of gross profit before the impact of Covid-19.
Statutory Profit Before Tax before Covid-19 adjustment	Profit Before Tax	Profit Before Tax per the Income statement adjusted for the Covid-19 overlay. This is used to provide a measure of business performance before the impact of Covid-19.
Normalised Adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for the Covid-19 impairment, exceptional items, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional items, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Adjusted Profit Before Tax (underlying HCC)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional items, non-recurring costs and amortisation of goodwill and acquisition intangibles, Territory Build subsidies and losses of Digital CGU.
Normalised Earnings Per Share	Earnings Per Share	Normalised Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders.
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 profit before tax to Normalised Adjusted and Adjusted profit before tax and explanation of Normalised and Adjusted EPS

	FY20			FY19			
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total	Increase/ (Decrease)
Statutory Profit Before Tax	**21.2**	**(9.7)**	**11.5**	20.7	(0.5)	20.2	(8.7)
Covid-19 adjustments to impairment	**1.7**	**0.0**	**1.7**	0.0	0.0	0.0	1.7
Statutory Profit Before Tax before Covid-19 adjustment	**22.9**	**(9.7)**	**13.2**	20.7	(0.5)	20.2	(7.0)
Acquisition, restructuring and non-recurring costs	**0.9**	**2.6**	**3.5**	0.8	0.0	0.8	0.8
Exceptional gain[2]	**0.0**	**(2.3)**	**(2.3)**	0.0	0.0	0.0	0.0
Amortisation of acquisition intangibles[3]	**0.8**	**0.4**	**1.2**	1.0	0.0	1.0	1.0
Normalised Adjusted Profit Before Tax[1]	**24.5**	**(9.0)**	**15.5**	22.5	(0.5)	22.0	(6.5)
Covid-19 adjustment to impairment	**(1.7)**	**0.0**	**(1.7)**	–	–	–	(1.7)
Adjusted Profit Before Tax[1]	**22.8**	**(9.0)**	**13.8**	22.5	(0.5)	22.0	(8.2)
Tax on Adjusted Profit Before Tax	**(2.4)**	**(0.4)**	**(2.8)**	(4.5)	0.1	(4.4)	1.6
Adjusted Profit After Tax	**20.4**	**(9.4)**	**11.0**	18.0	(0.4)	17.6	(6.6)
Statutory EPS[1]			**7.3p**			12.5p	(5.2p)
Normalised EPS[1]			**9.5p**			13.6p	(4.2p)
Adjusted EPS[1]			**8.4p**			13.6p	(5.2p)
Statutory Return on Assets[1]	**27.5%**		**12.8%**			23.4%	
Normalised Return on Assets[1]	**31.1%**		**16.6%**			25.4%	
Adjusted Return on Assets[1]	**29.3%**		**14.8%**			25.4%	
Statutory Return on Equity[1]	**30.1%**		**17.2%**			27.2%	
Normalised Return on Equity[1]	**34.1%**		**22.3%**			29.6%	
Adjusted Return on Equity[1]	**32.1%**		**19.9%**			29.6%	

	53 weeks ended 29.2.20 £000	52 weeks ended 23.2.19 £000
Adjusted basic earnings per share		
Basic earnings	**9,477**	16,175
Amortisation of acquisition intangibles	**1,222**	1,025
Non-recurring (income)/costs	**2,822**	790
Tax effect of the above	**(1,180)**	(345)
Normalised adjusted earnings after tax	**12,341**	17,645
Covid-19 adjustment to impairment	**(1,669)**	–
Tax effect on the above	**317**	–
Adjusted earnings	**10,989**	17,645
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**130,531**	129,570
Normalised Adjusted earnings per share amount (pence)	**9.5p**	13.6p
Adjusted basic per share amount (pence)	**8.4p**	13.6p

1 Definitions are set out in the Glossary of Alternative Performance Measures on Pages 136 to 139
2 Release of contingent consideration in relation to the U Holdings Limited acquisition

Notes to the Consolidated Financial Statements continued
For the 53-week period ended 29 February 2020

APM	Closest Statutory Measure	Definition and Purpose
Balance sheet and returns measures		
Tangible Equity (£m)	Equity	Net Assets less intangible assets less acquisition intangibles.
Normalised Return on Equity (%)	None	Calculated as normalised 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 they are more representative of the underlying operations of the business.
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 they are more representative of the underlying operations of the business.
Normalised Return on Assets (%)	None	Calculated as normalised 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 they are 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 they are 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 FY20	IFRS 9 FY19
Normalised Adjusted Profit After Tax (Rolling 12 months)	**12.3**	17.6
Adjusted Profit After Tax (Rolling 12 months)	**11.0**	17.6
12-month average Net Loan Book	**74.3**	69.3
Normalised Adjusted Return on Assets	**16.62%**	25.40%
Adjusted Return on Assets	**14.80%**	25.40%
12-month average Equity	**55.3**	59.5
Normalised Adjusted Return on Equity	**22.33%**	29.60%
Adjusted Return on Equity	**19.88%**	29.60%

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.
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.

Morses Club PLC
Information for Shareholders

Financial Calendar 2021

7 January 2021	General Meeting
14 January 2021	Ex-dividend date
12 February 2021	FY 2020 final dividend paid
April/May 2021	2020/21 Year-end results announced
22 June 2021	Annual General Meeting
July 2021	Final dividend payable
October 2021	Half-year results announced

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