A transformative year

Annual Report & Accounts
2021

Introduction

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

Our purpose

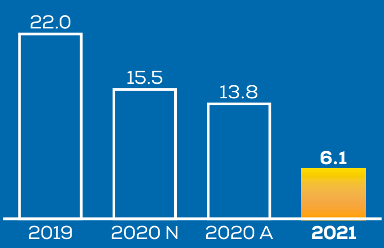
Helping to improve the financial lives of underserved and excluded individuals.

Our vision

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

Contents

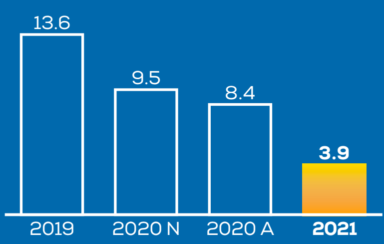
Adjusted Profit[1] *(Before Tax)*



£6.1m

-55.8%

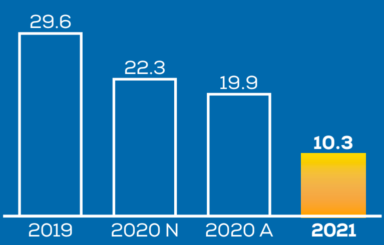
Adjusted Earnings *Per Share (p)*



3.9p

-53.6%

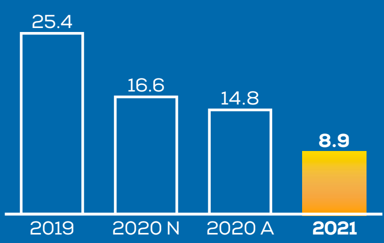
Adjusted Return[1] *On Equity (%)*



10.3%

-48.2%

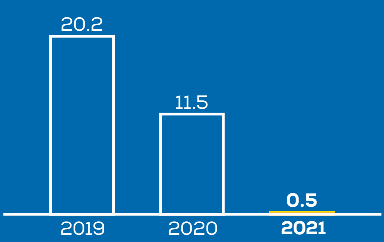
Adjusted Return[1] *On Assets (%)*



8.9%

-39.9%

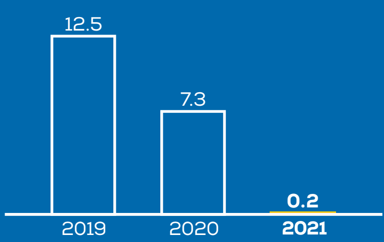
Reported Profit *(Before Tax)*



£0.5m

-95.7%

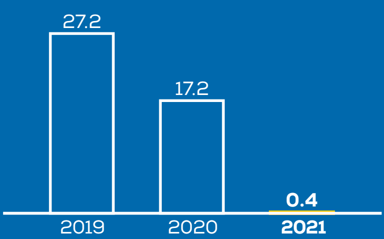
Basic Earnings *Per Share (p)*



0.2p

-97.3%

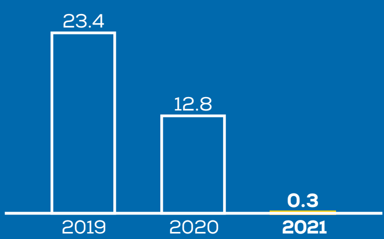
Return on Equity *(%)*



0.4%

-97.7%

Return on Assets *(%)*



0.3%

-97.7%

1 Definitions and reconciliations to the nearest statutory measure are set out in the Glossary of Alternative Performance Measures on Pages 138 to 141

Operational highlights

- Due to Covid-19, we had to reconfigure our operating model and existing technology to work remotely, allowing us to maintain customer contact and collection activity whilst generating new lending
- Development of fully online Customer Portal, with over 107,000 customers (FY20: 78,000)
- 19,000 Morses Club Card customers, with £10.3m in loan balances (FY20: 30,000 customers, £15.5m loan balances)
- 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
- Delivered further technology enhancements in our HCC business to provide a digital service to customers enabling a virtually paperless documentation process
- Moved our e-money current account services onto Modulr, and transferred all our digital credit products onto a new operating platform with Equiniti

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 asubstitute 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 138. For FY20 an additional measure of Normalised Adjusted PBT had been adopted to remove the impact of Covid-19 from the adjusted PBT figure. This was to illustrate the underlying performance prior to Covid-19 adjustments, 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 138 to 141. 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

Complementary divisions offering a range of credit and digital e-money current account products.

The Morses Club brand has a history dating back 130 years, with the current PLC Group having been established in May 2016.

We have two divisions offering distinct forms of non-standard finance, home collected credit and digital financial services. Within our two divisions we have three brands, which provide flexible, affordable and convenient access to credit for over 180,000 (FY20 255,000) customers in the UK.

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 mainstream 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 lending process to deliver cashless lending to new and 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. HCC products always consider an element of forbearance and this was temporarily extended during the pandemic in line with government guidelines.

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 through our network of 1,385 (FY20 1,695) self-employed agents.

98%

HCC CUSTOMER SATISFACTION[1]

151,000

HCC CUSTOMERS

1 Independently measured via Mustard research

Digital

We operate under two digital brands.

Dot Dot Simple online 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 two segments of the lending market: short-term 3-6 and 9-month duration loans serving customers who want to borrow £100-£1,000, and loans of £1,500-£5,000 for those customers who want to borrow more over a longer term of up to 48 months, with the upper limit for the latter increased from £4,000 due to customer demand.

U ACCOUNT

U Account is an e-money current account provider

U Account offers customers online current account services, based on two 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.

Customers are supported through any short-term difficulties. Digital products always consider an element of forbearance and this was temporarily extended during the pandemic in line with government guidelines.

23,000
ONLINE LENDING CUSTOMERS

6,000
E-MONEY CURRENT ACCOUNT CUSTOMERS

29,000
CUSTOMERS

Read more on page 14

Response to Covid-19

The Covid-19 pandemic radically changed the needs of our customers. In line with our purpose of helping to improve the financial lives of underserved and excluded individuals, we had to change too.

WORKING FROM HOME

We invested in a comprehensive review of equipment, hardware and furniture so that employees could work safely and productively from home. Employee wellbeing and engagement were prioritised as we all adapted to new and challenging circumstances.

OPERATING WITHOUT GOVERNMENT ASSISTANCE

Having analysed the furlough scheme and other support options, we made the decision not to seek any government assistance. We felt these schemes were not designed for a company like ours, and that we had the resources available to operate and progress without them.

FY21

Q1.

| FEB | MAR | APR

- All staff begin to work from home, following UK Government restrictions
- Investments made in hardware and equipment to make the transition as smooth as possible
- Decision taken not to use the furlough scheme or seek any government assistance
- Extension of our revolving credit facility to end of November 2021
- Launch of remote lending product for existing HCC customers

FY21

Q2.

| MAY | JUN | JUL

- Recommencement of lending to new HCC customers in July 2020
- Complete realignment of property strategy leading to operational exit from c. 90 field and support offices

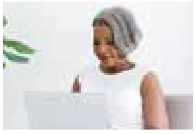
Doorstep to digital

We have transformed our business to enable it to function and thrive in a remote and digital setting. Leveraging our existing digital capabilities and investment, we re-engineered the business to make it fit for purpose for our customers now and in the future.

This required us to rewire almost every part of what we do, from changing the way our products and services were delivered and our working practices, to rethinking our property strategy and approach to communications. Throughout this rapid transformation, we have maintained high levels of customer satisfaction, strong employee engagement and continued to meet all regulatory requirements.

Our transformation in numbers

- **67%** of lending is now remote
- **80%** cash collections now made remotely
- **107,000** customers on the digital customer portal (78,000 at end of Feb 2020)
- From over 90 properties down to one, using flexible property options in the future



LAUNCHING NEW PRODUCTS

We required new remote lending products to meet our customers' needs. Leveraging our existing technology and expertise, we rapidly launched new ways to deliver our products and moved to new platforms that have enabled us to keep customers satisfied whilst moving us towards a more comprehensive financial services offering.

REDUCING OUR ESTATE

Our property strategy has changed and our estate footprint has been transformed. We've operationally exited c. 90 admin branches and offices in Leeds and Sheffield, leaving us with just one property, our contact centre in Nottingham.

FY21

Q3.

| AUG | SEP | OCT

- Launch of digital Refer-a-Friend scheme in September – c.6,000 customers had used it by year end
- Launch of new Loan Management platform, vital for next phase of digital strategy
- Transfer of U Account operating platform to Modulr
- Launch of improved mobile App for U Account

FY21

Q4.

| NOV | DEC | JAN

- Enabling of virtually paperless loan documentation process
- Amended approach to customer satisfaction to reflect updated processes
- Carried on with good customer outcomes survey – achieving 98% satisfaction for the year
- Continued to survey employees in order to develop a plan for flexible working going forwards
- Tracey Mulligan (HR and Communications Director) won the Transformation of the Year award at the Women In Credit Awards 2020
- Extension of our revolving credit facility to end of December 2021

Market Overview

Well positioned to take advantage of market opportunities.

Market drivers

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] due to an impaired or non-existent credit history.

Read more on page 14

Market trends

Non-Standard Credit Market expected to grow as supply contracts

In the last year, the impact of the pandemic has dramatically altered the markets we operate in. We have seen a large number of both HCC and digital lenders exit the market for various reasons, and there is now a much smaller number of competitors operating in both sectors.

Read more on page 16

The opportunity for Morses Club

Market trends support Morses Club's strategy

Read more on page 16

Fig 1 – Key

- Unemployed
- Underemployed*

Fig 2 – Key

- Logbook
- Rent-to-own
- Pawnbroking
- Guarantor
- Motor finance
- Instalment
- HCSTC
- Home credit

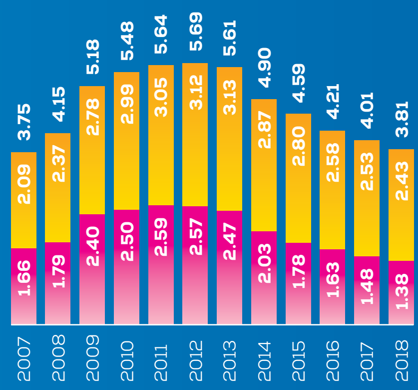
The effects of the pandemic are also likely to push more prime borrowers into the non-standard market, with around 2m people currently moving between standard and non-standard markets due to credit scores[2].

Unemployment has risen during the year, and large numbers of adults are also working part-time while looking for full-time employment, or are on zero-hour contracts. A proportion of the working age population – whether or not in work – are also reliant on benefits, which have been reduced as a result of government austerity policies since 2010. Insecure work and the resultant low or fluctuating income are driving the demand for non-prime lending.

2 million

MOVE BETWEEN STANDARD/ NON-STANDARD

Fig 1 – Unemployment and underemployment* (m)



The community of small, family-owned HCC businesses has been badly hit, with a reduction of companies in the sector from 400 to 262 during the year. Our customer engagement has shown us that there is strong appetite for our blend of face-to-face and digital service from our HCC customers.

This trend of digitalising HCC services is expected to remain post-pandemic and continue to grow. Our size within the HCC sector and response to Covid-19, gives us better economies of scale to address this market.

The long-term trends within the digital business centre on the emergence of digital challenger banks and the growing number of customers leaving the High Street for new alternatives.

262

HCC PROVIDERS

We see strong demand for our new and established products and services as we come out of lockdown. Our more integrated 'whole of customer' approach to offer selected products and services based on each customer's needs, will create opportunities from both existing and new customers.

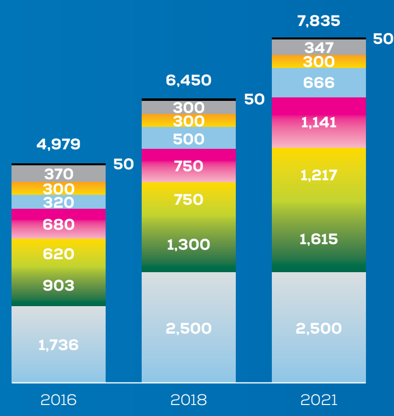
There is expected to be a pent-up demand for lending in the second half of 2021 and there are now far fewer competitors challenging us for that custom. We are strongly positioned to benefit from this reduced competition within the HCC industry, and to benefit from increasing demand in digital.

We see opportunities to attract new customers as they move away from the mainstream because we are distinguished from the majority of online disruptors through our focus on the non-prime sector and on the provision of credit.

10m

MARKET POTENTIAL

Fig 2 – Historical and forecast new lending by segment excluding credit cards (m)

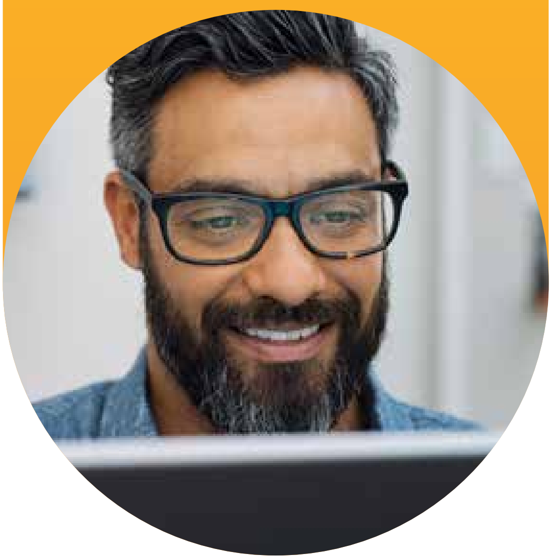


Sources
1. LEK UK Specialist lending market trends and outlook 2018
2. Company accounts, Apex insights analysis, FCA market statistics

Sources
Fig 1 ONS, OBR (Note: underemployed defined as workers who are employed but wish to work more hours)
Fig 2 Apex insight analysis

Investment Case

Our progress in 2021 has brought us closer to our vision of becoming a more complete financial services provider.



Established market position

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

180,000 customers across the UK

High levels of customer satisfaction and repeat business

Read more on page 16

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 26

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 16

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 16

Proven financial performance

Despite a 37.0% reduction in Credit Issued and a 26.5% reduction in the loan book due to lower demand during Covid-19, the Group was both profitable and cash-generative despite the headwinds that have affected the sector and wider economy.

Final dividend of **2.0p** per share

Read more on page 22

Strong executive team

Graeme Campbell appointed as Chief Financial Officer on 1 January 2021

An experienced and stable Executive team and Board, with relevant sector knowledge and complementary capabilities

Read more on page 41

Chairman's Statement

Our Annual Report 2021 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

It has been a year of great progress for Morses Club. The Covid-19 crisis presented entirely new challenges for the business and for our stakeholders, but by ramping up the digitalisation of our products and services, we have been able to keep doing what we do best: meeting the need for responsible lending across the UK.

Across the Group, we have truly risen to the occasion this year. The depth of capability and flexibility within our teams has been demonstrated by the rapid response to the changed needs of our customers. Developing and launching digital solutions that have enabled us to keep lending and maintain high levels of satisfaction in such a short space of time has been a remarkable achievement.

As well as demonstrating the soundness of our strategic direction towards digitalisation, I have been very pleased with the ability of the business to adapt to new circumstances and impressed by the teamwork, resilience and commitment our teams have displayed. The contribution of every single member of the Morses Club team has been exemplary, and I'd like to extend my personal thanks to all.

Environment, social and governance

Environmental, social and governance (ESG) matters remain high on the Board agenda, and this year we have made significant progress towards reducing our environmental impact. By changing our property strategy and dramatically reducing the number of offices we operate from, we have enabled a wide range of environmental benefits, including reduced emissions from travel, reduced energy use and becoming an almost paperless business.

Board changes

On 1 January 2021, Graeme Campbell was appointed CFO following approval by the FCA. Graeme brings a wealth of highly relevant sector and financial experience, along with broader digital and commercial skills, which will be invaluable to Morses Club as the company develops. On the same date, Andy Thomson returned to his role as Non-Executive Director.

During the year, Non-Executive Director Baroness Simone Finn stepped down from the Board due to the time commitments of her other roles. We thank her for her contributions during her time with us and wish her well.

Following the year end, Non-Executive Director Les Easson decided to retire from the Board. Les joined Morses Club as an agent in 1983 and rose quickly within the organisation to hold a number of management roles, latterly serving as Operations Director between 2012 and 2019, before joining the Board as a Non-Executive Director. I would like to extend my sincere gratitude to Les for his decades of service to Morses Club and his instrumental contribution to the Company's success.

I am delighted to confirm that we have appointed Sheryl Lawrence and Michael Yeates who will be joining the board with effect from 1 May 2021. Their breadth of experience and demonstrable fintech background will complement our accelerated shift into this area. Over time, we expect to grow the amount of fintech skills and experience on the Board to allow us to deliver on the business's core objectives.

Outlook

Despite the progress made across the country in recent months, we're not out of the woods on the pandemic yet and our top priority remains the safety and wellbeing of our customers, colleagues and agents. When life does return to normality, the transformation of our business means we will not be the same as we were before, but we will ensure we keep listening to our key stakeholders as we settle into new ways of working.

This year has proven that we are a flexible and resilient business, able to evolve and adapt to meet the requirements of our customers and the marketplace. Safe in that knowledge, we are optimistic about the demand for our products and services as the economy reopens and recovers throughout 2021 and beyond.

Chief Executive Officer's Review

A transformative year for the business.

Though FY21 was undoubtedly a year of many challenges, it is one we can look back on with an incredible amount of pride.

Paul Smith
Chief Executive Officer

We have delivered a resilient performance for our stakeholders and made significant progress towards becoming a more complete financial services provider.

The time and resources invested in developing our technology platforms in recent years have been instrumental to our successful response to the Covid-19 crisis. The swift transition to home working, including a fully operational virtual call centre system, and the speed with which we were able to restart lending to customers, were testament to our prior investment in digital. As a result, we find ourselves in a very promising position as the country begins to reopen.

In addition to the very high levels of customer satisfaction that we maintained, I feel immense pride in how adaptable and resilient our people have proven to be this year. The sheer doggedness of the whole team to react to our business having to change practically overnight and undertake the work required to produce such a strong performance has been nothing short of outstanding, and my thanks go out to everyone at Morses Club.

Performance

Despite the many positives from the year, Covid-19 has clearly impacted our performance, with customer numbers, credit issued and cash collected all down across the Group. This came as no surprise to us, with periods of lockdown meaning many consumers had little to no requirement for credit services.

Although we've lost customers, the collection percentage of our smaller base remained reasonably steady despite disruption towards the beginning of the pandemic, which is a real achievement and testament to the hard work of our people and systems. We also remain optimistic because we fully expect many customers to come back to us when the economy reopens.

Our successful response to Covid-19 has ensured the Group remains profitable, despite having to reconfigure our operating model and change the way we run our business. The value of new credit issued across the Group fell during the year as a consequence of reduced customer demand for our products during lockdown measures.

Despite the economy shutting down for long periods of the year, our HCC division continued to perform strongly and issued new credit of £109.7m (FY20 £174.2m), closing the year with total loan receivables of £48.0m (FY20 £67.9m). During the period our digital division grew its loan book and issued new credit of £19.3m (FY20 £16.1m), closing the year with loan receivables of £5.6m (FY20 £4.9m). As a consequence of lower demand during the year i n periods when the economy was closed, Group receivables fell from £72.8m in FY20 to £53.5m in FY21, our total number of customers also reduced to 180,000 (FY20: 255,000). Despite the challenges faced by the business, we continued to deliver excellent support and service to our customers, resulting in a 98% customer satisfaction score (FY20: 97%).

Chief Executive Officer's Review continued

HCC

In response to the evolving Covid-19 situation, the HCC division tightened its lending criteria as we deliberately limited our appetite for lending. We sought to identify only the highest quality customer groups, and this resulted in us solely lending to existing customers for a time, before we cautiously expanded our offering to new customers again. We ended the year with customer numbers and lower lending at levels similar to what we forecasted, but the effectiveness of our cautious approach was demonstrated in the final quarter of FY21 as we were able to achieve a cash collections performance matching the same period of FY20, an outstanding result given the market circumstances.

It has also been clear from customer satisfaction surveys that our HCC customers are very happy with our new blend of digital and face-to-face customer service. Though many still value the personal contact of our agents, a significant number have embraced the ease and flexibility provided by the customer portal, and we expect this trend to continue.

Digital

We also tightened our lending criteria within our digital business, however, we still received and approved more applicants, grew our customer base, issued more loans and even managed to improve our collection performance. We believe this excellent performance demonstrates that better decision making is happening as a direct result of the new systems, practices and procedures we have embedded with our new loan management platform, which is hugely encouraging.

Though we expected the digital business to perform well with its established customers, as 27% of our lending has been from existing customers, our ability to achieve growth despite the circumstances has been a real positive of FY21.

In addition, we also rebased our e-money current account services products onto a new platform which offers true banking-grade digital services to our customers and is now truly scalable. This has seen us develop our longer-term, lower cost and revolving credit products, which we plan to offer to our banking customers in Q1 FY22.

External market

Our markets have been radically changed by the pandemic. We see robust demand in the non-standard finance market as Covid-19 recedes and beyond, with a pent-up demand expected to emerge once lockdowns are completely lifted.

We are likely to benefit from reduced competition within the HCC industry. The community of approximately 400 locally-focused and family-owned businesses has sadly been greatly reduced this year to 262, and we would be surprised to see all of those businesses re-emerge in the near future. We also believe that, post-pandemic, our starting position is stronger than our national, quoted competitors, due to our successful changes to the way in which products are delivered and our risk appetite with regard to lending.

We are also strongly positioned to benefit from high demand in digital as a number of online lenders have exited the market and left us with far fewer competitors in that space.

Within the digital banking sector, there has been great interest as a growing number of customers migrate away from mainstream lenders to emerging digital banks. We see exciting opportunities for Morses Club to pick up customers as they move away from the mainstream, because the prevalent online disruptors are not focused on either the non-prime sector or on the provision of credit as an integral part of the banking relationship.

During the year, the Group has observed a noticeable increase in the level of complaints received from both Claims Management Companies (CMCs) and Customers. Whilst the increase in complaints is in line with sector-wide volumes, the number of complaints received by the Group is proportionately lower than other lenders in the sector. Many of the complaints received have been submitted by CMCs on behalf of customers, however, the Group is fully committed to reviewing every complaint and has provided sufficient resource to ensure each case is assessed individually and all customers are treated fairly.

Strategy

Our strategic response to the crisis has been focused on exploiting the re-engineering and digitalisation of the business that had been taking place for many years. Our steady evolution had to become a sudden shift, but our existing technology and expertise has enabled us to make good progress. Our new operating model is already lowering operating costs and increasing efficiencies, whilst still providing excellent levels of customer satisfaction, and good customer outcomes.

As we move beyond the pandemic, we are responding to an emerging desire from consumers for a wider range of products and services within the financial services sector. Our strategic pillars are focused on cross-selling our products and supporting all customers with a blend of our traditional, face-to-face DNA and what we believe to be our cutting-edge technology solutions. We believe we are well positioned to drive strong volume growth across both divisions going forwards.

People, culture and stakeholders

Throughout the pandemic, our priorities have remained the same: protecting all of our key stakeholders whilst ensuring we could continue to support our customers and maintain high levels of satisfaction. Our deep-rooted culture and values, a key strength of the business, have been central to our response, with customer centricity, honesty, clarity and flexibility all underpinning our approach to helping stakeholders.

The transition to home working has been almost seamless, and I'm proud to say that our people have responded extraordinarily well to the year's many challenges. Our early investments in hardware and equipment have made long-term home working easier and more comfortable for our teams, and this has been reflected in no demonstrable decline in productivity.

Looking forward, we see many benefits of a permanent flexible working model for certain parts of the business. This has allowed us to massively reduce our property estate, including a move of our registered office and the closure of all field-based offices, which will result in cost savings and environmental benefits.

Just as we have prioritised delivering for our customers during a difficult time, our customers have delivered for us. Covid-19 had an initial impact on repayment rates, but these have improved and are now back to pre-Covid-19 levels. Customers have been responsible and cooperative, with our work to build long-term relationships being rewarded. Maintaining these relationships and building new ones going forwards will likely require a new blend of face-to-face and digital service and engagement, but we will always be driven by satisfaction rates and what our customers tell us they want.

In terms of wider stakeholders, during the year we have increasingly moved away from our reliance on external technology suppliers. Bringing many of these facilities in-house will have many financial benefits going forwards, and we're grateful to our partners for their help in this transition.

Outlook

As the economy gradually reopens throughout the first half of 2021, our priorities remain the health, safety and wellbeing of our key stakeholders. Though we appreciate many people are keen to return to the office as soon as possible, we will remain cautious in our own unlocking. With large parts of the economy set to remain closed until at least June, we are also cautious about our results for the first half of FY22.

However, the UK economy is widely predicted to rapidly recover over the coming year, and driven by pent-up demand across both of our divisions and a greatly reduced competitive landscape, we are optimistic about achieving year-on-year growth in the second half of the year. Should the UK suffer a longer-term economic downturn as a result of either the pandemic or Brexit or both, our sector has proven resilient in the past and we would remain confident in steady customer demand.

Overall, there are many reasons to be excited about our future growth prospects. Our HCC customer base should recover and expand as a result of welcoming customers back and welcoming new customers from competitors that no longer exist. Increased cross-selling will introduce existing HCC customers to a broader range of digital products, which will drive performance and satisfaction improvements for both divisions. In our digital division, volume growth and profitability will be delivered through attracting a wide range of new customers.

Taking full advantage of these opportunities will provide the bedrock for delivering attractive growth in the coming years once the pandemic has fully receded.

Paul Smith
Chief Executive Officer
13 May 2021

180,000
CUSTOMERS ACROSS THE UK

98%
CUSTOMER SATISFACTION

FINAL DIVIDEND OF
2.0p
PER SHARE

Our Business Model

Our vision is to continue to grow as a leading provider of non-standard financial services in the UK. Covid-19 has enabled us to accelerate our digital transformation programme.

Our strengths

Technology

Extensive investment in digital capabilities and services as part of our digital transformation programme.

People and culture

Experienced team of c. 560 employees and 1,385 self-employed, home-based agents – with the customer at the heart of what they do.

Scale

Economies of scale from a nationwide customer base of c. 180,000.

Robust financial position

Cost-efficient capital from retained earnings, lending banks and investors.

Heritage and brand

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

Open communication with regulator

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

What we do

HCC – Our redesigned customer journey

Customers apply for a loan via our digital platform → Agent supports customer to fill out application → Customers are credit scored via our platform and given an initial decision on eligibility → If approved in principle, an agent contacts the customer to book an appointment remotely or face-to-face

67% OF HCC CUSTOMERS NOW USE REMOTE LENDING MODEL

Digital customer journeys

Customers apply for loans, e-money current account via digital platforms including app and website → Customers are credit scored via our platform and given an initial decision in eligibility → Extensive credit checks and risk assessments are carried out on affordability

How our new model creates long-term success

Our digital approach saves our agents time and improves efficiency. Agents receive a lower commission rate but can take on more customers while providing the same level of customer service, enabling us to grow our customer base. It also provides the opportunity for further growth through integration of our offerings and roll out of a broader range of products and services to fulfil our long-term objective of becoming a more complete financial services provider whilst still delivering good customer outcomes.

We have re-engineered our business model, redesigning our customer journey to embrace remote lending and collection while retaining our customer-led approach. This programme has also led to opportunities to launch new products and services to meet untapped customer demand.

Agent conducts extensive checks and risk assessments on affordability

Once authorised, collection process is confirmed and payment made into bank account or onto Morses Club card

Loan is repaid via digital platform on agreed terms. We provide support to customers in short-term difficulties

Customer develops creditworthiness over time which enables them to borrow again or access other products and services

Customer service teams are available to answer questions and help manage the process

If authorised, loan is paid into bank account or opened and prepaid card received

Accounts and loans are regularly monitored and potential issues flagged up

See page **18** for more on our strategy
See page **26** for more on our robust risk management
See page **44** for more on our governance

How we share value with our stakeholders

Our customers:

We offer affordable, convenient and fast access to credit, excellent customer service levels and the opportunity to access additional products and services.

98%
CUSTOMER SATISFACTION

Our agents:

The personal service our agents provide remains key. We offer flexible and rewarding, commission-based roles which can now be done largely remotely.

Our employees:

We have an open and collaborative culture with opportunities for development. Going forward we will offer a flexible working model focused on employee wellbeing which meets both operational and employee needs.

92%
EMPLOYEES HAPPY WORKING FROM HOME

Our investors:

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

3.9p
ADJUSTED EPS

Our Strategy

STRATEGIC PILLARS

We responded to the pandemic by accelerating our digitalisation strategy. Despite the transformation, our overall strategy remains the same.

Our strategic priorities have continued in line with our vision of becoming a more complete financial services provider. Focusing on these three pillars, supported by effective operational procedures and a robust financial position, will enable us to achieve our growth ambitions whilst still delivering for our stakeholders.

Our purpose DRIVES OUR **Strategic pillars** IN ORDER TO ACHIEVE **Our vision**

Transition HCC customers into a digitally-based service

Read more on page 16

Diversify into complementary products

Read more on page 16

Continue to work responsibly and ethically and in the interests of our customers' needs

Read more on page 32

STRATEGIC PRIORITIES	PROGRESS IN THE YEAR	KPIs
To offer HCC customers a pathway to our full range of financial products, focusing on what customers want, what they can benefit from and what they feel is appropriate. We will seek to reward good customers with longer-term and lower cost products to improve their financial wellbeing. **Within our digital division we want to see ambitious volume growth, enabled by the improvements we have made to our systems, practices and procedures during 2021.**	• Rapid acceleration in digitalising our HCC offering, moving many services from 'doorstep to digital'. • Launch of remote lending product to deliver cashless lending to new and existing HCC customers. • Majority of lending and collecting are now digital and remote, with strong growth in customers using the digital customer portal. • New blend of digital and face-to-face customer service.	**107k** HCC CUSTOMERS USING PORTAL
There is a proven demand for additional products in a large and underserved market. We will leverage the skills and experience within the business to launch new products and services that appeal to a broader customer base. **We continue to seek to make selected acquisitions in the non-standard finance markets.**	• Launch of Loan Management platform. • E-money current account services products moved onto a new more scalable platform. • Development of new longer-term, lower cost and revolving credit products, which we will offer to our banking customers in Q1 FY22.	**29k** CUSTOMERS IN DIGITAL DIVISION
We remain committed to doing the right thing for our internal and external stakeholders. **Our size enables us to be agile and flexible, being driven by the changing needs of customers and colleagues whilst acting in a professional and sustainable way. Safety and wellbeing have both been key priorities throughout the year.** **We maintain a proactive and positive relationship with the regulator, maintaining regular communication.**	• Ongoing investment in customer dialogue and feedback, evolving our approach in line with new processes. • Employees engaged four times during the year to check on wellbeing and productivity. • Engaged in comprehensive communications with our agents to support them through the pandemic. • Tracey Mulligan was the winner of the Transformation of the Year award at the Women In Credit Awards 2020.	

Our Strategy in Action

Every time I have put in an application form everything has been fine, the agent has been brilliant and they are friendly. I just cannot put it in to words and the service has been excellent.

Meeting customer needs

To ensure both existing and new customers could continue to access the products they needed, we immediately changed our service model. The new products we developed enabled us to quickly deliver vital cashless lending to customers.

We maintained close contact with our customers through a range of channels, and the digital customer portal allowed us to move processes and support online and deliver a remote and paperless service to many customers for the first time.

The rapid digitalisation of our lending, communications and customer service was the result of internal integration and cross-function collaboration, enabled by our Group-wide culture of support and teamwork.

Flexible future

Three businesses working as one organisation

During the year we set up a Group-wide project to continue re-engineering the business to support digital transformation, and to align and streamline all of our employee processes. Due to the Group being the result of combining three businesses, we have historically had disparate approaches to HR, recruitment and inductions, learning and development, communications and engagement, as well as general ways of working. We took the opportunity during lockdown to assess and correct this issue, using employee engagement surveys to understand what our teams wanted.

Read more on page 39

98%

CUSTOMER SATISFACTION

23,000

ONLINE LENDING CUSTOMERS

Financial Review

The Group delivered an encouraging financial performance in FY21, overcoming the many challenges presented by Covid-19 to remain profitable whilst transforming our operating model.

Graeme Campbell
Chief Financial Officer

Overview

The results for the Group for the 52 weeks ended 27 February 2021 reflect an encouraging financial performance, overcoming the many challenges presented by Covid-19 to remain profitable while transforming our operating model.

Though the closed economy has lowered demand for our services and caused our customer base and the loan book to shrink, our underlying debt and collection performance has been very strong and we have trimmed costs to mitigate the impact as much as possible. We also decided not to take any government support or furlough any staff.

On a personal level, I'm delighted to have joined the Group and have been very impressed by the progress achieved during the year. We are well placed to grow both sides of the business as the economy reopens and customer demand returns.

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

	FY21			FY20		
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Statutory Profit Before Tax	**11.8**	**(11.3)**	**0.5**	**21.2**	**(9.7)**	**11.5**
Covid-19 adjustment to impairment	–	–	–	1.7	–	1.7
Statutory Profit Before Tax before Covid-19 adjustment	**11.8**	**(11.3)**	**0.5**	**22.9**	**(9.7)**	**13.2**
Acquisition, restructuring and non-recurring costs	2.9	2.4	5.3	0.9	2.6	3.5
Exceptional (gain)[2]	–	–	–	–	(2.3)	(2.3)
Amortisation of acquisition intangibles[3]	0.3	–	0.3	0.8	0.4	1.2
Gains arising on acquisition	–	–	–	–	–	–
Normalised Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**24.5**	**(9.0)**	**15.5**
Covid-19 adjustment to impairment	–	–	–	(1.7)	–	(1.7)
Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**22.8**	**(9.0)**	**13.8**
Tax on Adjusted Profit Before Tax	(0.8)	(0.2)	(1.0)	(2.4)	(0.4)	(2.8)
Adjusted Profit After Tax	**14.2**	**(9.1)**	**5.1**	**20.4**	**(9.4)**	**11.0**
Statutory EPS[1]			**0.2p**			**7.3p**
Normalised EPS[1]			**3.9p**			**9.5p**
Adjusted EPS[1]			**3.9p**			**8.4p**
Statutory Return on Assets[1]	22.0%		**0.3%**	27.5%		**12.8%**
Normalised Return on Assets[1]	27.2%		**8.9%**	31.1%		**16.6%**
Adjusted Return on Assets[1]	27.2%		**8.9%**	29.3%		**14.8%**
Statutory Return on Equity[1]	18.5%		**0.4%**	30.1%		**17.2%**
Normalised Return on Equity[1]	22.8%		**10.3%**	34.1%		**22.3%**
Adjusted Return on Equity[1]	22.8%		**10.3%**	32.1%		**19.9%**

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 138 to 141
2 Release of contingent consideration in relation to the U Holdings Limited acquisition
3 Amortisation of acquired customer lists and agent networks

In FY21 we achieved an adjusted profit before tax[1] of £6.1m (FY20: £13.8m). Statutory profit before tax was £0.5m (FY20: £11.5m).

As expected, Covid-19 impacted demand within HCC with closing customers down by a third to 151,000 (FY20: 221,000) and period-end receivables decreasing by 29.3% to £48.0m (FY20: £67.9m). This resulted in adjusted profit before tax of £15.0m (FY20: £22.8m).

As with HCC, the Digital division was impacted by reduced demand due to lockdown measures and a tightening of lending criteria. Closing customers reduced by (14.7%) to 29,000 (FY20: 34,000) and revenue declined (4.2%) to £13.8m (FY20: £14.4m). This resulted in an adjusted loss before tax of (£8.9m), compared to FY20 (£9.0m).

Total equity for the Group remained unchanged from £70.7m in FY20 to £70.7m.

Financial Review continued

Trading summary

£'m (unless otherwise stated)	52-week period ended 27 February 2021 HCC	Digital	Total	53-week period ended 29 February 2020 HCC	Digital	Total
Customer numbers ('000s)	**151**	**29**	**180**	221	34	255
Credit issued	**109.7**	**19.3**	**129.0**	174.2	16.1	190.3
Period end receivables	**48.0**	**5.5**	**53.5**	67.9	4.9	72.8
Average receivables	**52.3**	**5.2**	**57.5**	69.3	5.0	74.3
Revenue	**86.4**	**13.8**	**100.2**	119.3	14.4	133.7
Impairment	**(13.2)**	**(7.6)**	**(20.8)**	(27.6)	(7.1)	(34.7)
Agent Commission & Other cost of sales	**(20.0)**	**(0.6)**	**(20.7)**	(27.0)	(0.6)	(27.6)
Gross Profit	**53.2**	**5.6**	**58.8**	64.7	6.6	71.3
Administration expenses (pre-exceptional)	**(33.8)**	**(12.2)**	**(46.0)**	(34.4)	(13.8)	(48.2)
Depreciation	**(3.6)**	**(0.7)**	**(4.3)**	(3.6)	(0.7)	(4.3)
Operating Profit before exceptional items and amortisation of acquisition intangibles	**15.8**	**(7.3)**	**8.5**	26.7	(7.9)	18.8
Amortisation of acquisition intangibles	**(0.3)**	**–**	**(0.3)**	(0.8)	(0.4)	(1.2)
Acquisition, restructuring and non-recurring costs	**(2.9)**	**(2.4)**	**(5.3)**	(0.9)	(2.6)	(3.5)
Covid-19 adjustment to impairment	**–**	**–**	**–**	(1.7)	–	(1.7)
Exceptional gain	**–**	**–**	**–**	–	2.3	2.3
Operating profit	**12.5**	**(9.7)**	**2.8**	23.2	(8.5)	14.7
Funding costs	**(0.7)**	**(1.6)**	**(2.4)**	(2.1)	(1.1)	(3.3)
Statutory Profit Before Tax	**11.8**	**(11.3)**	**0.5**	21.2	(9.7)	11.5
Tax	**(0.3)**	**0.1**	**(0.2)**	(2.0)	0.1	(2.0)
Statutory Profit After Tax	**11.5**	**(11.2)**	**0.2**	19.2	(9.7)	9.5
Basic EPS			**0.2p**			7.3p

Group results

Credit issued to customers decreased by (32.2%) to £129.0m (FY20: £190.3m) mainly because of the Covid-19 impact on HCC business. HCC credit issued of £109.7m was a (37.0%) reduction on FY20 (FY20: £174.2m), reflecting both the reduced demand due to multiple national and regional Covid-19 lockdowns during the year and stricter lending criteria to protect the quality of the loan book. Credit issued in Digital was impacted by Covid-19 lockdowns and tighter lending criteria, but despite this, credit issued increased by 19.9% to £19.3m (FY20: £16.1m).

Revenue decreased by (25.1%) to £100.2m (FY20: £133.7m) due to the Covid-19 impact on demand and the temporary inability in HCC during H1 to lend to new customers. HCC revenue decreased by (27.6%) to £86.4m (FY20: £119.3m). Digital revenue decreased by (4.2%) to £13.8m (FY20: £14.4m) as a result of the collection of the acquired CURO Transatlantic Limited loan book inflating the numbers in FY20.

Gross profit decreased by (17.5%) to £58.8m (FY20: £71.3m). The gross profit percentage increased to 58.7% from FY20 53.3%. The HCC impairment charge as a percentage of revenue of 15.3% is below our guidance range of 21% to 26% of revenue. This is due to the favourable impact from a shrinking loan book under IFRS9, tighter lending criteria and the high proportion of lending to existing customers. The Digital impairment charge as a percentage of revenue of 55.1% is at the upper end of our guidance range of 45-55% of revenue.

HCC agent commission costs decreased by (25.9%) to £20.0m (FY20: £27m), while as a percentage of revenue they increased to 23.1% from 22.6% in FY20 as a result of the loan book reducing during Covid-19. Administration expenses and depreciation decreased by £2.2m to £50.3m (FY20: £52.5m), although as a percentage of revenue they increased to 50.2% (FY20: 39.3%). A provision of £2m (FY20 £nil) for customer redress and Financial Ombudsman (FOS) fees has been recognised in recognition of outstanding complaints at the end of the period. Due to significantly lower complaint volumes in FY20 a prior year provision was immaterial and therefore not recognised. In estimating the FY21 provision, management have incorporated historical company information for the average percentage of complaints which are upheld, the average value of compensation claims paid out and the number of outstanding complaints that remained unresolved at the balance sheet date.

Adjusted profit before tax decreased to £6.1m from £13.8m in FY20. HCC adjusted return on assets decreased from 29.3% in FY20 to 27.2% in FY21.

Acquisition, restructuring and non-recurring costs increased to £5.3m from £3.5m in FY20. These costs consist of a restructure within the HCC field team to align them to the new operating model, IT system transition costs and the settlement of the historic Ffrees court case which was disclosed in the FY20 accounts.

Funding costs of £2.4m were (£0.9m) lower than FY20 reflecting the lower level of borrowings throughout FY21.

The statutory profit before tax fell to £0.5m from £11.5m in FY20.

Earnings per share

The adjusted earnings per share for FY21 was 3.9p, a decrease of 53.6% relative to the adjusted earnings per share of 8.4p for FY20. The reported earnings per share for FY21 was 0.2p, a decrease of 97.3% relative to the reported earnings per share of 7.3p for FY20.

Dividend

Subject to shareholder approval at the Annual General Meeting on 22 June 2021, the Board proposes to pay a final dividend of 2.0p per Ordinary Share (FY20: 1.0p) payable on 30 July 2021 to shareholders on the register at the close of business on 2 July 2021.

The payment is in addition to the interim payment dividend already paid of 1.0p per Ordinary Share on 9 April 2021, making a total dividend for the year of 3.0p per Ordinary Share (FY20: 3.6p). This dividend payment reflects the Board's confidence in the Group's prospects.

Funding

During the period we extended our loan facility with the incumbent three lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.

As anticipated, the impact of Covid-19 resulted in reduced lending volumes, a smaller loan book and lower levels of borrowing. In FY21 borrowing peaked at £22.5m in December 2020 (December 2019: £40m of the £55m limit).

Balance sheet

The total equity for the Group is unchanged from £70.7m in FY20 to £70.7m. The Group's main asset is our loan book, which due to the Covid-19 impact on lending volumes decreased on a net basis by (26.5%) to £53.5m.

Summarised balance sheet £'m	FY21	FY20
Loan book	**53.5**	72.8
Goodwill	**12.9**	13.0
Bank borrowings	**(8.3)**	(33.8)
Cash at bank	**8.3**	11.9
Other net assets	**4.4**	6.8
Total equity	**70.7**	70.7

Cash flow

The simplified cash flow statement below illustrates the cash generated by the business. Cash from operating activities increased by 54.7% to £33.1m (FY20: £21.4m), with net borrowing decreasing by (£25.5m), as a result of the shrinking loan book.

Summarised cash flow £'m	FY21	FY20
Cash inflow from operating activities	**33.1**	21.4
Net borrowing (decrease)/increase	**(25.5)**	19.5
Net cash outflow from investing activities	**(6.4)**	(22.4)
Dividends paid	**(1.3)**	(10.2)
Other net cash flow movements	**3.5**	4.3
(Decrease)/Increase in cash and cash equivalents	**(3.6)**	4.0

Outlook

Due to much of the economy being closed for the majority of this financial year, we're yet to see the financial benefits of our HCC operating model transformation. There are economic uncertainties ahead, with the UK currently in the process of emerging from lockdown. We remain cautious about the first half of FY22, however, strong foundations have been laid and we're excited for what can be achieved in the future and confident in the growth opportunities that will be created by our new operating model.

The Digital division implemented two new IT platforms in the year to strengthen the existing loans management system and to create a robust banking proposition. The Digital division is now primed for growth and we are now focusing on scaling the business and achieving run-rate profitability by the end of FY22.

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 Interim 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 Interim 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 Interim Chair of the Audit Committee and is independent of the First and Second Lines of Defence. In addition, external accountants undertake a quarterly review on behalf of the Group's external lenders.

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.

We have adapted our lending and collection processes to allow completely remote transactions – ensuring all Government guidance relating to Covid-19 is followed. When lending remotely, we have minimised the risk of application fraud by making sure all customers are properly identified according to Anti-Money Laundering Regulations and Joint Money Laundering Steering Group Guidance. For additional security, the remote lending procedure requires customers to log into their own secure portal account, using unique customer credentials, in order to execute the loan and receive their funds.

The report of the Risk & Compliance Committee on pages 64 to 66 sets out the procedures used by the Board to manage the Group's risks.

1st LINE OF DEFENCE

Responsible for:
- Performance and monitoring of front-line control activities across the business
- Identifying and managing the risks arising in functional or business area

Ownership
- Field operations – divisional managers, regional managers, area managers and customer relationship managers
- Central operations
- Banking and finance

2nd LINE OF DEFENCE

Responsible for:
- The Group's central and independent risk management and compliance functions with responsibility for oversight, compliance monitoring and financial crime
- Support and challenge the business via control activities
- Independently review the effectiveness of frontline control activity

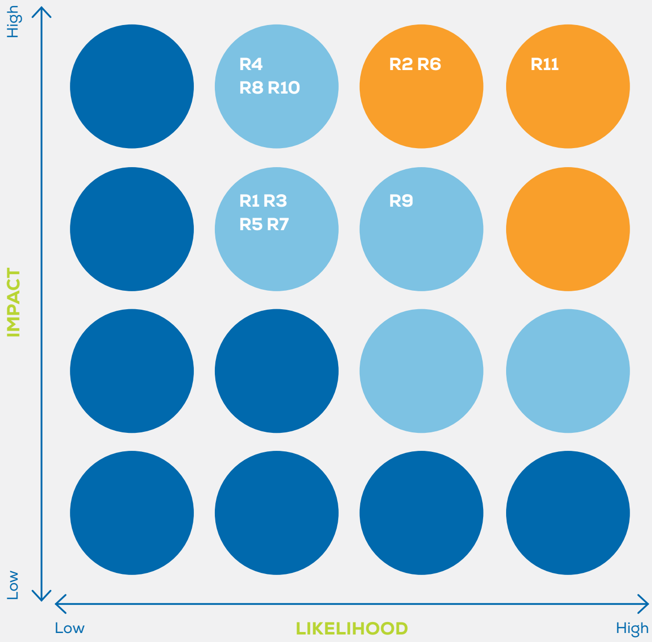
Ownership
- Risk and Compliance Director, reporting to: Chair of the Risk & Compliance Committee and the CEO
- Horizon scanning by senior personnel

3rd LINE OF DEFENCE

Responsible for:
- Independently assess and assure
- Internal control framework
- Risk management effectiveness

Ownership
- Head of Internal Audit, who reports to the Chair of the Audit Committee and is independent of the First and Second Lines of Defence
- External accountants undertake a quarterly audit on behalf of the Group's external lenders

Principal Risks and Uncertainties



Key

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

The principal risks faced by the business by risk category are as shown below and on pages 28 to 30.

↑ 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, in both the HCC and Digital divisions, 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. The Company has fully embedded the policies and procedures required by the Senior Managers and Certification Regime.	→
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. The business is continuing to review its lending approach in light of the FCA relending study and the Woolard Review that looked at change and innovation in the unsecured credit market. During the year, the Digital division appointed a new Head of Compliance, reporting to the Group's Risk & Compliance Director.	↑ The HCC sector has become under closer scrutiny from the FCA during the last 12 months.

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
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.	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 Committees of the HCC and Digital divisions. Covid-19 had an initial impact on repayment rates, but these have improved and are now back to pre-Covid-19 levels.	→
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 2020, 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.	→
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 two-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. We are involved in lobbying through our trade associations. During 2020, the Company put into place contingency plans to minimise the risks to the health and safety of our customers, 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	This risk can arise from concerted action by Claims Management Companies (CMCs) which 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. The Group has recognised a provision for the cost of fully settling complaints and FOS fees in relation to outstanding complaints at the balance sheet date.	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.	↑ Claims management companies are becoming more active in the financial services sector.

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, or 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 maintained, following the increase in cover negotiated 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 have been working from home. Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained. The Digital division has implemented a number of new systems during the year, including the implementation of a new Loan Management System. These have been subject to rigorous testing and project management.	→
R8	Liquidity Risk	The risk of the Company being unable to meet its current and future financial obligations on time.	During the period we extended our loan facility with the incumbent three lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.	→

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
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. During the year, the Group successfully completed its annual disaster recovery test, simulating a total loss of data centre and the successful failover of all production systems to the disaster recovery site. This covered both of the HCC and Digital divisions. 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, plus the increase in the volume of online business.
R10	Agents' self-employed status	The risk that employment and/ or tax legislation changes to such an extent that 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.	During FY21, the Group 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. The decision has been made to close both office facilities in Birstall, with the registered office being moved to Nottingham in April 2021. For further information see the viability statement on page 31.	→

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 sees risks change and develop rather than emerge. However, climate change can be seen as an emerging risk.

Emerging risk	Commentary
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 has been introduced to allow meetings to be conducted remotely. Both of these initiatives have dramatically reduced the need to travel. The Company's SECR report can be seen on page 78. This shows a very significant reduction in the intensity ratio, due to the reduction in travel and office costs. As part of our procurement procedures, we undertake a due diligence review of major suppliers, which includes standard aspects around modern slavery, any environmental policies, as part of ensuring that any outsourcing arrangements are based on working with suppliers who adhere to our operating standards. The Group's environmental policy is reviewed annually.
Brexit	As a Company operating solely in the UK, with no foreign currency exposure, EU supply chain, or key dependency on overseas staff, the Company has not identified any adverse direct consequences of Brexit, now or in the future, directly or through our supply chain. We therefore do not foresee any issues or changes being made to the business model or any impact on our accounting policies or critical judgements.

Viability Statement

The directors and the Audit Committee consider a 12 month horizon as part of the going concern assessment (page 60), but in addition the directors consider the Groups longer term 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 financial position for the year ended 27 February 2021.
- the Group's strategy and business plan.
- the Board's risk appetite.
- the Group's principal risks and uncertainties and how these are identified, managed and mitigated.
- the Group's going concern assessment, and.
- the external environment that the Group operates within.

The strategy for the Group and its business model are detailed in the strategic report on pages 16 to 20. HCC is a long-established offering, and parts of the Group have been undertaking this business for more than 130 years. The Group's Dot Dot Loans is a fully online lending provider, which was launched in March 2017. The product offering aims to serve the needs of two segments of the lending market.

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 £35m secured by a debenture on the assets of the business which expires at the end of December 2022. It is the Group's policy to renew its credit facilities well in advance of this date. Due to the short-term nature of its products, the Group is well placed to react promptly to any changes in its liquidity requirements.

Despite numerous challenges presented by Covid-19 and having to reconfigure its operating model, the Group has remained resilient and profitable. During the period the closed economy lowered demand for our services and caused our customer base and the loan book to shrink, however the performance of underlying debt and collections has been very strong.

The Group has observed a noticeable increase in the level of complaints received from both CMCs and customers during the year. The increase in complaints encountered by a small number of other lenders in the sector has triggered signs of financial stress, prompting applications to the courts for schemes of arrangements to ensure their businesses remain viable whilst their customers receive a proportion of redress. Whilst the Group has seen an increase in complaints received, the increase is proportionately smaller to other lenders and the Board remains confident with its business model and underlying operational resilience.

As part of its annual planning process, the Group assessed its business plans and subsequently ran a number of scenarios around the key areas of sensitivities namely

- Loan volumes
- Collections
- Loan book quality/credit risk
- Cash availability
- Collect out scenario (in accordance with Regulatory guidance)

As discussed in the Risk Management report, 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 maintains a risk register covering the entire business. Risks and their status are reviewed regularly, and the Risk & Compliance Committee has performed a robust risk assessment during the year.

Conclusion

Based on the above, the Board confirms that it expects the Group will continue to operate and meet its liabilities, as they fall due, over the 3-year period of assessment.

Engaging with our Stakeholders

Our key stakeholder groups

Customers

The continued performance of our business would not be possible without understanding our customers' needs.

Self-employed agents

Our network of self-employed agents is our interface with customers in communities around the UK, and develops valued relationships with customers.

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.

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.

Debt providers

Our providers of debt facilities, along with our retained earnings, allow us to lend money to customers at competitive rates.

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.

Shareholders

Our investors provide capital without which we could not grow and invest for future success.

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.

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 pages 34 to 35 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:

a) Long-term impacts
The likely consequences of any decision in the long term

b) Our employees
The interests of the Morses Club employees

c) Our business relationships
The need to foster relationships with suppliers, customers and others

d) The community and environment
The impact of our operations on the community and the environment

e) Our reputation
The importance of maintaining a reputation for high standards of business conduct

f) Acting fairly
The need to act fairly as between members of the Company

Engaging with our Stakeholders continued

OUR STAKEHOLDERS	WHAT STAKEHOLDERS WANT	HOW WE ENGAGE	HOW THEY LINK TO OUR STRATEGY
CUSTOMERS	• 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 nine regions which moved to six divisions in November 2020, and the same performance score has been maintained. • 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 Limited for FY22.	Non-standard customer base central to our products and services strategy across the Group. Digitalisation of service and offering complementary products based on market demand and customer need.
SELF-EMPLOYED AGENTS	• Ability to work flexibly in the local community. • Support and tools to work efficiently, effectively and flexibly. • Competitive remuneration.	• Regular virtual meetings with field managers.	Provide important interface with customers and maintain local community relationships for our target demographic. Link to local communities and to ensure that we offer best in class service responsibly and in line with our customer needs.
EMPLOYEES	• 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. • Regular surveys during the year to check engagement and that the adaptations to working practices are in line with our cultural values and customer service needs. • Development of a detailed cultural review for FY22 so that our approach is tailored to the changes in ways of working as a result of Covid-19. • Whistle-blowing hotline, available to all employees.	Increased cross-functional working across the Group to deliver a cohesive customer service and digital strategy. Ensure that our service model responds to customer needs, linked to development of remote and digital complementary products.
SUPPLIERS	• 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.	A range of suppliers used to support our products and services. Ensure that our suppliers provide products and services in line with our customer needs.

OUR STAKEHOLDERS	WHAT STAKEHOLDERS WANT	HOW WE ENGAGE	HOW THEY LINK TO OUR STRATEGY
DEBT PROVIDERS	• 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.	Funding solutions to support the development of our overall business strategy. Ensure that the business can expand and offer complementary products and services.
REGULATOR AND GOVERNMENT	• 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.	Delivery of regulatory framework which supports good customer outcomes. Ensure that our products and services are delivered responsibly and ethically.
SHAREHOLDERS	• Strong cash generation and attractive dividend policy. • Responsible, sustainable and low-risk business model and strategy.	• Twice-yearly virtual 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.	Support of our ongoing strategic direction for our targeted customer demographic. Provision of a range of complementary products and services to grow the business in line with customer demand.
COMMUNITIES AND ENVIRONMENT	• 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 37. • The Company's SECR Report is on page 78.	Presence in communities across the UK to support the needs of our customers. Fulfil our strategic direction of growing the business, whilst delivering our commitment to deliver products and services responsibly and ethically.

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 one 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 primarily to the Company's conduct during the height of the Covid-19 pandemic. All administrative and support properties were operationally closed as part of our duty of care to employees, and following careful risk assessment under our Health and Safety obligations. Remote lending and collection facilities were rolled out rapidly in order to continue to serve our existing customers, prior to introducing systems that allowed us to offer loans to new customers. The Board was made fully aware of staff and customer feedback as part of the Company's highly successful response to the challenges of the pandemic. The Board decided that it was not appropriate, nor necessary, for the company to put any staff on furlough, nor apply for any other government assistance. This followed careful review of the schemes available. During the year, the Board also continued the agreed strategy of the continued enhancement of our digital capabilities with regard to e-money current account services and credit offerings. This is in line with feedback from customers as part of our regular independent customer research.

The Board has agreed to propose a final dividend based on the profitability of the Company in FY20 and FY21 and its continued confidence in the agreed business strategy.

Operating Responsibly

We strive to have a positive impact on all of our key stakeholders.

Lending responsibly to customers

Treating Customers Fairly is the foundation of our approach. As outlined on pages 16 to 17, 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, c. 70% 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, many 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

Each year, we give our colleagues the opportunity to provide feedback and suggestions on an anonymous basis via an annual engagement survey. Due to our teams working from home throughout this financial year, we carried out additional employee engagement surveys in order to understand more about their experiences of working from home during lockdown.

When we went into lockdown, we engaged with every single employee to get a broad picture of their health and wellbeing, working environment and technology, and their views on coming out of lockdown, to ensure we knew how we could best support them and to help us to plan for a flexible future.

Our initial lockdown survey in May 2020 showed that employees were positive about their wellbeing and working experience, with the majority finding their work easy or very easy to do at home (78%), rating the support from their line manager as good or excellent (85%) and coping well or very well working at home in general (76%). Employees were positive about the prospect of continuing to work from home, with 83% confident Morses Club could effectively implement that.

With home working extended, we checked in again in October to see how things had changed. We found that satisfaction with working from home had increased, with large numbers coping well, a testament to our ongoing work to help our employees.

	May 2020	October 2020
Happy working from home, managing working hours and workload	85.9%	89.1%
Agree or strongly agree that they were happy with the structure of their working day	84.8%	90.7%
Daily contact with other members of their team	94.1%	95.5%

Transformation of the Year

HR and Communications Director Tracey Mulligan won the Transformation of the Year award at the Women In Credit Awards 2020.

The Awards champion the work of women across credit and financial services, highlighting the importance of gender diversity within the industry.

Health and safety

The health and safety of our employees and the self-employed agents we work with is paramount to the business. The majority of our workforce has been at home for the whole year, but whenever there was a change in government guidance during the pandemic, we undertook risk assessments and introduced protocols to ensure the safety of external agents entering customers' homes.

Employee wellbeing

Employee wellbeing is important to us, especially during this year's unprecedented circumstances. 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 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. In January 2021, employees received Morses Club shares following the vesting of their 2017 share award. The Company subsequently issued shares to employees in 2018 and 2019 under a replacement Share Incentive Plan, representing 3.25% of base annual salary in shares. This plan was recognised by ProShare, winning one of their awards in 2019. No new shares were issued during FY21 due to the Company failing to meet its FY20 profit target, but the intention is to repeat the award to qualifying employees during FY22 and subsequent years, subject to the Company's profitability.

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 local charities. During the year, we raised c. £8,000 for local community initiatives.

Minimising our impact on the environment

When changing our property strategy this year, we sought to balance 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. By massively reducing our estate footprint, we can deliver many improvements to our environmental performance, including reducing our emissions and waste. See our SECR disclosure on page 78 for more information on our environmental performance this year.

Satisfied Stakeholders

Customers

Delivering consistently positive customer experiences

As we have transformed the business, we have been guided by ongoing customer feedback and our desire to maintain our consistently high satisfaction ratings.

98%

CUSTOMER SATISFACTION

People

Engaging our employees and prioritising their wellbeing

During an unprecedented year for the Group, we have increased our employee engagement in order to understand and solve their challenges.

89%

HAPPY WORKING FROM HOME, MANAGING WORKING HOURS AND WORKLOAD

98%
SATISFIED WITH MORSES CLUB'S FLEXIBILITY

97%
LIKELY TO CONSIDER USING MORSES CLUB AGAIN IN THE FUTURE

94%
LIKELY TO RECOMMEND MORSES CLUB TO FRIENDS AND FAMILY

"I would recommend them to anyone, they're really helpful and are there to support you if you need it."

"I have been with them for years and they have never let me down."

"They're always helpful and go above and beyond."

85%
POSITIVELY RATED THE SUPPORT FROM THEIR LINE MANAGER

78%
FOUND IT EASY TO WORK FROM HOME

78%
POSITIVE ABOUT COMMUNICATIONS FROM THE BUSINESS

"I feel a level of trust has been given to me which makes me feel empowered that I'm trusted to manage my time and get my work done."

"From the CEO down, all higher management have sent regular communications showing gratitude and appreciation for our efforts."

"The Company has made the job as easy as possible with the new things that have been introduced."

Corporate Governance

Board of Directors

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
Chief Executive Officer

Date of appointment
20 January 2015

Background and career

Paul has experience in mobile payment technology as Managing Director of EZ-Pay Limited, a pre-paid MasterCard organisation. Beginning his career in the global software market, he later joined Phones4U in 1998, where he became MD and was an integral member of the management team until the firm's sale for £1.4bn in 2006. On 1 May 2018, Paul was appointed a member of the FCA's Smaller Business Practitioner Panel to represent the consumer credit sector, and on 1 March 2021 he was appointed as a Board Director of the Consumer Credit Trade Association.

Areas of expertise

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

Stephen Karle
Chairman and Non-Executive Director

Date of appointment
20 January 2015

Background and career

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

Areas of expertise

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

Graeme Campbell
Chief Financial Officer

Date of appointment
1 January 2021

Background and career

Graeme was previously the Chief Financial Officer of BrightHouse (a trading name of Caversham Finance Limited) which provided rent-to-own and cash lending services to the UK consumer market. Graeme became the CFO of BrightHouse in 2018. He joined BrightHouse in 2011 and held a number of roles including Director of Finance as well as Strategy and Digital Director, and Chief Information Officer, during which he spearheaded the financial, IT and emerging digital strategy of the business. Prior to this, he held senior finance roles at Virgin Media and Thresher Group.

Areas of expertise

Graeme brings a wealth of highly relevant sector and financial experience, along with broader digital and commercial skills, which will be invaluable to Morses Club as the Company develops.

Board of Directors continued

Gary Marshall
Chief Operating Officer

Date of appointment
22 July 2019 as COO.
1 May 2021 as Executive Director

Background and career
Since joining the Company, Gary has been responsible for leading the integration and development of the digital business, Shelby Finance Limited, including the delivery of new platforms which can effectively meet customer demand as the business grows. Gary has also taken on overall responsibility for the Group's IT and Change functions.

Prior to joining the Company, Gary was Interim COO of Sainsbury's Bank, a role he held for almost two years, with a focus on IT, information security, call centres, operations and business change. Prior to this, he held various roles at Aviva plc, including Interim COO of Aviva Ireland and Interim Managing Director of Aviva Life & Pensions Ireland where he quickly digitised the business, turning it around to become the fastest growing insurer in Ireland.

Areas of expertise
Gary has wide-ranging financial services experience, having worked at senior levels in organisations including Egg plc, GE Capital, Aon Ltd, Santander Plc, Vertex, Anglo Irish Bank and Northern Rock. He has extensive expertise in both developing and delivering digitised product offerings, with significant customer-focused experience often in challenging regulatory and market conditions.

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.

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

Legal Business awarded Sir Nigel a 'Lifetime Achievement Award' in 2015 and he was given the Financial News' 'Editor's Choice' award for lifetime achievement in 2016. Sir Nigel is special advisor on international trade and investment to the City of Sheffield's Mayor, Dan Jarvis, and served as the High Sheriff of Greater London from 2016 to 2017. Until recently Sir Nigel was on the Council of The Prince's Trust.

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

Joanne Lake
Independent Non-Executive Director

Date of appointment
14 April 2016

Background and career
Joanne is a Chartered Accountant and a Fellow of the Chartered Institute for Securities & Investment, and of the ICAEW, and is a member of the ICAEW's Corporate Finance Faculty. With over 30 years' experience in accountancy and investment banking, Joanne has worked at Panmure Gordon, Evolution Securities, Williams de Broe and Price Waterhouse. She is Chairman of wealth management and employee benefits specialists Mattioli Woods PLC, Deputy Chairman of main market listed Henry Boot PLC, and a Non-Executive Director of Gateley (Holdings) PLC and Honeycomb Investment Trust 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.

Sheryl Lawrence
Independent Non-Executive Director

Date of appointment
1 May 2021

Background and career
Sheryl is a Chartered Accountant (FCA), and holds an LLM from the Institute of Advanced Legal Studies and an MBA from London Business School. She has held senior executive roles at Barclays, Lloyds Bank, Santander, Coventry Building Society, Nationwide Building Society and Provident Financial Group. Sheryl began her banking career at NatWest Bank in 1996, after 11 years of multi-sector experience with Coopers & Lybrand (now PwC).

Sheryl has been an Independent Non-Executive Director of RCI Bank UK since January 2019, where she is Chair of the Board Audit Committee and Chair of the Nomination and Remuneration Committee.

Areas of expertise
Sheryl has extensive experience of designing, integrating, and embedding governance, risk and compliance into the culture, commercial strategies and operations at banks, building societies and consumer lending firms.

Michael Yeates
Independent Non-Executive Director

Date of appointment
1 May 2021

Background and career
Michael is a career banker and has over 40 years' experience in the financial services industry, serving in the building society, retail bank and investment bank sectors. He has extensive executive, board and NED experience.

Throughout his career he has been heavily involved in business transformation as both an employed executive and then as an independent board consultant advising 40 or so boards. He has international and cross-industry experience and has been involved in policy development for HM Government. Earlier, Michael spent 17 years at Cheltenham & Gloucester Plc, culminating in the position of General Manager, helping to grow C&G from the 16th largest building society into a Global 100 bank and the UK's third largest lender.

Areas of expertise
Michael brings extensive experience of the retail banking sector. He is a change leader with a career track record of leading significant business transformations who has consistently driven double-digit revenue growth and profitability. One of his personal objectives is to make financial services accessible to a wider, less well served, sector of society.

Andy Thomson
Non-Executive Director

Date of appointment
1 March 2009 (Non-Exec Finance Director), 1 March 2016 (CFO) Interim CFO from 17 March 2020 to 31 December 2020. Non-Executive Director from 1 January 2021

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 before returning to the role of Non-Executive Director on 1 January 2021.

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

Peter Ward
Non-Executive Director

Date of Appointment
1 March 2015

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

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

Chairman's Introduction to Governance

Dear Shareholder,

I am pleased to present our 2021 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 46 to 74.

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. At 27 February 2021, the only exceptions were (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 10 to 11 of the Strategic Report.

Stephen Karle
Chairman

Board of Directors

Much work was done five years ago to first 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 evolved considerably. I welcome the appointments of Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors, replacing Baroness Simone Finn and Les Easson as Independent and non-independent Non-Executive Directors respectively. The Company has also recruited Graeme Campbell as CFO, allowing Andy Thomson to return to his previous role as Non-Executive Director, and appointed Gary Marshall, the Company's COO since July 2019, as Executive Director. The Board currently comprises six Non-Executive Directors and three Executive Directors, whose biographies are presented on pages 41 to 43. All Directors submit themselves for re-election or 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 2021. 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 2021 objectives was reviewed, and objectives for 2022 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 develop, with a strong and experienced Board at its heart.

Stephen Karle
Chairman
13 May 2021

Corporate Governance Report

At the heart of the Code are five 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 five 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 paragraph, throughout the year ended 27 February 2021, the Company has complied with the provisions set out in the Code. The two exceptions are (i) the Directors' Remuneration Report, where the Company does not comply with Provisions 36, 40 or 41 as a result of it having been prepared in accordance with AIM Rule 19, and (ii) the Provision 11 of the 2018 Code that relates to the proportion of Non-Executive Directors whom the Board considers to be independent. In May 2021, subject to regulatory approval, the Company appointed two new Independent Non-Executive Directors, bringing the total to four. Although not compliant with the Code, the Board believes that this is an appropriate arrangement for the time being for a company of the size of Morses Club. This will be kept under review.

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 requirements of the Code, and the Company Secretary continually monitors the Company's adherence to it.

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. In the past, 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. During 2020, the challenges posed by the Covid-19 pandemic were addressed by the Board as a whole.

In Q1 2021, 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. Details of the Company's principal risks are included on pages 27 to 30.

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 usually scheduled to hold eight formal meetings each year, including one that concentrates solely on strategy. In addition, two calls are convened each year in order to agree the final and interim results and dividend. Further teleconferences are arranged, when required. During FY21, the Board held six scheduled meetings, but supplemented these with 12 additional Board calls, many relating to the Company's response to the Covid-19 pandemic and the restructuring of the business that resulted from this. Some 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 the 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

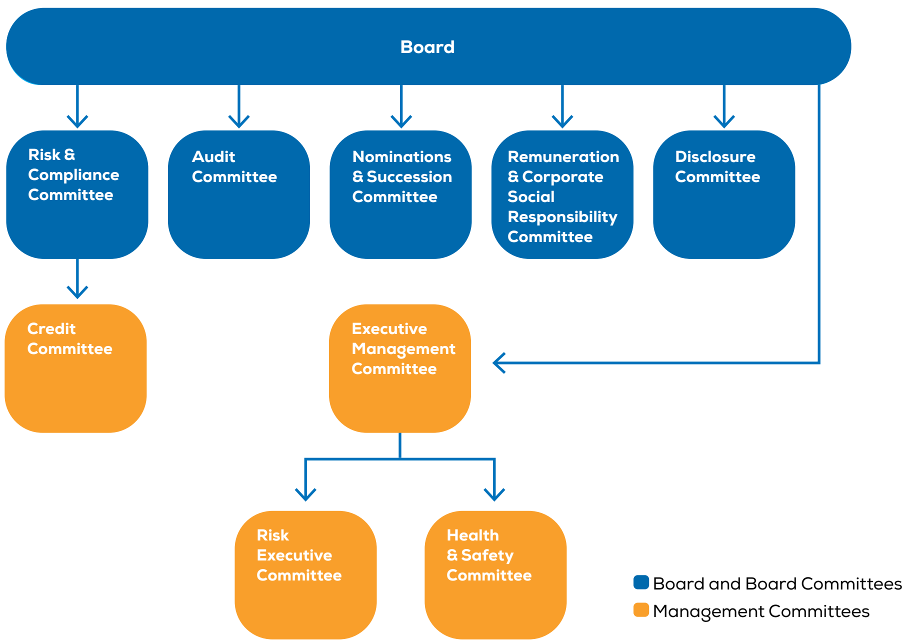
As part of their role as members of a unitary Board, Non-Executive Directors are active at providing constructive challenge and helping develop proposals on strategy. They have also used their experience from other organisations, including public companies, to provide advice to many areas of the business.

Sir Nigel Knowles has been appointed the Senior Independent Director to provide a sounding board for the Chairman 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 18 and 19 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.

The Group's mission is to provide tailored digital and face-to-face financial services for under served communities across the UK. During Q1 2021, the Group commissioned an independent innovation and transformation consultancy to assist it to develop its digital offering, whilst complementing its HCC origins. This work will culminate in an updated purpose statement during summer 2021.

The Company has an excellent, customer-centric culture:
- The customer satisfaction surveys undertaken by independent market research during the year showed:
  - Overall customer satisfaction with Morses Club – 98%.
  - Likelihood of the customer recommending Morses Club – 94%.
- 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.

Across the organisation, the four 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.

As part of its comprehensive response to the Covid-19 pandemic, the Company undertook surveys of all of its staff in both May and October 2020, in order to ensure that they were able to work effectively and safely at home. After the initial survey in May, the Company supplied additional equipment to employees based on their responses. In October, the survey was designed to assess:
- Each employee's wellbeing
- Their work-life balance
- Contact with their colleagues and teams
- Their work area and equipment they use
- The technology and IT equipment they use

89% of staff confirmed that they were happy working from home, managing working hours and workload, and 92% agreed or strongly agreed that overall, they were coping well with working from home.

In July 2020, the Board agreed the creation of a Cultural Barometer in order to regularly measure key indicators of the Group's culture. This showed:
- **Employee-related measures**, including employee engagement, conduct, compliance with the SMCR regime, diversity, and reward
- **Agent-related measures**, including engagement and turnover of individuals;
- **Customer-related measures**, including customer satisfaction and Good Customer Outcome surveys;
- **Vision and values** – these are reviewed during the Board's annual strategy meeting

The Board approves the annual schedule for regulatory, health & safety and HR training modules that every individual is required to undertake on a monthly basis and pass an examination at the end of it. Incentives have been made available to encourage employees to take part in the required training during the first seven days in each month.

Principle C – Effectiveness

Composition of the Board
As at 27 February 2021, the Board comprised six Non-Executive Directors and two Executive Directors, whose biographies are included on pages 41 to 43. This follows the resignation of Baroness Simone Finn as an Independent Non-Executive Director on 12 February 2021 with immediate effect to take up a new position within Government as Deputy Chief of Staff to the Prime Minister.

The Board considers two of the Non-Executive Directors (Joanne Lake and Sir Nigel Knowles) to be independent in character and judgement because while they may own shares in the Company, they all have significant other business interests and activities. In February 2021, the Nominations & Succession Committee engaged in recruitment activity leading to the recent appointment of two new independent Non-Executive Directors, Sheryl Lawrence and Michael Yeates.

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' existing 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 as part of their package 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. Andy Thomson and Les Easson were previously part of the Company's Executive Team and are also not considered to be independent.

Changes to the Board
Andrew Hayward left the Company as CFO on 16 March 2020, and on 17 March Andy Thomson, then a Non-Executive Director, took on the position of Interim CFO. On 1 January 2021, Andy returned to his role as Non-Executive Director, as a result of the appointment of Graeme Campbell as CFO with effect from the same date.

As mentioned above, on 12 February 2021, Baroness Simone Finn resigned as an Independent Non-Executive Officer.

On 17 March 2021, Les Easson resigned as Non-Executive Director.

On 1 May 2021, the Company appointed Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors, and its COO, Gary Marshall, as an Executive Director.

Following these changes, there are four Non-Executive Directors who have served for four to six years, two who have served for less than one year, and one who has been on the Board both as an Executive and a Non-Executive Director for a total of 12 years.

Further information about the appointment process and succession planning is contained in the report of the Nominations & Succession Committee on pages 54 to 57.

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 52, 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 formal diversity policy at present but is committed to promoting equal opportunities in employment. Following the appointment of Sheryl Lawrence on 1 May 2021, there were two women on the Board once more, after the resignation of Baroness Simone Finn.

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 briefings from the Company's Nomad, Peel Hunt; a detailed review of its HCC division from the Operations Director; a detailed review of the Digital division from the Chief Operating Officer; a demonstration of the customer portal from the Group Marketing Manager; and a detailed review of the customer service function, especially in the light of the operational changes required by Covid-19.

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 has been regularly appraised by the Chairman. One discussion centred on the circumstances, and the lessons learned, following the profit warning in March 2020. During the year, the Chairman has undertaken a formal internal Board evaluation, looking especially at Board chemistry, and undertaken individual Director appraisals and consultations in line with Senior Manager & Certification Regime (SM&CR) requirements. 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. Details of the training provided are shown in the **Development** section above.

Following the Board evaluation, the Nominations & Succession Committee agreed that the roles of Chair of the Audit Committee and Chair of the Risk & Compliance Committee should be separated and the Board acted upon this in its appointments of two new Independent Non-Executive Directors in May.

The Nominations & Succession Committee also agreed that having a diverse Board was important and built this aspiration into the specification for the executive recruitment firm in its search for the two new Independent Non-Executive Directors. As a result, there was a diverse range of candidates.

The Chairman has set clear, written objectives for the two new Independent Non-Executive Directors.

Corporate Governance Report continued

Re-election of Directors
Following the recommendation of the July 2018 edition of the Code, at the Company's AGM in September 2020, 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 39 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 80 and those of the auditor on page 90.

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 26 to 31. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Group's overall business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

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

The Board discharges its duties in this area through:

- the review of financial performance including budgets, 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 58 to 63 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 33 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 usually conducted by the CEO and CFO when the performance and future strategy of the Group are discussed with larger shareholders. During FY21, updates were provided in a virtual environment to analysts and shareholders.

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.

Principle E – Workforce engagement

The Strategic Report on pages 18 and 19 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. In view of the dramatic changes to the Group's operations, and especially working from home, the Designated Director took a close interest in the revised arrangements, and the Company's efforts to ensure the health and well being of its employees.

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.

Corporate Governance Report continued

Board Committees and Directors' attendance at meetings

Board Committees
The terms of reference of all of the Board Committees are available on the Group's 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 are invited to attend meetings of the Audit, Risk & Compliance, Nominations & Succession and Disclosure Committees in order to maintain a full appreciation and understanding of the Company.

Details of attendance at Scheduled 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		6	4	6	4	3	1
Stephen Karle	Non-Executive Chairman	6	–	–	4	3	1
Paul Smith	Chief Executive Officer	6	–	–	–	–	1
Graeme Campbell	Chief Financial Officer from 1/1/2021	1/1	–	–	–	–	0/0
Sir Nigel Knowles	Senior Independent Director	6	4	5	4	3	1
Joanne Lake	Non-Executive Director	6	4	6	4	3	1
Peter Ward	Non-Executive Director	6	–	–	–	3	0
Andy Thomson	Non-Executive Director/ Interim CFO	6	–	–	–	–	1
Simone Finn	Non-Executive Director to 12/2/2021	6	3/3	5/5	–	3	1
Les Easson	Non-Executive Director	6	–	–	–	–	1
Andrew Hayward	Chief Financial Officer to 16/3/2020	0/0	–	–	–	–	0/0

The Board held several additional ad hoc meetings during the year, primarily relating to the Company's response to the Covid-19 pandemic and the restructuring that resulted from this.

On 17 March 2020, Andy Thomson was appointed to the position of Interim CFO, following the departure of Andrew Hayward on 16 March 2020. Following the appointment of Graeme Campbell as Chief Financial Officer on 1 January 2021, Andy reverted to his earlier role as Non-Executive Director.

Simone Finn resigned as an Independent Non-Executive Director on 12 February 2021.

Les Easson resigned as a Non-Executive Director on 17 March 2021.

Membership of Committees
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
Graeme Campbell	Chief Financial Officer (from 1/1/2021)	–	–	–	–	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Independent Non-Executive Director	M	M	C	M	M	Y
Peter Ward	Non-Executive Director	–	–	–	M	M	X
Baroness Simone Finn	Independent Non-Executive Director (to 12/2/2021)	C	C	–	M	M	Y
Andy Thomson	Non-Executive Director to 16/3/2020; Interim CFO 17/3/2020 – 31/12/2020; Non-Executive Director from 1/1/2021	–	–	–	–	M	X
Les Easson	Non-Executive Director (to 17/3/2021)	–	–	–	–	M	X
Andrew Hayward	Chief Financial Officer (to 16/3/2020)	–	–	–	–	M	X

On 13 February 2021, Joanne Lake became the Interim Chair of the Audit and the Risk & Compliance Committees.

On 1 May 2021, the Company appointed Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors, and its COO, Gary Marshall, as an Executive Director.

Membership of the Committees from 14 May 2021, or once regulatory approval is received for the appointment of Sheryl Lawrence as Chair of the Audit Committee, and Michael Yeates as Chair of the Risk & Compliance Committee (if later), 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
Graeme Campbell	Chief Financial Officer	–	–	–	–	M	X
Gary Marshall	Chief Operating Officer	–	–	–	–	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Independent Non-Executive Director	M	M	C	M	M	Y
Peter Ward	Non-Executive Director	–	–	–	M	M	X
Andy Thomson	Non-Executive Director	–	–	–	–	M	X
Sheryl Lawrence	Independent Non-Executive Director	M	C	–	–	M	Y
Michael Yeates	Independent Non-Executive Director	C	M	–	–	M	Y

Nominations & Succession Committee

Dear Shareholder,

I am pleased to present the report of the Nominations & Succession Committee which covers the year ended 27 February 2021.

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.

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 Independent Non-Executive Directors, the Board Chairman, and Peter Ward. It held four meetings during the year.

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

COMMITTEE MEMBERS

- **Stephen Karle (Chairman)**
- **Baroness Simone Finn (to 12 February 2021)**
- **Sir Nigel Knowles**
- **Joanne Lake**
- **Peter Ward**

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 has an established policy of 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. As part of this policy, the Company has put in place a number of steps that aim to address the possibility of unconscious bias during the recruitment process. In 2020, the Company introduced a system of anonymised CVs whereby the personal details of the candidates (name, gender) are initially hidden, thereby ensuring that shortlists are selected based solely on skills and experience. The Committee will review the results of this new process during the year.

Prior to the resignation of Baroness Finn on 12 February 2021, two members of the Board, and two-thirds of the independent Directors, were women. Following the appointment of Sheryl Lawrence in May 2021 (see page 57), two members of the Board and 50% of the Independent Non-Executive Directors, are again women.

As at 27 February 2021, the Executive Management Team and Company Secretary comprised eight men and one 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, namely the CFO, COO and two Independent Non-Executive Directors.

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 Chairman 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 three years.

Where changes to Board composition are considered necessary, 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.

Nominations & Succession Committee continued

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;
- the Board consistently considers the relevance of its capabilities to meet the challenges ahead. This is debated at the 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. During the year, the Directors have received comprehensive briefings on the HCC division from its Operations Director; on the Digital division from the Chief Operations Officer; on potential mergers and acquisitions from the Company's Nomad, Peel Hunt; on the highly important customer portal from the Group Marketing Manager; and on the response of the whole business, and in particular the customer service function, since the onset of the Covid-19 pandemic.
- 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 during the year

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

Andy Thomson
The Committee unanimously agreed to recommend to the Board that it appoint Andy Thomson to the position of Interim CFO, following the departure of Andrew Hayward on 16 March 2020.

Following the appointment of Graeme Campbell as Chief Financial Officer on 1 January 2021, Andy reverted to his earlier role as 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 therefore determined to retain the expert knowledge and deep HCC experience of Andy Thomson, having worked in the sector for the last 12 years. 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.

Graeme Campbell
Graeme Campbell was appointed CFO on 1 January 2021 following approval by the FCA and the announcement of the interim FY21 results. Graeme was previously the Chief Financial Officer of BrightHouse (a trading name of Caversham Finance Limited) which provided rent-to-own and cash lending services to the UK consumer market. Graeme became CFO of BrightHouse in 2018. He joined that company in 2011 and held a number of roles including Director of Finance as well as the Strategy and Digital Director, and Chief Information Officer, during which he spearheaded the financial, IT and emerging digital strategy of the business. Prior to this, he held senior finance roles at Virgin Media and Thresher Group.

Graeme brings a wealth of highly relevant sector and financial experience, along with broader digital and commercial skills, which will be invaluable to the Group as it looks to grow its business during the coming years.

The Company engaged the independent executive search and selection specialists, Argent Services Limited, for this appointment. Argent, whose founder has 15 years of experience in executive search, has no other relationship with the Group and had been used by the Company to fill a number of its senior roles in the past. Graeme undertook formal selection interviews with the Chairman, CEO and CFO, as well as an informal session with the HR Director. This was followed by a full interview with this Committee.

Baroness Simone Finn
On 12 February 2021, Baroness Finn resigned as an independent Non-Executive Director to take up a new position within Government as Deputy Chief of Staff to the Prime Minister. During her period in office, her insights were invaluable to the Company's ongoing journey to become a leading technology-enabled provider of a wide range of non-standard financial services.

Changes to the Board after the end of the year
Les Easson
On 17 March 2021, Les Easson resigned as Non-Executive Director. Les had been appointed a Non-Executive Director upon his retirement as Operations Director following 36 years at the Company. The support he has given to ensure his replacement had a smooth transition into the Operations Director role has been extremely valuable and Les felt that after 18 months, it was the right time to relinquish his mentoring role.

Recruitment of new Non-Executive Directors
As a result of the resignations of Baroness Finn and Les Easson, the Committee agreed to commence an exercise to recruit two new Independent Non-Executive Directors. The Company again engaged the independent executive search and selection specialists, Argent Services Limited, for both appointments.

Prospective candidates were interviewed by the Chairman and were provided with a briefing about the Company by the CEO. Following this process, the Committee met and subsequently recommended the appointment of two new Independent Non-Executive Directors, Sheryl Lawrence and Michael Yeates. Both bring significant experience in the financial services sector and their appointments as Committee Chairs will be subject to regulatory approval. Their biographies are included on page 43.

Appointment of additional Executive Director
The Committee also recommended the appointment of Gary Marshall as an Executive Director. Since he joined the Group as Chief Operating Officer in July 2019, Gary has been responsible for successfully leading the integration and development of the digital business, Shelby Finance. Gary has also taken on overall responsibility for the Group's IT and Change functions. His biography is included on page 42.

Corporate Governance Code
The Committee is aware that following these appointments, the Group does not comply with 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, at the date of this Annual Report, the Company has four Independent Non-Executive Directors, which the Board believes is an appropriate number for its current size and stage of development.

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.

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 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.

Approval

On behalf of the Nominations & Succession Committee

Stephen Karle
Chairman
13 May 2021

Audit Committee

Dear Shareholder,

As the Interim Chair of the Audit Committee, I am pleased to present the Committee's report for the year ended 27 February 2021.

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.

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 four scheduled meetings during the year, in alignment with its terms of reference. It also held two meetings to approve the FY20 final results and the FY21 interim results, plus two additional meetings to review the impact of Covid-19 on the financial results of the business during calendar year 2020.

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.

COMMITTEE MEMBERS

- **Joanne Lake (Interim Chair from 13 February 2021)**
- **Sir Nigel Knowles**
- **Baroness Simone Finn (Chair to 12 February 2021)**

Joanne Lake is a Chartered Accountant 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.

Composition and governance

As a Chartered Accountant, the Board considers that Joanne Lake has recent and relevant financial experience. All the independent Non-Executive Directors are members of this Committee and have been since the Group's IPO in May 2016. Following the resignation of Baroness Finn, the Nominations Committee agreed to recruit two additional Independent Non-Executive Directors, with the expectation that one will become the new Chair of the Committee. In the meantime, 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 Interim 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 held four scheduled meetings 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 an earlier review, a separate meeting was scheduled in late January with the sole purpose of reviewing the proposed 2021 audit plan. Initial judgement papers were presented to the Committee in February in order that the Committee could review the general approach being taken by management. The result is that the audit plan and the preliminary judgement papers can be 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 four significant areas of judgement and these are detailed below.

At the January 2021 Audit planning meeting, the Committee reviewed the effects of the revised auditing standard on the subject of Auditing Accounting Estimates and Related Disclosures (ISA UK 540) in the context of what should be included within the management judgement papers.

Due to materiality, the significant areas of judgement in FY21 relate to the HCC division.

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/estimates. 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/estimate is around the estimation of expected future cash flows used to determine the provision.

The Committee regularly challenges the appropriateness of management's judgements, estimates 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 of using cash collection curves for the previous five individual year-end snapshots of data with three years forward-looking cash flows (in this case, 2015-2019 – see below) has remained consistent with the previous year. However, in FY21, the Committee has carefully considered the best way to deal with the impact of Covid-19 on the impairment provision and income recognition. It believed that continuing to use a flat five-year average of the cash curves and EIR calculation would materially understate the provision. It therefore decided to use a weighting of the individual cash curves to give more prominence to the most recent cohort.

Audit Committee continued

In this way, the cash collection curves have been weighted to give prominence to the 2019 cohort using a weighting of 60%, with a 10% weighting for each of the other four cohorts. Management and the Committee feel that weighting the selection of data towards the 2019 data, which was impacted by the experiences of the Covid-19 pandemic, will give a closer fit to the performance of the end of year loan book than the other years in the data set. This approach was used for both the interim and full-year results.

The overlay specifically used for the Covid-19 provision in the FY20 results has been discontinued, and provisions are being handled at an aggregate level.

After discussion with management and the external auditor, the Committee considered the 2015-19 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 multiple cohorts to construct the cash curves remained consistent with the Company's IFRS 9 policy. The impact of transitioning from 2014-18 cash curves used in FY20 to the 2015-19 weighted curves used in FY21 was £1.4m. If the weighting had not been applied and the curves were updated to the 2015-19 curves with equal weighting, the impact would have been £0.8m
- FY21 actual cash collections were within c0.5% of those forecast in the FY20 year-end provision.

Based on the review described above, the Committee concluded that the underlying provisions held against the loan book are reasonable.

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

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 2015-2019 cohorts. These expected lives were adjusted where appropriate to reflect any changes. However, in FY21, the cohorts have been weighted to give prominence to the 2019 cohort using a weighting of 60%, with a 10% weighting for each of the other four cohorts. This approach was used for both the interim and full-year results. 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 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, with the exception of the use of weightings to give prominence to the most recent year, as described above. 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.

3. Goodwill impairment
A third significant area of judgement/estimation is that of goodwill impairment, following the acquisition of U Holdings Limited in June 2019.

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 the short-term these are based on the expectations within the current business plan, which are the key assumptions in driving the first three years of projections. Longer terms growth rates, which are at a lower level, reflect a level of anticipated maturity, which together with the discount rate used, are also key factors underpinning the forecast in later years. The Company used a pre-tax weighted average cost of capital (WACC) of 13.36% in order to discount future cash flows. The WACC used to model the discount future cash flows in FY20 was 13.22%. If this rate was applied to the current model the headroom over the discount future cash flows would increase by £1.97m. 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 current performance of the business and through the use of sensitised scenarios, including a 'Collect Out' scenario as recommended by the Regulator, is satisfied that performance is at a sufficient level and that there was no requirement to impair the goodwill that arose from the acquisition of U Holdings Limited.

4. Going concern
At the January 2021 Audit planning meeting, the Committee reviewed the advice provided by the auditors regarding the effects of the new auditing standard (ISA UK 570) which has come into force in respect of going concern reviews. The new auditing standard requires increased scrutiny of not only the outputs but the controls and processes around the going concern review.

In addition to the usual elements of the going concern review of viability, liquidity, risk assessment and funding, there is an additional requirement for management and the Directors to consider a more wide-ranging view of the going concern review which includes not just a focus on the numerical approach but also on the process.

Strategic Report Corporate Governance Financial Statements

The Committee assessed the Group's business plan and subsequently ran a number of scenarios around the key areas of sensitivities, namely:

- loan volumes;
- collections;
- loan book quality/credit risk; and
- cash availability.

In addition to the auditing requirements, the Group has committed to the Regulator as part of its approach to financial resilience, to document its approach to going concern reviews and to include scenarios along the lines described above.

As the Covid-19 pandemic developed during 2020, the business had to quickly react to the new challenges facing it. This was particularly the case in the HCC division 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 for FY21 as a whole around 80% were 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. During the whole of FY21, 62% of all loan sales were arranged remotely, with 67% done this way in February 2021. Remote loan sales used the same stringent affordability checks as loans arranged face to face, with additional ID and bank validation checks when the Company used a system of faster payments to provide the loan directly into the customer's bank account. In addition, our customer support staff were equipped with laptop computers and set up to work from home through remote telephony.

The timing of the impact of Covid-19 on the Group, being just three 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 a 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 two 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 x5.0, 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-month basis rather than a 6-month 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.

In May 2021, the Group agreed a new loan facility with a consortium of two lenders, which secured funding for our HCC and digital products through to December 2022. This was at a reduced commitment level of £35m, all in the Revolving Credit Facility (RCF), compared to the £40m funding commitment previously in place until December 2021. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives. 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 pleased 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 February 2021 being £8.5m which compares to £19.5m forecast in the Covid-19 business plan provided to the funders and £34m of drawn down debt at the same point last year.

Critical accounting judgements/estimates and key sources of estimation uncertainty

There are both critical accounting judgements/estimates and key sources of estimation uncertainty contained within this Annual Report. Further details can be found on page 107.

Audit Committee continued

Meetings of the Committee

The Committee held four scheduled meetings during the year ending 27 February 2021. It also held two meetings to approve the FY20 final results and the FY21 interim results, plus two additional meetings to review the impact of Covid-19 on the financial results of the business.

Attendance records can be found on page 52.

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/estimates, 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/estimates in the financial statements.
- A review of the external auditor's control observations arising from their external audit of the Company's 2020 accounts, and the management's 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 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 Annual Report & Accounts, taking into account internal financial projections.

Review of the 2021 Annual Report and Financial Statements

At the request of the Board, the Committee considered whether, in its opinion, the 2021 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 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;
- 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/estimates referred to in the narrative reporting and the significant issues reported in this Audit Committee Report consistent with the disclosures and critical judgements/estimates set out in the financial statements?
- How do these judgements/estimates 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/ estimates and key sources of estimation uncertainty presented by management to the Audit Committee which documents the approach taken to the critical accounting judgements/estimates and key sources of estimation uncertainty documented in the financial statements on Page 107. 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 2021 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 2021.

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 year to 27 February 2021, the level of audit fees amounted to £312k (FY20: £410k), and non-audit fees amounted to £35k (FY20: £85k). The ratio of non-audit fees to audit fees was 11.2% (FY20: 20.7%). The non-audit work carried out during FY21 related to the review of the interim results.

Deloitte LLP was first appointed as auditor of Morses Club Limited with effect from 1 March 2009 as a result of a competitive audit tender. 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 agreed to retain Deloitte for the FY21 audit. Deloitte has significant experience and expertise within the Home Collected Credit market. On this basis, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the forthcoming Annual General Meeting. Deloitte has indicated its willingness to continue in office. The Committee confirms that there are no contractual obligations that restrict the Committee's choice of external auditor in the future.

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 Interim Chair of the Audit Committee. 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 delivered a diverse selection of reviews. This year saw assurance work on areas such as credit referencing and underwriting, supplier resilience, and information security. Internal Audit also managed penetration testing to provide assurance over technical infrastructure controls. This work was performed by an experienced specialist technical testing provider.

The Committee closely reviews the reports of the Internal Audit function. Its work is primarily risk-based, utilising the Group's risk registers 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 Interim Chair of the Committee, I hold one-to-one meetings every month with the Head of Internal Audit.

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

Joanne Lake
Interim Chair
13 May 2021

Risk & Compliance Committee

Dear Shareholder,

As Interim Chair of the Risk & Compliance Committee, I am pleased to present my report which covers the year ended 27 February 2021.

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.**

COMMITTEE MEMBERS

- **Joanne Lake (Interim Chair from 13 February 2021)**
- **Sir Nigel Knowles**
- **Baroness Simone Finn (Chair to 12 February 2021)**

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 ongoing 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 four meetings during the year.

Composition and governance

In addition to my role as Interim Chair of the Risk & Compliance Committee, I am also Interim 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 four 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 a summary of their minutes are sent to all members of this Committee. In addition, the Committee also receives reports and updates from the Shelby Finance Limited subsidiary.

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's (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; and
- regulatory matters, including those relating to the FCA.

Activities during the year

During the year, some of the key topics addressed by the Committee included cyber security and data protection, Treating Customers Fairly, regulatory matters, customer complaints, the implementation of new processes in order to allow the HCC business to continue operating, 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.

Risk & Compliance Committee continued

Cyber security and data protection

Cyber security has been a major topic for the Committee. During the year, the Group continued to perform penetration 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 Group has engaged proactively with the FCA throughout the pandemic, from a lending, collections and forbearance approach. We have also been involved with their wider consumer credit thematic work into Covid-19, both from a forbearance and financial resilience perspective. The Group has submitted data to the FCA's Covid-19 team regarding financial resilience and operational matters on a regular basis.

Treating Customers Fairly

At each meeting, the Committee reviews the Company's dashboard for Conduct Risk and Treating Customers Fairly.

During the year, the HCC division has implemented further 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 two online training courses which are mandatory for staff to complete. They have also featured on the staff intranet. 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. During the year, there have been no reportable breaches and no whistle-blowing instances.

Customer complaints

The Group generates excellent customer satisfaction rates (as shown on page 17). The Committee continues to play a part in ensuring that management maintains its clear focus on Treating Customers Fairly and good customer outcomes. The Committee always invites the Group's Customer Experience Director to its meetings.

The Committee noted the high standards achieved by the complaints handling team following accreditation of the new ISO 10002:2018. It was particularly pleasing to read comments supporting the business ethos of continual improvement, whilst satisfying stakeholder and customer needs. Management systems and processes were found to be effectively implemented in line with the spirit and requirements of the new certification.

The Committee has also closely monitored the level of complaints brought by claims management companies and the developing approach of the Financial Ombudsman Service. More details on this are contained in the Principal Risks section on page 28.

Business continuity

The Committee was pleased to see that the Group has continued to operate successfully since the start of the Covid-19 pandemic. Morses Club was able to restart lending to existing customers in April 2020 and subsequently recommence lending to new customers in July 2020.

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 26 to 31.

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 on pages 4 to 5.

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

Joanne Lake
Interim Chair
13 May 2021

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 the year to 27 February 2021. There have been a number of changes to the Executive team during the year. The Non-Executive Director, Andy Thomson, agreed to become the Interim CFO on 17 March 2020 following the departure of Andrew Hayward. Andy then reverted to his role as NED on 1 January 2021 upon the appointment of Graeme Campbell as CFO.

Remuneration & Corporate Social Responsibility Committee

The Board has 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 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 & Communications Director and Chief Financial Officer provide relevant updates on financial and general Company remuneration matters as invited individuals only. The Committee meets periodically when it has proposals to consider – generally three times a year. In any event, the Committee would meet no less than twice a year.

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

This Remuneration Report is due for approval at the Annual General Meeting on 22 June 2021. 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 SMCR 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.

Directors' Remuneration Report continued

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. The Company has undergone a transformation in the HCC division, with a large increase in the levels of remote lending and collections due to restrictions imposed by the Covid-19 pandemic. The HCC division was able to restart lending to its existing customers from April 2020, and subsequently to new customers from July 2020. The Digital division has made excellent progress in developing foundations upon which to build in future years.

Directors' remuneration

Name	Role	Base Salary 2021 £	Base Salary 2020 £	Allowance and Benefits 2021 £	Allowance and Benefits 2020 £	Pension Contribution 2021 £	Pension Contribution 2020 £	Bonus 2021 £	Bonus 2020 £	Deferred Share Plan 2021 £	Deferred Share Plan 2020 £	Expenses 2021 £	Expenses 2020 £	Total Remuneration 2021 £	Total Remuneration 2020 £	Total Fixed Pay 2021 £	Total Fixed Pay 2020 £	Total Variable Pay 2021 £	Total Variable Pay 2020 £
Paul Smith[1]	CEO	**302,940**	301,950	**18,813**	34,513	**17,040**	14,603	**–**	155,925	**140,483**	77,306	**3,313**	21,702	**482,589**	605,999	**338,793**	351,066	**143,796**	254,933
Andrew Hayward[2]	CFO	**106,449**	121,551	**4,406**	28,206	**1,108**	5,542	**–**	–	**–**	–	**459**	4,143	**112,422**	159,442	**111,963**	155,299	**459**	4,143
Andy Thomson[3]	CFO	**170,984**	82,468	**7,588**	5,724	**12,033**	5,313	**–**	119,543	**107,699**	56,776	**1517**	2,227	**299,821**	272,051	**190,605**	93,505	**109,216**	178,546
Graeme Campbell[5]	CFO	**36,667**	–	**2,000**	–	**1,833**	–	**–**	–	**–**	–	**–**	–	**40,500**	–	**40,500**	–	**–**	–
Total		**617,040**	505,969	**32,807**	68,443	**32,014**	25,458	**–**	275,468	**248,182**	134,082	**5,289**	28,072	**935,332**	1,037,492	**681,861**	599,870	**253,471**	437,622

Non-Executive Directors

Name	Role	Base Salary 2021 £	Base Salary 2020 £	Allowance and Benefits 2021 £	Allowance and Benefits 2020 £	Expenses 2021 £	Expenses 2020 £	Total Remuneration 2021 £	Total Remuneration 2020 £	Total Fixed Pay 2021 £	Total Fixed Pay 2020 £	Total Variable Pay 2021 £	Total Variable Pay 2020 £
Stephen Karle	Chairman	**120,000**	120,000	**–**	–	**583**	4,754	**120,583**	124,754	**120,000**	120,000	**583**	4,754
Sir Nigel Knowles	Senior Independent NED	**50,000**	50,000	**7,500**	7,500	**333**	1,318	**57,833**	58,818	**57,500**	57,500	**333**	1,318
Joanne Lake	NED, Chair of Remuneration Committee and Interim Chair of Audit and Risk & Compliance Committees	**50,000**	50,000	**7,500**	7,500	**–**	–	**57,500**	57,500	**57,500**	57,500	**–**	–
Peter Ward	NED	**50,000**	50,000	**–**	–	**1,015**	1,557	**51,015**	51,557	**50,000**	50,000	**1,015**	1,557
Baroness Simone Finn[6]	NED and Chair of Audit and Risk & Compliance Committees	**47,756**	41,090	**9,551**	8,218	**–**	2,514	**57,307**	51,822	**57,307**	49,308	**–**	2,514
Andy Thomson[3,4]	NED	**12,500**	33,333	**–**	–	**–**	31	**12,500**	33,364	**12,500**	33,333	**–**	31
Les Easson[7]	NED	**50,000**	25,000	**–**	–	**–**	761	**50,000**	25,761	**50,000**	25,000	**–**	761
Patrick Storey[8]	NED and Chair of Audit and Risk & Compliance Committees	**–**	8,910	**–**	2,673	**–**	591	**–**	12,174	**–**	11,583	**–**	591
Total		**380,256**	378,333	**24,551**	25,891	**1,931**	11,526	**406,738**	415,750	**404,807**	404,224	**1,931**	11,526

1 P Smith is the highest paid Director.
2 A Hayward was appointed as CFO on 1 July 2019 and resigned on 16 March 2020. His base salary for 2021 of £106,449 includes £90,615 notice pay.
3 A Thomson stepped down as a NED on 17 March 2020 and became CFO on the same date.
4 A Thomson stepped down as CFO on 1 January 2021 and became a NED on the same date.
5 G Campbell was appointed as CFO on 1 January 2021.
6 S Finn was appointed as a NED on 5 May 2019 and resigned on 12 February 2021.
7 L Easson was appointed as a NED on 1 September 2019 and resigned on 17 March 2021.
8 P Storey stepped down as a NED on 4 May 2019.

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 six months applies to both the Company and to individuals. There are no compensation payments for loss of office.

Letters of appointment
Non-Executive Directors do not have service contracts but are appointed under letters of appointment which have been updated in line with the requirements of the Senior Manager & Certification Regime.

The appointments are for three years but they are subject to annual re-election. All new appointments would be made following recommendations by the Nominations & Succession Committee. No compensation is payable in the event of early termination except during the notice period.

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

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

Holidays
Executive Directors are entitled to 30 days' paid holiday in addition to UK public bank holidays. The holiday year runs from January to December. 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%. This level of Company contribution is the same for all employees and Directors, and therefore complies with Provision 38 of the 2018 Corporate Governance Code recommendations regarding executive pensions.

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.

No bonus was paid to the Directors in the year ended 27 February 2021.

Performance bonus conditions
The performance bonus is payable if the Executive Director has delivered key objectives, including targeted adjusted profit before tax[1], promoting good-quality customer outcomes (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 138 to 141.

Directors' Remuneration Report continued

Deferred share plan (this section is subject to audit)

Executive Directors may participate in a deferred share plan, a three-year plan (commencing 2016/17) awarded through an annual deed of grant, subject to the discretion of the Remuneration Committee. There have been no variations to the terms and conditions or performance criteria for share options during the financial year. Awards under the 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 one year's satisfactory audits), compliance training, and individual executive performance.
- Awards will be granted on an annual basis.
- 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.

2018/19 Award

The table below details the maximum earnings from the deferred share plan in 2018/19. The share price at the date of the award was £1.54.

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

2019/20 Award

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

2020/21 Award

The table below details the maximum earnings from the deferred share plan in 2020/21. The issue price of the shares was £0.62[2].

Name	Role	Percentage of Salary	Share Award
Paul Smith	CEO	100	222,162
Andy Thomson	Interim CFO	100 pro rata	120,744
Graeme Campbell	CFO	100 pro rata	53,779

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 138 to 141.
2 The Committee was unwilling to offer a share award to the Executives based on the reduced share price as at May 2020. The award was therefore granted using a deemed share price of £1.36 which was the average share price for the awards in the previous four years.

2017 vesting
The Committee confirmed that the performance conditions for the 2017 scheme were satisfied and the awards due vested in January 2021. The vesting was delayed pending the announcement of the Company's final FY20 results and the 2021 interim results in late November and December 2020 respectively. The CEO exercised only that element of the option to satisfy HMRC obligations (sell to cover).

In addition, Andy Thomson and Les Easson, who were both Executives at the time that the award was granted in May 2017 also exercised only that element of their options to satisfy HMRC obligations. No further shares have been exercised.

Name	Role	Shares Vested	Sell to Cover	Shares Retained
Paul Smith	CEO	239,732	(115,071)	124,661
Andy Thomson	NED	183,787	(88,217)	95,950
Les Easson	NED	137,615	(66,055)	71,560

Directors' shareholdings

The table below details the shareholdings and other share interests of the Directors as at 27 February 2021.

Name	Role	Ordinary Shares	Percentage Shareholding
Paul Smith	CEO	579,074	0.44
Graeme Campbell	CFO	40,000	0.03
Andy Thomson	NED	3,229,691	2.44
Stephen Karle	Chairman	227,991	0.18
Peter Ward	NED	400,000	0.31
Les Easson[1]	NED	156,221	0.12
Sir Nigel Knowles	Ind NED	55,148	0.04
Joanne Lake	Ind NED	23,148	0.02

1 Les Easson holds an interest through Hay Wain Ltd and subsequently resigned on 17 March 2021.

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 issues shares to Morses Club employees under the framework of the approved employee share option scheme. No employee shares were awarded in FY21, as the performance conditions in FY20 were not met.

Directors' Remuneration Report continued

Changes in Directors' pay in relation to all employees

The table below shows the percentage change in remuneration of the Directors and employees of the Group between the 2020 and 2021 financial years.

	Salary or Base Fee	Benefits	Bonus[3]
Employees[1,2]	3%	(8)%	(69)%
Executive Directors			
Paul Smith[3]	1%	(61)%	(40)%
Andrew Hayward[4]	N/A	N/A	N/A
Andy Thomson[5]	108%	15%	(39)%
Graeme Campbell[6]	N/A	N/A	N/A
Non-Executive Directors			
Stephen Karle	0%	(88)%	N/A
Sir Nigel Knowles	0%	(75)%	N/A
Joanne Lake	0%	0%	N/A
Peter Ward	0%	(35)%	N/A
Simone Finn[7]	19%	(100)%	N/A
Andy Thomson[5]	(62)%	(100)%	N/A
Leslie Easson[8]	100%	(100)%	N/A

1 The strict legal requirement is to only provide details of employees of Morses Cub PLC, so we have decided to voluntarily disclose in respect of all Group employees.
2 Note that calculation is on a FTE basis.
3 No annual performance bonuses were paid in 2021.
4 A Hayward was appointed as CFO on 1 July 2019 and resigned on 16 March 2020.
5 A Thomson stepped down as a NED on 17 March 2020 and became CFO on the same date. On 1 January 2021, he stepped down as CFO and became a NED on the same date. The increase in his salary as an Executive Director was primarily caused by the additional period worked compared to 2020. The decrease in his salary as a Non-Executive Director was caused by the related reduction in the period worked compared to 2020.
6 G Campbell was appointed as CFO on 1 January 2021.
7 S Finn was appointed as a NED on 5 May 2019 and resigned on 12 February 2021. The increase in her fee as a Non-Executive Director was solely the result of the additional period worked compared to 2020.
8 L Easson was appointed as a NED on 1 September 2019 and resigned on 17 March 2021. The increase in his fee as a Non-Executive Director was solely the result of the additional period worked compared to 2020.

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

The updated CEO pay ratios which now include the value of shares vested in the period are:

FY21

Percentile	Value	CEO Pay Ratio
25th	£28,915.15	17:1
Median	£32,521.68	15:1
75th	£42,067.51	11:1

FY20

Percentile	Value	CEO Pay Ratio
25th	£26,715.78	31:1
Median	£32,734.00	25:1
75th	£41,702.56	20:1

The variation from the ratio in FY20 is due to the absence of any bonus payments during the year.

Relative importance of spend on pay

The total pay (including performance bonuses) for all Morses Club PLC employees for FY21 is £22,599,004 compared to £20,325,025 for FY20. The total pay for Shelby Finance Limited for FY21 is £5,293,110 (FY20: £6,753,487).

Corporate Social Responsibility (CSR)

Due to Covid-19 restrictions, the Company has run a limited CSR programme during FY21. Staff raised more than £7,500 for a local hospice by taking part in a virtual sponsored 10k event, and the Company donated 50 surplus monitors and other IT equipment to a local college, as well as small charitable donations for other local causes.

Joanne Lake
Chair – Remuneration & Corporate Social Responsibility Committee
13 May 2021

Disclosure Committee

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 (MAR).

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.

During the year, the Board sought advice from its Nomad as to whether the Company had a disclosure obligation either under MAR or the AIM Rules. It was confirmed that there was no such obligation at the time.

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

The Committee held one meeting during the year.

Approval

On behalf of the Disclosure Committee

Stephen Karle
Chairman
13 May 2021

COMMITTEE MEMBERS

Stephen Karle (Chairman)

Sir Nigel Knowles

Joanne Lake

Baroness Simone Finn (resigned 12 February 2021)

Peter Ward

Andy Thomson

Les Easson (resigned 17 March 2021)

Paul Smith (CEO)

Graeme Campbell (CFO) (from 1 January 2021)

Directors' Report

The Directors present their report and audited consolidated financial statements for the year ended 27 February 2021 and up to the date of signing the financial statements.

The Corporate Governance Statement set out on pages 46 to 74 forms part of this report.

Information about the use of financial instruments by the Company and its subsidiaries is given in Note 26 to the financial statements.

DIRECTORS

The Directors of the Company who served during the year ended 27 February 2021, and up to the date of this report, are:

Stephen Karle Non-Executive Chairman

Sir Nigel Knowles Senior Independent Director

Joanne Lake Independent Non-Executive Director

Peter Ward Non-Executive Director

Paul Smith Chief Executive Officer

Andrew Hayward Chief Financial Officer until 16 March 2020

Andy Thomson Non-Executive Director until 17 March 2020; Interim Chief Financial Officer from 17 March to 31 December 2020; Non-Executive Director since 1 January 2021

Baroness Simone Finn Independent Non-Executive Director until 12 February 2021

Les Easson Non-Executive Director until 17 March 2021

Graeme Campbell Chief Financial Officer from 1 January 2021

Sheryl Lawrence Independent Non-Executive Director from 1 May 2021

Michael Yeates Independent Non-Executive Director from 1 May 2021

Gary Marshall Executive Director (Chief Operating Officer) from 1 May 2021

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 67 to 73.

Biographical details of the current Directors are given on pages 41 to 43. 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.

Directors' Report continued

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 at least an annual basis, and before proposing a dividend payout, the Directors will assess the Company's going concern assumptions through a detailed review of the future capital and liquidity requirements that support longer-term strategic plans. This assessment ensures that the Company will be able to continue in operation and meet the needs of its shareholders and other stakeholders, beyond a proposed dividend payout. Further details of this review can be found in the Viability statement on page 31.

Following detailed reviews of the performance of the business and its working capital requirements, and taking into consideration that the Group has not furloughed any staff, deferred any liabilities to HMRC or taken 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 Annual General Meeting on 22 June 2021, the Board proposes to pay a final dividend of 2.0p per Ordinary Share payable on 30 July 2021 to Shareholders on the register at close of business on 2 July 2021. This would represent a total dividend of 3.0p per Ordinary Share for 2021 (2020: 3.6p).

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 27 February 2021, the Company had 132,530,539 Ordinary Shares of 1 pence each in issue (2020: 131,244,444).

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 46 and 47.

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 27 to 31.

The Company's environmental policies and actions are contained in the Strategic Report on page 37.

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 Board monitors this on a regular basis through reports from the Risk & Compliance Committee. 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 is included in online training courses which are mandatory for staff to complete and is also featured on staff screensavers and the staff intranet.

Directors' and officers' insurance

The Company has throughout the year maintained directors' and officers' 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 of its Directors in a form and a 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 Teams meetings, informal briefings, videos and our intranet.

The Company uses an online Learning Management System (LMS) to train and assess all employees and it can be easily accessed from any location, including at home. Everything from induction programmes, regulatory training modules and management development programmes are available on the LMS.

All employees and self-employed agents undertake monthly regulatory training modules. These monthly modules are compulsory for all and completion is monitored and reported at Board level. This ongoing training and assessment cycle ensures that our employees have the necessary skills to work in this highly regulated industry, providing great customer service and treating customers fairly. This has continued uninterrupted throughout the pandemic.

Morses Club provides development programmes 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 six courses with a work-based project and assessment. There are 21 employees currently on the programme and a further seven employees who have already successfully completed it.

During the year, the two Company training teams (Morses Club and Shelby) were merged into a single Group function. This has allowed us to share management development programmes and resources to provide a consistent approach to development for employees across the Group.

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 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. Prior to Covid-19, the Health & Safety Committee contained a significant number of representatives from our HCC field network. During lockdown, with everyone working remotely, these representatives did not come into contact with other employees on a daily basis. In order to keep in touch with all employees who are currently working from home, we have reconstituted the Committee, keeping a core of key functional representatives, removing field representatives and introducing new channels including regular employee surveys, Teams channels and other feedback mechanisms to ensure everyone is involved. At the time of writing, all employees continue to work from home, in accordance with government guidelines.

Employee Share Schemes

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. These shares vested in January 2021, following the announcement of the Company's final FY20 and interim FY21 results in November 2020 and December 2020 respectively, and participants were able to purchase their Morses Club shares at the nominal price of 1p each.

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 late 2019, the SIP was presented with an award in the <500 employees category by ProShare, the voice of the employee share ownership industry in the UK. In December 2018 and 2019, 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 SIP shares are held in trust for a minimum holding period of three years, and employees who participate will lose their award if they resign or are dismissed from their employment during this three-year period.

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

Regrettably, due to the Company failing to meet its profit targets in FY20, no award was made to employees in December 2020. However, providing the Company achieves its profitability targets, the Group intends to continue to award shares under the SIP to its employees annually in future years.

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 Morses Club employees hold 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.

Directors' Report continued

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 one or a combination of the following three 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. On 17 March 2021, Les resigned as a Director and the Nominations & Succession Committee has started the task of selecting a replacement. As a result, the Company will not comply with the Code until a replacement Designated Director is appointed.

Energy and carbon reporting

FY21 is the first year we are required to report under the Streamlined Energy & Carbon Reporting (SECR) framework. The Company has gathered data regarding scope 1 and scope 2 carbon emissions (as defined by the GHG Protocol) for the financial year spanning 1 March 2020 to 27 February 2021.

Emissions and energy usage

	Emissions source	2020-2021	2019-2020
Scope 1 (tCO_2e)	Natural gas	26	117
	Fuel for transport purposes	309	1,216
Total Scope 1 (tCO_2e)		335	1,333
Total Scope 2 (tCO_2e)	Electricity	70	121
Intensity ratio – tCO_2e per number of employees		0.74	2.53

Methodology

The organisation has taken guidance from the UK Government Environmental Reporting Guidelines (March 2019), the GHG Reporting Protocol – Corporate Standard, and from the UK Government GHG Conversion Factors for Company Reporting document for calculating carbon emissions.

Energy efficiency action

During the financial period, the organisation has reduced its property estate from c. 90 properties to one, which has had a direct impact on energy impact and usage. Reduced travel has also resulted in a significant reduction in carbon emissions.

Substantial interests in shares

As at 28 April 2021, 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	47,683,640	35.98
Premier Miton Investors	16,558,127	12.49
Artemis Investment Management	11,213,960	8.46
Amati Global Investors	9,554,948	7.21
J O Hambro Capital Management	9,527,666	7.19
Hargreaves Lansdown Stockbrokers	5,355,073	4.04
Janus Henderson Investors	5,331,310	4.02

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 27 February 2021 continues to hold 35.99% 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 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 2021 (2020: £nil).

Post balance sheet events

On 1 May 2021, the Company appointed Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors, and its COO, Gary Marshall, as an Executive Director.

Funding

During the period we extended our loan facility with the incumbent lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022.

The new facility limit was reduced from £40m to £35m to better match the needs of the business post Covid-19. The new facility also unlocks access to funding for our Dot Dot loan products in addition to ongoing support of our HCC products. By reducing the facility, non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

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

Notice of Annual General Meeting

The notice convening the Annual General Meeting to be held virtually on 22 June 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. Shareholders may join the AGM by contacting the Company in advance at investors@morsesclubplc.com.

By order of the Board

Dave Belmont
Company Secretary
13 May 2021

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 that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. 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 13 May 2021 and is signed on its behalf by:

Paul Smith
Director
13 May 2021

Graeme Campbell
Director
13 May 2021

Financial Statements

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 27 February 2021 and of the group's profit for the year then ended;
- have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006; and
- 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 sheet;
- the consolidated and parent company statement of changes in equity;
- the consolidated and parent company cash flow statements; and
- the related notes 1 to 31.

The financial reporting framework that has been applied in their preparation is applicable law and international accounting standards in conformity with the requirements 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; Loan impairment provisions; Revenue recognition; Impairment of goodwill; and Contingent liability. 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 £724,000 which was determined on the basis of 1% 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	We have expanded our key audit matter around loan impairment provisioning and revenue recognition to include cohort weightings as management's methodology has changed since prior year; in previous years management weighted each annual cohort of data equally (20%) however in FY21 cohort weightings have been applied to give prominence (60%) to the most recent 2019 cohort, encapsulating the Covid-19 performance of the loan book, and 10% for each of the four previous cohorts. Due to the noticeable increase in complaints raised by Claims Management Companies ("CMC's") within both the company and the wider home collect credit industry, we have identified a new key audit matter around the consequent impact of the volume of complaints on the group's contingent liabilities.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the group's and parent company's ability to continue to adopt the going concern basis of accounting is discussed in section 5.1.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's and parent company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In relation to the reporting on how the group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the directors' statement in the financial statements about whether the directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

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.

Independent Auditor's Report continued

5.1. Going concern

Key audit matter description	The ongoing uncertainty surrounding the impact of Covid-19 and the continuing attention of regulators and CMC's on the home collect credit sector, has continued to increase the 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 12 months from the date of approval of the financial statements. In addition, there is an increased risk associated with the appropriateness of disclosures over the going concern assessment in light of an enhanced focus from CMC's on the home collect credit sector. 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. The Directors have disclosed their explanations and conclusions on the going concern basis and the key matters considered, including judgements in relation to (i) the ongoing confidence in the group's and company's profitability, liquidity and funding positions, particularly in light of the extension of the borrowing facility to December 2022, as well as (ii) the capability of the operational resilience and supplier viability framework in place 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 company's and group's ability to continue as a going concern are detailed on page 100 within note 1 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 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 assessed the internal governance process followed by management in order to prepare the budget and also a worst-case scenario assessment. 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 accuracy of the calculations underpinning the forecasts, and also challenged the reasonableness of the forecasts by assessing the key assumptions adopted and reviewing management's historical 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 in order to monitor the operational impact of Covid-19 on a regular basis. We assessed management's oversight of service providers' operational and financial resilience, or where necessary, the contingency plans in place where a supplier has been deemed at risk. **Disclosures** We have evaluated the disclosures made by management in relation to going concern, to assess whether they appropriately reflect the impact on the group and evaluated the consistency of the disclosures with our knowledge of the group based on our audit. We read the most recent Board minutes and regulatory correspondence to identify items of interest and assess the completeness of the disclosures.
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 accounts, we concurred with the directors' conclusion 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 are appropriate.

5.2. Loan impairment provisions

Key audit matter description	The group held loan impairment provisions of £32.6m (2020: £44.9m), against gross loan carrying amounts of £80.5 million (2020: £112.8 million) within the home collect credit business. 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 collections curves are based on collections levels from outstanding amounts receivable from customers over 2015-2019. The collection curve methodology has changed since prior year; in previous years management weighted each annual cohort equally (20%) however in FY21 cohort weightings have been applied to give prominence (60%) to the most recent 2019 cohort, encapsulating the Covid-19 performance of the loan book, and 10% for each of the four previous cohorts. We have determined our key audit matter to be the estimation of future cash flows, including cohort weightings, used to determine the provision given that the impairment provision is highly sensitive to this assumption and it requires the highest degree of judgement. Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance. 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 99 to 108 with detail about judgements in applying accounting policies and critical accounting estimates on page 107 and within the Audit Committee report on page 59 to 62. The trade and other receivables note is on page 118.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the estimation of future cash flows and 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 impairment provisioning model. We specifically challenged the appropriateness of the cash collection curves used to determine the impairment provision, which included a review of the updated 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 and the updated methodology being used by management is an appropriate basis upon which to predict future recoveries in the current economic environment. We performed a retrospective review comparing weighted forecasted cash collections for FY21 against actual cash collections, including an assessment of the impact of any differences on the validity of managements modelling. We involved our IT specialists to test the mechanical accuracy and completeness of the impairment models by recalculating the provision in accordance with the approved provisioning policy. We challenged the defined staging triggers as these are the other key assumption driving the impairment calculation. This involved analysis of the group's historical cash collection experience and benchmarking to peers and external economic and industry data. We reconciled the loan impairment 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 was complete and accurate. We also challenged management on the lack of macroeconomic overlays and performed an assessment over the potential requirement for a macroeconomic overlay.
Key observations	We concluded that the impairment models were working as intended. We concluded that the estimation of future cash flows within the models and the updated cohort weighting methodology were reasonable and thus the impairment provision recorded was appropriate.

Independent Auditor's Report continued

5.3. Revenue recognition

Key audit matter description	The group recognised revenue of £86.4m (2020: £119.3m) against amounts receivable from home collect credit customers during the year ended 27 February 2021. 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 of loans. We have determined our key audit matter to be the formulation of the expected lives assumptions, including cohort weightings, given these are the key judgements underpinning the calculation of the revenue balance. The expected lives are determined from the same data set used to construct the cash collection curves used in loan impairment provisioning. 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 99 to 108 with detail about judgements in applying accounting policies and critical accounting estimates on page 107 and within the Audit Committee report on pages 59 to 62.
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 and 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 year ended 27 February 2021.
Key observations	We concluded that the 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, Morses Club PLC 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 expected. 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 business performance and cash flows. Management concluded that no impairment of goodwill was required based on an assessment of relevant impairment triggers. 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 108 with detail about judgements in applying accounting policies and critical accounting estimates on page 107 and within the Audit Committee report on page 59 to 62. The goodwill note is on page 113.
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 and management's judgement paper. We evaluated the forecast cash flows used in the model against the historical trading of the Digital 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. As we expect consistency between the two management assessments, we tested the accuracy and completeness of the impairment model by comparing to the forecasts used in the going concern assessment.
Key observations	We concur that the growth rates and discount rate applied are appropriate and also with management's conclusion that no impairment of goodwill was required.

Independent Auditor's Report continued

5.5. Contingent liability

Key audit matter description	Due to the noticeable increase in complaints raised by CMCs within both the company and the wider home collect credit industry, we have identified a new key audit matter around the consequent impact of the volume of complaints on the group's contingent liabilities. Whilst an IAS 37 provision has been raised within the FY21 results for unresolved complaints at the balance sheet date, this key audit matter is focused upon the possibility of a significant increase in complaints being received by the company after the year end and the necessity for consideration of a contingent liability disclosure in the FY21 financial statements. Under the requirements of IAS 37 a contingent liability should be recognised for a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; an entity should not recognise but disclose a contingent liability, unless the possibility of an outflow of resources embodying economic benefits is remote. Management has disclosed a contingent liability in response to complaints raised by CMCs but are unable to quantify the possible impact on the financial statements at this time. Management's associated accounting policies are detailed on pages 93 to 108 with the contingent liability note on page 137.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant controls over the consideration of whether a contingent liability was required. We assessed whether the requirements of IAS 37 had been applied appropriately, whilst also holding discussions with our regulatory specialists on any additional areas of concern or risk based on the complaints received to date. We assessed the trend in complaints observed during the year and up until the date of signing, evaluated the level of complaints raised in comparison to that observed at peers, using publicly available information, and reviewed any correspondence with regulators.
Key observations	We concur with the contingent liability disclosed by management, in light of the groups' complaints experience to date.

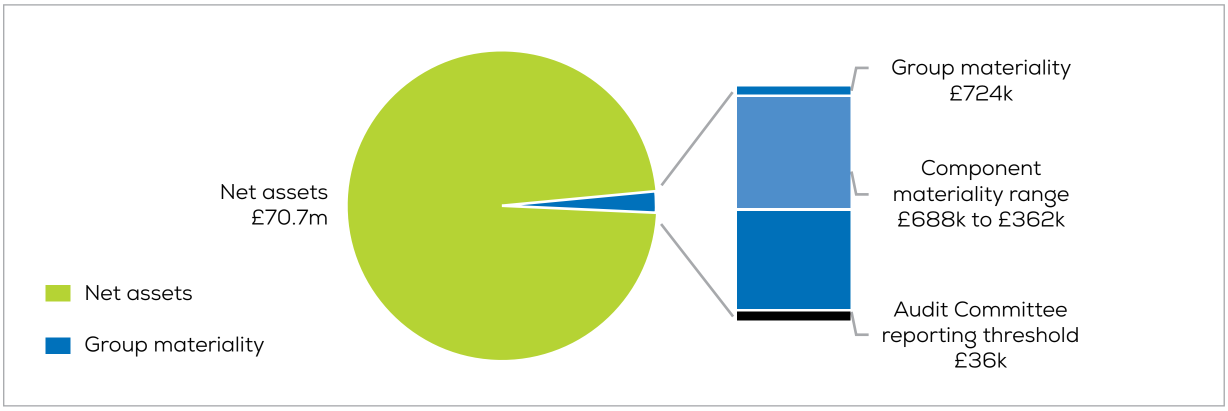
6. Our application of materiality

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	£724k (2020: £706k)	£688k (2020: £670k)
Basis for determining materiality	1% of net assets (2020: 1% of net assets)	1% of net assets (2020: 1% of net assets)
Rationale for the benchmark applied	We considered both a profit and net assets based measure as benchmarks for determining materiality. As the pandemic has increased the volatility of pre-tax profits, we have again used net assets as a more stable benchmark and basis for materiality. Net assets 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.	



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 financial statements	Parent company financial statements
Performance materiality	65% (2020: 70%) of group materiality	65% (2020: 70%) of parent company materiality
Basis and rationale for determining performance materiality	We have 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. Performance materiality was set at 65% of materiality for the 2021 audit (2020: 70%). In determining performance materiality we considered our risk assessment, including our assessment of the group and parent company's overall control environment and the increased control risks inherent within the business given it is operating in a Covid-19 environment.	

6.3. Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £36k (2020: £35k), 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; this is consistent with the approach in prior year. 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. With the involvement of our IT specialist 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 within the home collect credit business. 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 other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of our audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

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.

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.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud
Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1. Identifying and assessing potential risks related to irregularities
In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the group's remuneration policies, key drivers for directors' remuneration, bonus levels and performance targets;
- results of our enquiries of management, internal audit and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations;
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, IT, valuations and analytics specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: loan impairment provisioning, revenue recognition and impairment of goodwill. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the group and company operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the UK Companies Act and tax legislation etc.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty. These included the regulation set by the Financial Conduct Authority, which are fundamental to the group's ability to continue as a going concern

11.2. Audit response to risks identified
As a result of performing the above, we identified loan impairment provisioning, revenue recognition and impairment of goodwill as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management and the Audit Committee concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with the Financial Conduct Authority and HMRC;
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Independent Auditor's Report continued

Report on other legal and regulatory requirements

12. 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.

13. Corporate Governance Statement
Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit:
- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified;
- the directors' explanation as to its assessment of the group's prospects, the period this assessment covers and why the period is appropriate;
- the directors' statement on fair, balanced and understandable;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems; and
- the section describing the work of the Audit Committee

14. 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.

15. Matters on which we are required to report by exception
15.1. 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.

15.2. 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.

16. 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
13 May 2021

Consolidated Income Statement
For the 52-week period ended 27 February 2021

	Notes	52 weeks ended 27.2.21 £000	52 weeks ended 29.2.20 £000
Revenue	1	**100,234**	133,651
Impairment on financial assets		**(20,794)**	(36,358)
Cost of sales		**(20,657)**	(27,669)
Gross profit		**58,783**	69,624
Administration expenses	2, 4	**(55,967)**	(54,918)
Operating profit before amortisation of intangibles and exceptional items		**3,161**	13,593
Amortisation of acquisition intangibles	12	**(345)**	(1,222)
Exceptional items	3	**–**	2,335
Operating profit		**2,816**	14,706
Finance costs	6	**(2,360)**	(3,255)
Profit before taxation	4	**456**	11,451
Tax on profit on ordinary activities	7	**(239)**	(1,974)
Profit after taxation		**217**	9,477

Earnings per share		27.2.21 Pence	29.2.20 Pence
Basic	9	**0.17**	7.26
Diluted	9	**0.17**	7.21

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 27 February 2021

Registered Number: 06793980

	Notes	Group 27.2.21 £000	Group 29.2.20 £000	Company 27.2.21 £000	Company 29.2.20 £000
Assets					
Non-current assets					
Goodwill	11	**12,854**	12,981	**3,293**	3,293
Other intangible assets	12	**8,863**	7,362	**5,092**	5,606
Investment in subsidiaries	14	**–**	–	**23,011**	11,011
Property, plant and equipment	13	**734**	818	**129**	196
Right-of-use assets	15	**1,696**	2,783	**1,113**	2,113
Deferred tax	21	**581**	659	**671**	797
Amounts receivable from customers	16	**82**	657	**–**	586
		24,810	25,260	**33,309**	23,602
Current assets					
Amounts receivable from customers	16	**53,408**	72,171	**47,952**	67,294
Taxation receivable		**1,387**	501	**1,387**	501
Other receivables	16	**4,927**	4,256	**23,900**	22,159
Cash at bank		**8,258**	11,868	**6,616**	9,585
		67,980	88,796	**79,855**	99,539
Total assets		**92,790**	114,056	**113,164**	123,141
Liabilities					
Current liabilities					
Trade and other payables	17	**(10,039)**	(6,723)	**(9,858)**	(6,629)
Complaints provision	29	**(2,012)**	–	**(2,012)**	–
Lease liabilities	19	**(790)**	(1,286)	**(740)**	(1,228)
		(12,841)	(8,009)	**(12,610)**	(7,857)
Non-current liabilities					
Bank and other borrowings		**(8,302)**	(33,838)	**(8,302)**	(33,838)
Lease liabilities		**(994)**	(1,553)	**(343)**	(848)
		(9,296)	(35,391)	**(8,645)**	(34,686)
Total liabilities		**(22,137)**	(43,400)	**(21,255)**	(42,543)
Net assets		**70,653**	70,656	**91,909**	80,598
Equity					
Called up share capital	22	**1,325**	1,312	**1,325**	1,312
Group reconstruction reserve	23	**–**	–	**(9,276)**	(9,276)
Retained earnings	23	**69,328**	69,344	**99,860**	88,562
Total equity		**70,653**	70,656	**91,909**	80,598

The Parent Company's profit for the financial period was £11,531 489 (2020: £18,705,113). The consolidated and Company financial statements of Morses Club PLC were approved by the Board of Directors on 13 May 2021.

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

Graeme Campbell
Director

Consolidated Statements of Changes in Equity

For the 52-week period ended 27 February 2021

Group	Notes	Called Up Share Capital £000	Retained Earnings £000	Total Equity £000
As at 24 February 2019		**1,298**	**69,835**	**71,133**
Profit for year		–	9,477	9,477
Total comprehensive income for		–	9,477	9,477
Deferred tax on acquisitions		–	39	39
Share issue		14	–	14
Share-based payments charge	27	–	155	155
Dividends paid	8	–	(10,162)	(10,162)
As at 29 February 2020		**1,312**	**69,344**	**70,656**
Profit for year		–	217	217
Total comprehensive income for		–	217	217
Share issue		13	–	13
Share-based payments charge	27	–	1,079	1,079
Dividends paid	8	–	(1,312)	(1,312)
As at 27 February 2021		**1,325**	**69,328**	**70,653**

Company	Notes	Called Up Share Capital £000	Group Reconstruction Reserve £000	Retained Earnings £000	Total Equity £000
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	27	–	–	155	155
Dividends paid	8	–	–	(10,162)	(10,162)
As at 29 February 2020		**1,312**	**(9,276)**	**88,562**	**80,598**
Profit for year		–	–	11,531	11,531
Total comprehensive income for the period		–	–	11,531	11,531
Share issue		13	–	–	13
Share-based payments charge	27	–	–	1,079	1,079
Dividends paid	8	–	–	(1,312)	(1,312)
As at 27 February 2021		**1,325**	**(9,276)**	**99,860**	**91,909**

Cash Flow Statements

For the 52-week period ended 27 February 2021

		Group		Company	
	Notes	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Net cash inflow from operating activities		**33,054**	21,418	**40,071**	7,234
Cash flows used in financing activities					
Dividends paid	8	**(1,312)**	(10,162)	**(1,312)**	(10,162)
Proceeds from additional long-term debt		**11,500**	36,000	**11,500**	36,000
Repayment of long-term debt		**(37,000)**	(16,500)	**(37,000)**	(16,500)
Principal paid under lease liabilities		**(1,499)**	(1,385)	**(1,435)**	(1,433)
Interest received		**–**	13	**1,544**	1,067
Interest paid		**(1,622)**	(2,533)	**(1,622)**	(2,533)
Interest paid (lease liabilities)		**(353)**	(472)	**(251)**	(399)
Net cash (outflow)/inflow from financing activities		**(30,286)**	4,961	**(28,576)**	6,040
Cash flows used in investing activities					
Purchase of intangibles		**(5,282)**	(4,277)	**(1,625)**	(2,511)
Purchase of property, plant and equipment including RoU assets		**(1,096)**	(2,180)	**(839)**	(347)
Additional investment in subsidiary		**–**	–	**(12,000)**	(8,150)
Acquisitions		**–**	(15,947)	**–**	(439)
Net cash (outflow) from investing activities		**(6,378)**	(22,404)	**(14,464)**	(11,447)
(Decrease)/Increase in cash and cash equivalents		**(3,610)**	3,975	**(2,969)**	1,827
Reconciliation of increase in cash and cash equivalents					
Movement in cash and cash equivalents in the period		**(3,610)**	3,975	**(2,969)**	1,827
Cash and cash equivalents, beginning of year		**11,868**	7,893	**9,585**	7,758
Cash and cash equivalents, end of year		**8,258**	11,868	**6,616**	9,585

Notes to the Consolidated Cash Flow Statements

For the 52-week period ended 27 February 2021

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

	Group		Company	
	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Profit before tax and costs	**456**	9,116	**11,818**	20,755
Exceptional gains	**–**	2,335	**–**	–
Profit before taxation	**456**	11,451	**11,818**	20,755
Interest received included in financing activities	**–**	(13)	**(1,544)**	(1,067)
Interest paid included in financing activities	**2,006**	3,005	**1,904**	2,932
Share issue	**13**	14	**13**	14
Depreciation charges	**1,915**	2,436	**1,646**	1,896
Share-based payments charge	**1,079**	155	**1,079**	155
Impairment of goodwill	**126**	16	**–**	16
Amortisation of intangibles	**2,811**	3,136	**2,139**	2,188
Write-off of right-of-use assets	**261**	142	**261**	142
Loss on disposal of tangible assets	**92**	–	**–**	–
Loss on disposal of intangible assets	**969**	–	**–**	–
Decrease/(increase) in debtors	**18,667**	6,702	**18,186**	(14,631)
Increase/(decrease) in creditors	**5,849**	(1,466)	**5,759**	(1,006)
	33,788	14,217	**29,443**	(9,361)
Taxation paid	**(1,190)**	(4,160)	**(1,190)**	(4,160)
Net cash inflow from operating activities	**33,054**	21,418	**40,071**	7,234

Notes to the Consolidated Cash Flow Statements continued

For the 52-week period ended 27 February 2021

2. Reconciliation of liabilities arising from financial activities

Group	Long-term Borrowings £000	Lease Liabilities £000	Total £000
At 23 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)
– Drawdown	36,000	–	36,000
– Lease additions & disposals	–	833	833
– Interest	2,533	472	3,005
At 29 February 2020	33,838	2,839	36,677
Non-cash changes			
– Amortised fees	(36)	–	(36)
– Interest	(1,622)	(353)	(1,975)
Cash flows:			
– Repayments	(37,000)	(1,499)	(38,499)
– Drawdown	11,500	–	11,500
– Lease additions & disposals	–	444	444
– Interest	1,622	353	1,975
At 27 February 2021	**8,302**	**1,784**	**10,086**

Company	Long-term Borrowings £000	Lease Liabilities £000	Total £000
At 23 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)
– Drawdown	36,000	–	36,000
– Lease additions & disposals	–	118	118
– Interest	2,533	399	2,932
At 29 February 2020	33,838	2,076	35,914
Non-cash changes			
– Amortised fees	(36)	–	(36)
– Interest	(1,622)	(251)	(1,873)
Cash flows:			
– Repayments	(37,000)	(1,435)	(38,435)
– Drawdown	11,500	–	11,500
– Lease additions & disposals	–	442	442
– Interest	1,622	251	1,873
At 27 February 2021	**8,302**	**1,083**	**9,385**

Notes to the Consolidated Financial Statements
For the 52-week period ended 27 February 2021

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 Building 1, The Phoenix Centre, 1 Colliers Way, Nottingham NG8 6AT.

Basis of preparation
The financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention. 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.

The Group and Company's principal accounting policies under IFRS have been consistently applied to all the years presented.

Adoption of new accounting policies
There are no other new IFRSs or International Financial Reporting Interpretations (IFRIC) that are effective for the first time for the 52 weeks ended 27 February 2021 which have a material impact on the Group.

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and have been adopted by the EU:

New amended standard or interpretation	Effective date – for accounting periods beginning on or after
Amendments to IFRS 17 and IFRS 4, 'Insurance contracts' deferral of IFRS 9	1 January 2021

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective and have not been adopted by the EU:

New amended standard or interpretation	Effective date – for accounting periods beginning on or after
Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 Interest Rate Benchmark Reform	1 January 2021
Amendments to IAS 1, 'Presentation of financial statements' on classification of liabilities	1 January 2022
Narrow scope amendments to IFRS 3, IAS 16, IAS 17 and some annual improvements on IFRS 1, IFRS 9, IAS 41 and IFRS 16	1 January 2022
IFRS 17, 'Insurance contracts'	1 January 2023

There is not any known or reasonably estimable information relevant which suggests that the impact of applying the new standards will materially impact the financial statements in the initial period of application.

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

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

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

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

1. Accounting policies continued

Going concern continued

The Group is subject to a number of risks and uncertainties which arise as a result of the current economic environment. In determining that the Group is a going concern these risks, which are described in the principal risks and uncertainties section, have been considered by the Directors. The Directors have considered these risks in the Group's forecasts and projections which highlight continued profitability for the foreseeable future. After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the consolidated financial statements.

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

The Group has observed a noticeable increase in the level of complaints received from both CMCs and customers during the year. The increase in complaints encountered by a small number of other lenders in the sector has triggered signs of financial stress, prompting applications to the Courts for schemes of arrangements to ensure their businesses remain viable whilst their customers receive a proportion of redress. Whilst the Group has seen an increase in complaints received, the increase is proportionately smaller to other lenders and the Board remains confident with its business model and underlying operational resilience.

As part of its annual planning process, the Group assessed its business plans and subsequently ran a number of scenarios around the key areas of sensitivities namely:

- Loan volumes
- Collections
- Loan book quality/credit risk
- Cash availability
- Collect out scenario (in accordance with regulatory guidance)

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. The resilience and ability to adapt the business model the business has shown during the last 12 months give management additional confidence in assessing ongoing viability.

In May 2021, the Group agreed a new loan facility with a consortium of two lenders, which secured funding for our HCC and digital products through to December 2022. This was at a reduced commitment level of £35m, all in the RCF, compared to the £40m funding commitment previously in place until December 2021. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.

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.

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 recognised such adjustments for vehicles during the current period in light of lease term extensions that were enacted.

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.

Basis of consolidation
The Group financial statements drawn up to 27 February 2021 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 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.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

1. Accounting policies continued

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

Stage 1 – Accounts at initial recognition. Revenue is recognised on the gross receivable before impairment provision.
Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. Revenue is recognised on the gross receivable before impairment provision.
Stage 3 – Accounts which have defaulted. Revenue is recognised on the net receivable after impairment provision.

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

Digital revenue for recurring monthly management fees in relation to current accounts is recognised in accordance with IFRS 15. Fees and commissions receivable and payable are recognised when the service is provided, or when transactions are processed on an accruals basis.

See *Critical accounting judgements and key sources of estimation uncertainty* on page 107 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.

Stage 1 – Accounts at initial recognition. The impairment provision is based on 12-month expected losses, based on historic performance. Under IFRS 9, all receivables are recognised within Stage 1 on inception of the loan.

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. 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 in HCC by two missed weekly payments in a 13-week period and in digital by any single missed monthly payment.

Stage 3 – Accounts which have defaulted. The impairment provision is based on lifetime losses, based on historic performance. Stage 3 represents a customer in default, equivalent in HCC to 10 missed payments in a 13-week period. In digital Stage 3 is represented by more than two missed monthly payments.

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 macro-economic 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 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.

Write-off policy
A customer's balance is fully written off in HCC at the point the customer has gone 17 weeks without any payment and in digital when more than 3 payments are missed during the life of the loan. Before this point the balance is heavily provided for in accordance with IFRS 9. When a debt is sold and the cash is received for the debt, the recoveries are credited to the income statement.

See *Critical accounting judgements and key sources of estimation uncertainty* on page 107 for more information.

Macro-economic overlay
Through involvement in the Regional CBI, Morses Club PLC receives good insight into the current macro-economic landscape. Most economic analysis from the Bank of England and HM Treasury 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

After carefully considering the economic factors impacting the Group's loan receivables balance, and reviewing historical customer payment behaviours, management has concluded that sufficient loan impairment provisions have already been recognised in the financial statements, and a macro-economic overlay adjustment is therefore not required.

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.

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 one 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 107 for more information.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

1. Accounting policies continued

Other intangible 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 of fixed assets
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 deconsolidated 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 biannual basis.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank and in hand with maturities of three 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.

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.

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. Finance costs also include interest on lease liabilities.

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.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

1. Accounting policies continued

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

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

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

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

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

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

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

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (when the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably

Contingent liabilities
Contingent liabilities are possible obligations depending on whether some uncertain future event occurs, or present obligations where an economic outflow of resources is not probable, or the amount cannot be measured reliably. Contingent liabilities are not recognised in the balance sheet, but relevant information is disclosed, unless the possibility of an outflow of economic resources is remote.

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
There are no critical accounting judgements.

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 £36.6m (2020: £48.1m) 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 two or more contractual weekly payments have been missed in the previous 13 weeks, since only at this point do the expected future cash flows from loans deteriorate significantly. Impairment is calculated using models which use historical payment performance to generate the estimated amount and timing of future cash flows from each arrears stage. Management use a combination of historical cash performance curves to estimate future cash flows. These estimations are revised annually and approved by management.

A key estimate within the impairment provision is the collection curves. Management have considered the best way to deal with the Covid-19 event and its impact on the impairment provision and income recognition. It was determined that continuing to use a flat five year average of the cash curves would materially understate the provision. A weighting of the individual cash curves to give more prominence to the most recent cohort was adopted.

	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Impairment Provision	Deferred Income
Option 1	20%	20%	20%	20%	20%	(£32.1m)	(£20.8m)
Option 2	15%	15%	15%	15%	40%	(£32.3m)	(£21.4m)
Option 3	10%	10%	10%	10%	60%	(£32.6m)	(£21.4m)
Option 4	0%	0%	0%	0%	100%	(£33.1m)	(£21.4m)

Management believes that weighting option 3 is this most reflective of the impact of Covid-19 on the Group's revenue and impairment.

Please note that the remote lending and collection model of our Digital lending business has resulted in a smaller Covid-19 impact, and therefore management have not applied this weighting to the Digital Division. The impairment numbers above are for Home Collect Credit only.

The following sensitivities are in relation to HCC only given Digital is not materially sensitive in this area.

Based on past experience, actual cash collections could vary by up to 5% from this estimate. If cash collections were 5% higher/lower than this estimate, the impact on the impairment provision would be £4.4m (2020: £11.0m) higher/lower. The prior year impact was measured on a 10% variation on the estimate of cash collections.

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 (2020: £0.5m). The sensitivity is of a small magnitude due to the short-term nature of the products.

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

1. Accounting policies continued

Key sources of estimation uncertainty continued

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.

Management determined that continuing to use a flat five year average of the average lives would materially understate the provision. A weighting of the individual cash curves to give more prominence to the most recent cohort was adopted. Details of the weightings considered can be found on page 107.

The following sensitivities are in relation to HCC only given Digital is not materially sensitive in this area.

If the expected life of the loan lengthens by two weeks, as has been seen under Covid-19, it is estimated that revenue would be approximately £0.6m (2020: £0.8m) lower. The maximum movement in the average life year on year for the last five years has been two weeks, therefore this is considered to be a reasonable basis for the sensitivity analysis performed.

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 absolute headroom for Shelby Finance Ltd is £154.7m. The annual growth rate in year one is -138%, year two is 308%, year three is 58% and every +/- 1% change in the annual growth rate results in a +/- £0.1m change to the cumulative discounted cash flow over the same period. Every +/- 1% change in the discount rate results in a +/- £12.9m 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 +/- £7.0m change to the recoverable amount. 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	
	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Wages and salaries	**22,059**	22,519	**17,453**	16,772
Social security costs	**2,588**	2,589	**2,171**	2,026
Other pension costs	**979**	1,038	**770**	792
Total staff costs	**25,626**	26,146	**20,394**	19,590
Redundancy costs	**1,172**	933	**1,122**	734
Total staff costs	**26,798**	27,079	**21,516**	20,324

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	
	52 weeks ended 27.2.21	53 weeks ended 29.2.20	52 weeks ended 27.2.21	53 weeks ended 29.2.20
Management	**218**	201	**182**	164
Clerical & field staff	**382**	439	**289**	335
	600	640	**471**	499

3. Exceptional gains

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Deferred consideration on acquisition	–	2,335
Total exceptional gain	–	2,335

In 2020 exceptional items were made up of the release of deferred consideration in relation to the acquisition of U Holdings Limited amounting to £2,335,000.

4. Profit before tax

The operating profit is stated after charging:

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Depreciation – owned assets	**329**	740
Amortisation of intangibles	**2,811**	3,135
Depreciation of right-of-use asset	**1,586**	1,696
Impairment of financial assets	**20,794**	36,358
Operating lease rentals – motor vehicles	**205**	339
Operating lease rentals – property	**443**	710

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

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Short-term employee benefits	**1,055**	979
Post-employment benefits	**32**	25
Long-term benefits	–	275
Share-based payments	**248**	134
	1,335	1,413
The number of Directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**4**	3

Information regarding the highest paid Director is as follows:

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Emoluments	**462**	570
Pension contributions to money purchase schemes	**17**	15

The analysis of auditor's remuneration is as follows:

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	**312**	410
Total audit fees	**312**	410
Audit-related assurance services	**35**	30
Corporate finance services	–	55
Total non-audit fees	**35**	85

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

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. On this basis the Group has determined it has two cash generating units for the purposes of segmental reporting comprising Home Collected Credit (Morses Club) and Digital (Shelby Finance Limited and U Holdings Limited). These two cash generating units are then assessed for impairment, see note 11. 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	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Home Collected Credit	**86,430**	119,269	**14,050**	22,940
Digital	**13,804**	14,382	**(10,512)**	(11,225)
Total Group before amortisation of acquisition intangibles and exceptional items	**100,234**	133,651	**3,538**	11,715
Intra-Group elimination*	**–**	–	**36**	750
Group acquisition costs	**–**	–	**–**	(213)
Amortisation of intangibles	**–**	–	**(3,118)**	(3,136)
Exceptional items	**–**	–	**–**	2,335
Total Group	**100,234**	133,651	**456**	11,451

	Segment assets		Segment liabilities		Net assets/(liabilities)	
Group	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Home Collected Credit	**114,485**	124,462	**(21,255)**	(42,543)	**93,230**	81,919
Digital	**23,260**	21,145	**(23,976)**	(22,691)	**(716)**	(1,546)
Total before intra-Group elimination	**137,745**	145,607	**(45,231)**	(65,234)	**92,514**	80,373
Eliminations*	**(25,290)**	(11,103)	**3,429**	1,386	**(21,861)**	(9,717)
Intra-Group elimination	**(19,665)**	(20,448)	**19,665**	20,448	**–**	–
Total Group	**92,790**	114,056	**(22,137)**	(43,400)	**70,653**	70,656

* Group assets includes fixed asset investment of £23,011,415 (2020: £11,011,415), a tax asset of £40,000 (2020: £72,000) which are offset by intangible assets on acquisition £Nil (2020: £380,000), goodwill on acquisition £Nil (2019: £192,000) and inter-company provision £786,000 (2020: £750,000) which are not attributable to a specific segment.

	Capital expenditure		Depreciation		Amortisation	
Group	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Home Collected Credit	**1,727**	2,586	**170**	257	**2,101**	2,186
Digital	**3,891**	2,872	**159**	483	**710**	950
Total Group	**5,618**	5,458	**329**	740	**2,811**	3,136

6. Finance costs

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Lease liabilities	**353**	472
Other interest payable	**2,007**	2,783
Total interest payable	**2,360**	3,255

7. Taxation

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

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Current tax		
UK corporation tax	**318**	1,866
Adjustment in respect of prior years	**24**	(3)
Total current tax	**342**	1,863
Origination and temporary timing differences	**(103)**	124
Adjustment in respect of prior years	**-**	1
Effect of change of tax rates	**-**	(14)
Total deferred tax	**(103)**	111
Tax on profit on ordinary activities	**239**	1,974

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:

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Profit before exceptional costs	**456**	9,116
Exceptional gains	**-**	2,335
Profit on ordinary activities before tax	**456**	11,451
Profit on ordinary activities before exceptional items		
Profit on ordinary activities multiplied by the standard rate of corporation tax in the UK of 19% (2020: 19%)	**87**	2,176
Effects of:		
Expenses not deductible for tax purposes	**233**	85
Release of deferred consideration	**-**	(290)
Adjustment in respect of prior periods	**24**	13
Rate difference – deferred tax	**(67)**	(13)
Movement in amounts not provided in deferred tax	**9**	3
Tax losses surrendered by another group company	**(52)**	–
Fixed asset differences	**5**	–
Tax on profit on ordinary activities	**239**	1,974

The standard rate of corporation tax applicable for the period ended 27 February 2021 is 19% (2020: 19%), the effective tax rate is 52% (2020: 17%). Deferred tax is calculated in full on temporary differences under the liability method using a rate of 19% (2020: 17%). The increase in the main rate of corporation tax was substantively enacted on 17 March 2020. The rate of 19% is applicable from 1 April 2020, rather than the previously enacted reduction of 17%. An increase to the main rate of corporation tax in the UK to 25% was announced in the 2021 Budget, and is expected to come into effect in 2023. This will increase the future tax charge accordingly.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

8. Dividend per share

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Dividend (£000)	**1,312**	10,162
Weighted average number of shares (000's)	**131,383**	130,531
Per share amount (pence)	**1.00**	7.78

Subject to shareholder approval at the Annual General Meeting on 22 June 2021, the Board proposes to pay a final dividend of 2.0 pence per Ordinary Share payable on 30 July 2021 to all shareholders on the register at the close of business on 2 July 2021.

9. Earnings per share

	52 weeks ended 27.2.21	53 weeks ended 29.2.20
Earnings (£000)	**218**	9,477
Number of shares		
Weighted average number of shares	**131,383**	130,531
Effect of dilutive potential Ordinary Shares through share options ('000s)	**200**	843
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	**131,583**	131,374
Basic earnings per share amount (pence)	**0.17**	7.26
Diluted earnings per share amount (pence)	**0.17**	7.21

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 £11,531,489 (2020: £18,705,000).

11. Goodwill

	Note	Group Goodwill £000	Company Goodwill £000
Cost			
At 23 February 2019		3,834	3,642
Additions 2019/20		9,496	–
At 29 February 2020		13,330	3,642
Additions 2020/21	26	–	–
At 27 February 2021		**13,330**	**3,642**
Impairment			
At 23 February 2019		(333)	(333)
Impairment loss for the period		(16)	(16)
At 29 February 2020		(349)	(349)
Impairment loss for the period		(127)	–
At 27 February 2021		**(476)**	**(349)**
Net book value			
At 27 February 2021		**12,854**	**3,293**
At 29 February 2020		12,981	3,293
At 23 February 2019		3,501	3,309

Key assumptions used in goodwill impairment review
The market share price of the Company at 27 February 2021 was £0.631, reflecting the market's view of the current and future value of the Group. This share price results in a market capitalisation value for the Company of £83.6m which is below the Company's net asset value of £91.5m and therefore, an indicator of possible impairment. As a result we have, assessed the recoverable amount of both the Company's goodwill and investment in subsidiary.

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. Determining whether goodwill is impaired requires an estimation of the discounted future cash flows of the Company using a discount rate of 13% (FY20: 13%) and an initial growth rate over the first three years of 47% (FY20: 22%) followed by a terminal value based on a minimum future growth rate of 2% (FY20: 2%). The future cash flows take into account management's view of the impact from Covid-19 on future performance. 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 key assumptions used in the value in use calculation are the growth rates and the discount rates adopted. The growth rates are based on the most recent financial budgets approved by the Group Board for the next three years. The discount rates which reflect the time value of money and the risks specific to the financial services sector are sourced from an independent third party. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented. The same assumptions have been applied to the goodwill impairment review in both CGUs. The impairment loss for the period of £126,260 arose due to the CURO Transatlantic Limited loan book now being fully settled.

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

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
HCC	**3,293**	3,293
Digital	**9,561**	9,688
	12,854	12,981

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

12. Other intangible assets

Group	Software & Licences £000	Customer Lists £000	Agent Networks £000	Total £000
Cost				
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
Additions	5,282	–	–	5,282
Disposals	(3,085)	–	–	(3,085)
At 27 February 2021	**14,958**	**21,621**	**874**	**37,453**
Accumulated amortisation				
At 29 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
Charge for the period	2,428	329	16	2,773
Eliminated on disposal	(2,115)	–	–	(2,115)
Impairment losses	–	38	–	38
At 27 February 2021	**6,453**	**21,282**	**855**	**28,590**
Net book value				
At 27 February 2021	**8,505**	**339**	**19**	**8,863**
At 29 February 2020	6,621	706	**35**	7,362
At 29 February 2019	4,638	1,517	**66**	6,221

Company	Software & Licences £000	Customer Lists £000	Agent Networks £000	Total £000
Cost				
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
Additions	1,625	–	–	1,625
Disposals	(1,633)	–	–	(1,633)
At 27 February 2021	**11,190**	**3,689**	**154**	**15,033**
Accumulated amortisation				
At 29 February 2019	4,171	2,957	119	7,247
Charge for the period	1,734	438	16	2,188
At 29 February 2020	5,905	3,395	135	9,435
Charge for the period	1,969	124	8	2,101
Eliminated on disposal	(1,633)	–	–	(1,633)
Impairment losses	–	38	–	38
At 27 February 2021	**6,241**	**3,557**	**143**	**9,941**
Net book value				
At 27 February 2021	**4,949**	**132**	**11**	**5,092**
At 29 February 2020	5,293	294	**19**	5,606
At 29 February 2019	4,516	732	**35**	5,283

Impairment losses relate to the Hays Customer List amounting to £38,000.
Research and development expenditure expensed during the year was £nil (2020: £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 27 February 2021, 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 27 February 2021 £000	Carrying Value as at 29 February 2020 £000	Amortisation period Years
Morses Club acquired customer lists	**339**	706	10 years
Morses Club IT software development (CAP/MAP)	**4,949**	5,293	Various at 20% – 33% PA
Shelby IT software development (Anchor/Sentinel)	**3,287**	1,056	Various at 20% – 33% PA

Company

Intangible assets	Carrying Value as at 27 February 2021 £000	Carrying Value as at 29 February 2020 £000	Amortisation period Years
Morses Club acquired customer lists	**132**	294	10 years
Morses Club IT software development (CAP/MAP)	**4,949**	5,293	Various at 20% – 33% PA

13. Property, plant and equipment

Group	Computers & Tablets £000	Fixtures & Fittings £000	Leasehold £000	Totals £000
Cost				
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
Additions	165	171	–	336
Disposals	(736)	(77)	(3)	(816)
At 29 February 2021	**2,570**	**754**	**–**	**3,324**
Depreciation				
At 23 February 2019	2,106	137	3	2,246
Charge for the period	673	67	–	740
At 29 February 2020	2,779	204	3	2,986
Charge for the period	201	128	–	329
Eliminated on disposal	(669)	(53)	(3)	(725)
At 27 February 2021	**2,311**	**279**	**–**	**2,590**
Net book value				
At 27 February 2021	**259**	**475**	**–**	**734**
At 29 February 2020	362	456	–	818
At 23 February 2019	347	31	–	378

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

13. Property, plant and equipment continued

Company	Computers & Tablets £000	Fixtures & Fittings £000	Leasehold £000	Totals £000
Cost				
At 23 February 2019	2,045	157	–	2,202
Additions	64	11	–	75
At 29 February 2020	2,109	168	–	2,277
Additions	103	–	–	103
Disposals	(290)	(43)	–	(333)
At 29 February 2021	**1,922**	**125**	**–**	**2,047**
Depreciation				
At 23 February 2019	1,698	126	–	1,824
Charge for the period	240	17	–	257
At 29 February 2020	1,938	143	–	2,081
Charge for the period	153	17	–	170
Eliminated on disposal	(290)	(43)	–	(333)
At 27 February 2021	**1,801**	**117**	**–**	**1,918**
Net book value				
At 27 February 2021	**121**	**8**	**–**	**129**
At 29 February 2020	171	25	–	196
At 23 February 2019	347	31	–	378

14. Investment in subsidiaries

	Company £000
Cost	
At 23 February 2019	2,861
Additions – Shelby share issue	8,150
At 29 February 2020	11,011
Additions – Shelby share issue	12,000
At 29 February 2021	**23,011**

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: Building 1, The Phoenix Centre, 1 Colliers Way, Nottingham NG8 6AT, 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: Building 1, The Phoenix Centre, 1 Colliers Way, Nottingham NG8 6AT, 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, no provision for impairment has been made. See Note 12 on page 114.

Shopacheck Financial Services Limited and U Holdings Limited both qualify for an exemption to audit under the requirements of section 480 of the Companies Act 2006. Shelby Finance Limited qualifies 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	Total £000
Right-of-use assets				
At 29 February 2020	1,888	970	1,537	4,395
Additions	98	427	235	760
Disposals	(612)	(25)	(314)	(951)
At 27 February 2021	**1,374**	**1,372**	**1,458**	**4,204**
Accumulated depreciation				
At 29 February 2020	515	328	769	1,612
Charged to the income statement	474	451	661	1,586
Disposals	(393)	(16)	(281)	(690)
At 27 February 2021	**596**	**763**	**1,149**	**2,508**
Net book value				
At 27 February 2021	**778**	**609**	**309**	**1,696**
At 29 February 2020	1,373	642	768	2,783

Company	Building £000	Equipment £000	Vehicles £000	Totals £000
Right-of-use assets				
Cost				
At 29 February 2020	1,161	970	1,537	3,668
Additions	75	427	235	737
Disposals	(565)	(25)	(314)	(904)
At 27 February 2021	**671**	**1,372**	**1,458**	**3,501**
Depreciation				
At 29 February 2020	458	328	769	1,555
Charged to the income statement	365	451	661	1,477
Disposals	(347)	(16)	(281)	(644)
At 27 February 2021	**476**	**763**	**1,149**	**2,388**
Net book value				
At 27 February 2021	**195**	**609**	**309**	**1,113**
At 29 February 2020	703	642	768	2,113

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

16. Trade and other receivables

Amounts receivable from customers

	Group		Company	
	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Amounts falling due within one year:				
Net receivable from advances to customers	**53,408**	72,171	**47,952**	67,294
Amounts falling due after one year:				
Net receivable from advances to customers	**82**	657	**–**	586
Net loan book	**53,490**	72,828	**47,952**	67,880
Other debtors	**2,880**	1,718	**2,046**	1,167
Intercompany funding	**–**	–	**20,987**	19,698
Prepayments	**3,434**	3,039	**2,254**	1,795
	59,804	77,585	**73,239**	90,540

Within the Company, an impairment provision of £0.8m (2020: £0.8m) is held against amounts owed by Group undertakings due in less than one 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 £0.0m charge to the Company income statement in 2021 (2020: £0.8m).

	Group		Company	
	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Amounts receivable from customers	**53,490**	72,828	**47,952**	67,880
Analysis by future date due				
– due within one year	**53,408**	72,171	**47,952**	67,294
– due in more than one year	**82**	657	**–**	586
Amounts receivable from customers	**53,490**	72,828	**47,952**	67,880
Analysis by security				
Other loans not secured	**53,490**	72,828	**47,952**	67,880
Amounts receivable from customers	**53,490**	72,828	**47,952**	67,880

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 page 102 of the Annual Report and Accounts.

At 27 February 2021 the amounts receivable from customers are as follows:

	Group		Company	
	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Gross carrying amount	**90,063**	120,946	**80,529**	112,773
Impairment provision	**(36,573)**	(48,118)	**(32,577)**	(44,893)
Net amounts receivable	**53,490**	72,828	**47,952**	67,880

Amounts receivable from Group customers can be reconciled as follows:

Group	Ref	Stage 1 £000	Stage 2 £000	Stage 3 £000	Total £000
Gross carrying amount					
At 29 February 2020		60,345	34,602	25,999	120,946
New financial assets originated	1	129,004	4	–	129,008
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(30,617)	30,617	–	–
From Stage 1 to Stage 3	2	(9,314)	–	9,314	–
From Stage 2 to Stage 1	2	2,147	(2,147)	–	–
From Stage 2 to Stage 3	2	–	(10,415)	10,415	–
From Stage 3 to Stage 1	2	90	–	(90)	–
From Stage 3 to Stage 2	2	–	2,755	(2,755)	–
Write-offs	3	(9,310)	(9,224)	(15,581)	(34,115)
Collections	4	(185,567)	(34,351)	(7,216)	(227,134)
Revenue	5	90,973	8,730	531	100,234
Other Movements	6	1,012	(6)	118	1,124
At 27 February 2021		**48,763**	**20,565**	**20,735**	**90,063**
Loan loss provision account					
At 29 February 2020		9,110	16,887	22,121	48,118
Movements through income statement:					
New financial assets originated	7	18,834	2	–	18,836
Net transfers and changes in credit risk:					–
From Stage 1 to Stage 2	2	(12,539)	14,166	–	1,627
From Stage 1 to Stage 3	2	(7,271)	–	7,841	570
From Stage 2 to Stage 1	2	318	(351)	–	(33)
From Stage 2 to Stage 3	2	–	(8,666)	8,666	–
From Stage 3 to Stage 1	2	25	–	(28)	(3)
From Stage 3 to Stage 2	2	–	1,758	(1,758)	–
Remeasurements within existing stage	3	10,181	(3,379)	(3,295)	3,507
Reversal of Covid-19 overlay	8	(1,134)	(461)	(75)	(1,670)
Total movements through income statement		8,414	3,069	11,351	22,834
Other movements					
Write-offs	3	(9,310)	(9,224)	(15,581)	(34,115)
Other movements	6	–	–	(264)	(264)
Loan loss provision account at 27 February 2021		**8,214**	**10,732**	**17,627**	**36,573**
Reported amounts receivable from customers at 27 February 2021		**40,549**	**9,833**	**3,108**	**53,490**
Reported amounts receivable from customers at 29 February 2020		**51,235**	**17,715**	**3,878**	**72,828**

* 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 – This was applied to the 2019/20 impairment provision in respect of the impact of Covid-19 on trading activity and in particular, future cash flows as a result of, and a consequence of, the Covid-19 outbreak.

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

16. Trade and other receivables continued

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 - This was applied to the 2019/20 impairment provision in respect of the impact of Covid-19 on trading activity and in particular, future cash flows as a result of, and a consequence of, the Covid-19 outbreak.

A breakdown of the gross receivable by internal credit risk rating is shown below:

2020/21

Group credit risk grade	Stage 1 £000	Stage 2 £000	Stage 3 £000	Gross Carrying Value £000
Very good	32,285	8,910	9,407	50,602
Good	14,330	9,833	8,628	32,791
Satisfactory	1,719	1,340	622	3,681
Lower quality	431	481	2,077	2,989
Total	**48,765**	**20,564**	**20,734**	**90,063**

2019/20

Group credit risk grade	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. Trade and other payables

	Group		Company	
	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
Trade creditors	**3,842**	3,331	**2,956**	2,887
Amounts owed to Group undertakings	**–**	–	**1,321**	1,321
Social security and other taxes	**925**	571	**925**	571
Other creditors	**778**	537	**740**	522
Customer complaints provision	**2,012**	–	**2,012**	–
Accrued expenses	**4,494**	2,284	**3,916**	1,328
	12,051	6,723	**11,870**	6,629

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

	Group and Company	
	27.2.21 £000	29.2.20 £000
Bank loans	**8,500**	34,000
Unamortised arrangement fees	**(198)**	(162)
	8,302	33,838

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.

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, and subsequently further extended to December 2021. 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 so too will the overall cost of funding.

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

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

In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.

As anticipated the impact of Covid-19 resulted in reduced lending volumes, a smaller loan book and lower levels of borrowing. In FY21 borrowing peaked at £22.5m in December 2020 (December 2019: £40m). 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. 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 £53,490,135 (2020: £72,827,727).

19. Leases

	Group 27.2.21 £'000	Group 29.2.20 £'000	Company 27.2.21 £'000	Company 29.2.20 £'000
Current	**790**	1,286	**740**	1,228
Non-current	**994**	1,553	**343**	848
	1,784	2,839	**1,083**	2,076

	Other operating leases		Land & buildings		Total	
	Group 27.2.21 £000	Company 27.2.21 £000	Group 27.2.21 £000	Company 27.2.21 £000	Group 27.2.21 £000	Company 27.2.21 £000
Existing:						
Within one year	**686**	**686**	**104**	**54**	**790**	**740**
Between one and five years	**291**	**291**	**335**	**52**	**626**	**343**
In more than five years	**–**	**–**	**368**	**–**	**368**	**–**
	977	**977**	**807**	**106**	**1,784**	**1,083**

	Other operating leases		Land & buildings		Total	
	Group 29.2.20 £'000	Company 29.2.20 £'000	Group 29.2.20 £'000	Company 29.2.20 £'000	Group 29.2.20 £'000	Company 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 52 weeks ended 27 February 2021 amounted to £1,851,976 for the Group including short-term lease cash outflows of £12,949. At the end of the period, the Group is also committed to £Nil for short-term leases. Total cash outflows for the Company amounted to £1,685,719.

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:

	Land & buildings	
Group and Company	27.2.21 £000	29.2.20 £000
Existing:		
Within one year	**35**	158
Between one and five years	**9**	45
	44	203

21. Deferred tax

	Group 27.2.21 £000	Group 29.2.20 £000	Company 27.2.21 £000	Company 29.2.20 £000
Fixed asset temporary differences	**(142)**	(165)	**(46)**	(165)
Other temporary differences	**723**	824	**717**	962
Deferred tax asset	**581**	659	**671**	797

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

	Group £000	Company £000
Balance as at 29 February 2020	659	797
Accelerated capital allowances		
Deferred tax charge in profit and loss account for period – CY	(9)	(31)
Deferred tax charge in profit and loss account for period – PY	99	103
Deferred tax rate change	14	22
Short-term timing differences		
Deferred tax charge in profit and loss account for period – CY	(51)	(72)
Deferred tax charge in profit and loss account for period – PY	-	-
Deferred tax rate change	49	64
Intangibles		
Deferred tax charge in profit and loss account for period – CY	29	(61)
Deferred tax charge in profit and loss account for period – PY	(136)	(90)
Deferred tax rate change	(31)	(17)
Share-based payments		
Deferred tax charge in profit and loss account for period – CY	97	97
Deferred tax charge in profit and loss account for period – PY	-	-
Deferred tax rate change	6	6
Deferred tax charge on share-based payments	(145)	(145)
Balance as at 27 February 2021	**581**	**671**

	Group £000	Company £000
Asset values for which deferred tax has not been recognised in relation to the tax written down value 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

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

22. Called up share capital

Authorised, allotted, issued and fully paid:

Number:	Class:	Nominal Value:	27.2.21 £000	29.2.20 £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**	14
1,286,095	Ordinary	£0.01	**13**	–
			1,325	1,312

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

23. Reserves

Group	Retained earnings £000	Total £000
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
Profit for the period	217	217
Share-based payment charge	1,079	1,079
Dividends paid	(1,312)	(1,312)
At 27 February 2021	**69,328**	**69,328**

Company	Group reconstruction reserve £000	Retained earnings £000	Total £000
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
Profit for the period	–	11,531	11,531
Share-based payment charge	–	1,079	1,079
Dividends paid	–	(1,312)	(1,312)
At 27 February 2021	**(9,276)**	**99,860**	**90,584**

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 cost charged of £979,110 (2020: £1,012,918) 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 £186,943 (2020: £181,195).

25. Ultimate parent company

The Directors consider there to be no ultimate parent company.

26. 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 27 February 2021 the Company and Group's indebtedness amounted to £8.5m (2020: £34m).

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

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

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

(i) Amounts receivable from customers
The Group's maximum exposure to credit risk on amounts receivable from customers as at 27 February 2021 is the carrying value of amounts receivable from customers of £53,490,135 (2020: £72,827,727).

The Company's maximum exposure to credit risk on amounts receivable from customers as at 27 February 2021 is the carrying value of amounts receivable from customers of £47,952,408 (2020: £67,880,532).

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 (2020: between 22 and 52 weeks), with an average value of approximately £396 (2020: £355). 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 £198,346,704 (2020: £298,061,173) 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 come 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.

26. Financial instruments continued

Digital continued
The loans offered to customers are short-term, typically a contractual period of between three months and nine months (2020: between three and nine months), with an average value of approximately £363 (2020: £333). 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 missed 4 monthly payments and the account is transferred 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 £35,339,405 (2020: £27,552,501) were provided to customers.

(ii) Bank counterparties
The Group's maximum exposure to credit risk on bank counterparties as at 27 February 2021 was £8,257,930 (2020: £11,868,037).

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 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.

In the year, funding was available through a £40m 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 one year which results in a positive liquidity position.

Following FY20 year-end, an initial extension to the funding arrangement from August 2020 to the end of November 2021 was signed with the incumbent lender consortium, and subsequently followed up with a further extension to December 2021. 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 so too will the overall cost of funding. Post year end the existing £40m facility has been reduced to a £35m facility, with the inclusion of funding for the digital loan book, with a maturity date of December 2022 (see note 31 on page 137)

Group At 27 February 2021	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	**54,795**	**82**	**–**	**–**	**–**	**54,877**
Other assets	**4,927**	**–**	**–**	**–**	**24,728**	**29,655**
Cash at bank and in hand	**8,258**	**–**	**–**	**–**	**–**	**8,258**
Total assets	**67,980**	**82**	**–**	**–**	**24,728**	**92,790**
Shareholders' funds	**–**	**–**	**–**	**–**	**(70,653)**	**(70,653)**
Other liabilities	**(12,841)**	**(9,296)**	**–**	**–**	**–**	**(22,137)**
Total liabilities and shareholders' funds	**(12,841)**	**(9,296)**	**–**	**–**	**(70,653)**	**(92,790)**
Cumulative position	**55,139**	**45,925**	**45,925**	**45,925**	**–**	**–**

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	–	–

Company At 27 February 2021	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	**49,339**	**–**	**–**	**–**	**–**	**49,339**
Other assets	**23,900**	**–**	**–**	**–**	**33,309**	**57,209**
Cash at bank and in hand	**6,616**	**–**	**–**	**–**	**–**	**6,616**
Total assets	**79,855**	**–**	**–**	**–**	**33,309**	**113,164**
Shareholders' funds	**–**	**–**	**–**	**–**	**(91,910)**	**(91,910)**
Other liabilities	**(12,610)**	**(8,644)**	**–**	**–**	**–**	**(21,254)**
Total liabilities and shareholders' funds	**(12,610)**	**(8,644)**	**–**	**–**	**(91,910)**	**(113,164)**
Cumulative position	**67,245**	**58,601**	**58,601**	**58,601**	**–**	**–**

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	–	–

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.

The Group is exposed to movements in LIBOR rates on its external borrowings. A 1% movement in the interest rate applied to financial liabilities during 2021 would not have had a material impact on the Group's results for the year.

26. Financial instruments continued

Capital risk management
The Board of Directors assesses the capital needs of the Group on an ongoing basis and approves 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 , with an allowance to carry forward any unutilised headroom from the previous period.

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 27 February 2021 was:

	27.2.21 £000	29.2.20 £000
Gross debt	**8,500**	34,000
Equity	**70,653**	70,656
Gearing	**0.12**	0.48

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 27 February 2021.

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 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 27 February 2021	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	8,258	–	–	8,258
Amounts receivable from customers	53,490	–	–	53,490
Trade and other receivables	2,880	–	3,434	6,314
Property, plant and equipment	–	–	734	734
Right-of-use asset	–	–	1,696	1,696
Goodwill	–	–	12,854	12,854
Deferred tax assets	–	–	581	581
Other intangible assets	–	–	8,863	8,863
Total assets	64,628	–	28,162	92,790
Liabilities:				
Bank and other borrowings	–	(8,302)	–	(8,302)
Trade and other payables	–	(4,621)	(5,418)	(10,039)
Customer complaints provision	–	–	(2,012)	(2,012)
Lease liabilities	–	(1,784)	–	(1,784)
Total liabilities	–	(14,707)	(7,430)	(22,137)

Company At 27 February 2021	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	6,616	–	–	6,616
Amounts receivable from customers	47,952	–	–	47,952
Trade and other receivables	23,033	–	2,254	25,287
Property, plant and equipment	–	–	129	129
Right-of-use asset	–	–	1,113	1,113
Goodwill	–	–	3,293	3,293
Investment in subsidiary	–	–	23,011	23,011
Deferred tax assets	–	–	671	671
Other intangible assets	–	–	5,092	5,092
Total assets	77,601	–	35,563	113,164
Liabilities:				
Bank and other borrowings	–	(8,302)	–	(8,302)
Trade and other payables	–	(5,018)	(4,840)	(9,858)
Customer complaints provision	–	–	(2,012)	(2,012)
Lease liabilities	–	(1,083)	–	(1,083)
Total liabilities	–	(14,403)	(6,852)	(21,255)

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

26. Financial instruments continued

Fair values of financial assets and liabilities continued

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	1,718	–	3,039	4,757
Property, plant and equipment	–	–	818	818
Right-of-use asset	–	–	2,783	2,783
Goodwill	–	–	659	659
Deferred tax assets	–	–	12,981	12,981
Other intangible assets	–	–	7,362	7,362
Total assets	**86,414**	**–**	**27,642**	**114,056**
Liabilities:				
Bank and other borrowings	–	(33,838)	–	(33,838)
Trade and other payables	–	(3,868)	(2,855)	(6,723)
Lease liabilities	–	(2,839)	–	(2,839)
Total liabilities	**–**	**(40,545)**	**(2,855)**	**(43,400)**

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	20,865	–	1,795	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	98,330	–	24,811	123,141
Liabilities:				
Bank and other borrowings	–	(33,838)	–	(33,838)
Trade and other payables	–	(4,731)	(1,898)	(6,629)
Lease liabilities	–	(2,076)	–	(2,076)
Deferred tax liabilities	–	–	–	–
Total liabilities	**–**	**(40,645)**	**(1,898)**	**(42,543)**

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

Group	27.2.21 Fair Value £000	27.2.21 Book Value £000	29.2.20 Fair Value £000	29.2.20 Book Value £000
Assets:				
Cash and cash equivalents	**8,258**	**8,258**	11,868	11,868
Amounts receivable from customers	**72,764**	**53,490**	98,857	72,828
Trade and other receivables	**2,880**	**2,880**	1,718	1,718
Total assets	**83,902**	**64,628**	112,443	86,414
Liabilities:				
Bank and other borrowings	**(8,500)**	**(8,302)**	(34,000)	(33,838)
Trade and other payables	**(4,621)**	**(4,621)**	(3,868)	(3,868)
Lease liabilities	**(1,784)**	**(1,784)**	(2,839)	(2,839)
Total liabilities	**(14,905)**	**(14,707)**	(40,707)	(40,545)

Company	27.2.21 Fair Value £000	27.2.21 Book Value £000	29.2.20 Fair Value £000	29.2.20 Book Value £000
Assets:				
Cash and cash equivalents	**6,616**	**6,616**	9,585	9,585
Amounts receivable from customers	**64,195**	**47,952**	91,338	67,880
Trade and other receivables	**23,033**	**23,033**	20,865	20,865
Total assets	**93,844**	**77,601**	121,788	98,330
Liabilities:				
Bank and other borrowings	**(8,500)**	**(8,302)**	(34,000)	(33,838)
Trade and other payables	**(5,018)**	**(5,018)**	(4,731)	(4,731)
Lease liabilities	**(1,083)**	**(1,083)**	(2,076)	(2,076)
Total liabilities	**(14,601)**	**(14,403)**	(40,807)	(40,645)

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.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

26. Financial instruments continued

Fair values of financial assets and liabilities continued

Group At 27 February 2021	Repayable on demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
Trade and other payables	–	3,842	–	–	–	3,842
Tax liabilities	–	–	–	–	–	–
Accruals and deferred income	–	6,197	–	–	–	6,197
Customer complaints provision	–	2,012	–	–	–	2,012
Bank loans	–	–	–	8,302	–	8,302
Lease liabilities	–	790	284	342	368	1,784
At 27 February 2021	–	12,841	284	8,644	368	22,137

Company At 27 February 2021	Repayable on demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
Trade and other payables	–	2,956	–	–	–	2,956
Tax liabilities	–	–	–	–	–	–
Accruals and deferred income	–	6,902	–	–	–	6,902
Customer complaints provision	–	2,012	–	–	–	2,012
Bank loans	–	–	–	8,302	–	8,302
Lease liabilities	–	740	227	116	–	1,083
At 27 February 2021	–	12,610	227	8,418	–	21,255

Group At 29 February 2020	Repayable on demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
Trade and other payables	–	3,331	–	–	–	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 27 February 2020	Repayable on demand £000	Less than 1 year £000	More than 1 year but not more than 2 years £000	More than 2 years but not more than 5 years £000	More than 5 years £000	Total £000
Trade and other payables	–	2,887	–	–	–	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 29 February 2020	–	7,857	671	34,008	7	42,543

The table below summarises the movement in contingent consideration.

	Group		Company	
Contingent consideration	27.2.21 £000	29.2.20 £000	27.2.21 £000	29.2.20 £000
As at 29 February 2020	–	–	–	–
Contingent consideration arising on acquisitions	–	6,482	–	–
Unwind of discount on contingent consideration	–	509	–	–
Paid	–	(4,491)	–	–
Written off	–	(2,500)	–	–
As at 27 February 2021	–	–	–	–

27. 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. No shares were awarded for 2019/20 since the TSR performance conditions were not met. 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
28 January 2021	1,100,252

January 2021 was the earliest month in which awards could be made in an open period for share dealing, following the announcement of the Group's FY20 annual results. The performance period started on 21 May 2020.

Share awards are subject to performance conditions which are: delivery of total shareholder return, targeted profits, compliance training, and individual executive performance. The first of these conditions assessing the Company's absolute total shareholder return (TSR), over a twelve-month period. 25% of the award will vest for an increase in TSR of 7.5%, rising on a straight-line basis to 100% vesting for 12.6% annual TSR growth, subject to the other performance conditions referred to below.

Notwithstanding the satisfaction of the TSR performance condition referred to above, any vesting of these share awards will also be subject to the satisfaction of further performance conditions measured up to the end of the financial year ending February 2022. In order for these Awards to vest, the Company will have to achieve the targeted level of profit before tax for the financial year ending in February 2021. 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 2023:

- 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 2022 and 2023 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 £0.63 (2020: £1.08). This has resulted in a charge to the profit or loss account of £847,654 (2020: £156,594) 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	28 Jan 2021
Expected volatility	26%	45%	30%	30%	31%	33%	35%	90%
Expected term	1	1	1	1	0.83	0.75	0.67	0.42
Risk-free rate	0.34%	0.34%	0.34%	1.05%	0.88%	0.88%	0.88%	0.80%
Dividend yield	0%	0%	0%	0%	0%	0%	0%	0%

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

27. Share-based payments continued

The Deferred Share Plan (DSP) – Senior Management Team continued
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 29 February 2020	1,302,533	–
Awarded/granted	1,751,519	–
Lapsed	–	–
Exercised	(989,700)	–
Outstanding at 27 February 2021	**2,064,352**	**–**
Exercisable as at 27 February 2021	**–**	**–**

For the share options outstanding at 27 February 2021, the weighted average remaining contractual life is 8.3 years (2020: 8.1 years).

All options are expected to be equity settled. The estimated amount to be transferred to the tax authority to settle the employers' tax obligations is £176,910.

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 £0.63 (2020: £1.08). This has resulted in a charge to the profit or loss account of £37,650 (2020: £77,549) 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 29 February 2020	245,797	0.01
Awarded/granted	–	0.01
Lapsed	(21,341)	0.01
Exercised	(90,387)	0.01
Outstanding at 27 February 2021	**134,069**	**0.01**
Exercisable as at 27 February 2021	**–**	**–**

For the share options outstanding at 27 February 2021, the weighted average remaining contractual life is 7.2 years. (2020: 7.9 years).

All options are expected to be equity settled. The estimated amount to be transferred to the tax authority to settle the employers' tax obligations is £11,489.

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 £0.63 (2020: £1.08). This has resulted in a charge to the profit or loss account of £238,048 (2020: £100,375) 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.

	Number	Weighted Average Exercise Price (£)
Outstanding at 29 February 2020	554,973	–
Awarded/granted	–	–
Lapsed	(18,952)	–
Outstanding at 27 February 2021	**536,021**	**–**
Exercisable as at 27 February 2021	**–**	**–**

For the share options outstanding at 27 February 2021, the weighted average remaining contractual life is 8.3 years (2020: 9.3 years).

All options are expected to be equity settled. The estimated amount to be transferred to the tax authority to settle the employers' tax obligations is £41,521.

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

28. Related party transactions

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	Interest Recharge £000	Professional Fees Recharged £000
52 weeks ended 27 February 2021			
Hay Wain Holdings Limited	**–**	**–**	**–**
Hay Wain Group Limited	**(477)**	**–**	**–**
Shopacheck Financial Services Limited	**–**	**–**	**–**
Shelby Finance Limited	**–**	**1,544**	**–**
	(477)	**1,544**	**–**
53 weeks ended 29 February 2020			
Hay Wain Holdings Limited	–	–	–
Hay Wain Group Limited	(3,719)	–	–
Shopacheck Financial Services Limited	–	–	–
Shelby Finance Limited	–	1,055	–
	(3,719)	1,055	–

At the period end the following balances were outstanding:

	27.2.21 £000	29.2.20 £000
Hay Wain Holdings Limited	**–**	–
Hay Wain Group Limited	**–**	–
Shopacheck Financial Services Limited	**(1,321)**	(1,321)
Shelby Finance Limited	**21,773**	20,448
Amounts owed from/(to) related parties	**20,452**	19,127

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.

29. Provisions

Group	Customer Complaints £'000	Other £'000	Total £'000
At 29 February 2020	–	–	–
Additional Provisions in the year	2,012	–	2,012
At 27 February 2021	**2,012**	**–**	**2,012**

Group	27.2.21 £'000	29.2.20 £'000
Analysed as:		
Current liabilities	**2,012**	–
Non-current liabilities	**–**	–
	2,012	–

Complaints provision

The complaints provision represents management's best estimate of the group's liability in regard to outstanding customer complaints that remained unresolved as at the balance sheet date. In estimating the provision, management have incorporated historical company information for the average percentage of complaints which are upheld, and the average value of compensation claims paid out. The provision represents the present value of management's best estimate of the future outflow of cash required to settle the complaints and FOS fees in full. The full provision is recorded in the accounts of Morses Club PLC.

30. Contingent Liabilities

The non-standard lending sector has continued to experience the impact of CMC's and high-profile publicity campaigners promoting the potential for customers to claim redress from their lenders. As a result, the number of complaints in regards to irresponsible lending and referrals to FOS has risen significantly across the sector. Although proportionately lower than other lenders in the home credit sector, the Group has experienced an increase in complaints and FOS referrals during the period. The Group has recognised a provision for the cost of fully settling complaints and FOS fees in relation to outstanding complaints at the balance sheet date. However, should the final outcome of these complaints differ materially to management's best estimates, the cost could be higher than expected. It is however not possible to estimate this increase reliably.

31. Post balance sheet events

In May 2021, the Group agreed a new loan facility with a consortium of two lenders, which secured funding for our HCC and digital products through to December 2022. This was at a reduced commitment level of £35m, all in the RCF, compared to the £40m funding commitment previously in place until December 2021.

Notes to the Consolidated Financial Statements continued
For the 52-week period ended 27 February 2021

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	Profit Before Tax	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 adjusted profit before tax and explanation of adjusted EPS

	FY21			FY20		
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Statutory Profit Before Tax	**11.8**	**(11.3)**	**0.5**	**21.2**	**(9.7)**	**11.5**
Covid-19 adjustment to impairment	–	–	–	1.7	–	1.7
Statutory Profit Before Tax before Covid-19 adjustment	**11.8**	**(11.3)**	**0.5**	**22.9**	**(9.7)**	**13.2**
Acquisition, restructuring and non-recurring costs	2.9	2.4	5.3	0.9	2.6	3.5
Exceptional gain[2]	–	–	–	–	(2.3)	(2.3)
Amortisation of acquisition intangibles[3]	0.3	–	0.3	0.8	0.4	1.2
Normalised Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**24.5**	**(9.0)**	**15.5**
Covid-19 adjustment to impairment	–	–	–	(1.7)	–	(1.7)
Adjusted Profit Before Tax[1]	**15.0**	**(8.9)**	**6.1**	**22.8**	**(9.0)**	**13.8**
Tax on Adjusted Profit Before Tax	(0.8)	(0.2)	(1.0)	(2.4)	(0.4)	(2.8)
Adjusted Profit After Tax	**14.2**	**(9.1)**	**5.1**	**20.4**	**(9.4)**	**11.0**
Statutory EPS[1]			0.2p			7.3p
Normalised EPS[1]			3.9p			9.5p
Adjusted EPS[1]			3.9p			8.4p
Statutory Return on Assets[1]	22.0%		**0.3%**	27.5%		**12.8%**
Normalised Return on Assets[1]	27.2%		**8.9%**	31.1%		**16.6%**
Adjusted Return on Assets[1]	27.2%		**8.9%**	29.3%		**14.8%**
Statutory Return on Equity[1]	18.5%		**0.4%**	30.1%		**17.2%**
Normalised Return on Equity[1]	22.8%		**10.3%**	34.1%		**22.3%**
Adjusted Return on Equity[1]	22.8%		**10.3%**	32.1%		**19.9%**

1 Definitions are set out in the Glossary of Alternative Performance Measures on Pages 138 to 141 of the Annual Report and Accounts.
2 Release of contingent consideration in relation to the U Holdings Limited acquisition.
3 Amortisation of acquired customer lists and agent networks.

	52 weeks ended 27.2.21 £000	53 weeks ended 29.2.20 £000
Adjusted basic earnings per share		
Basic earnings	**217**	9,477
Amortisation of acquisition intangibles	**345**	1,222
Non-recurring (income)/costs	**5,339**	2,822
Tax effect of the above	**(799)**	(1,180)
Adjusted earnings	**5,102**	10,989
Covid-19 adjustments to impairment	**-**	**(1,669)**
Tax effect of the above	**-**	317)
Adjusted earnings	**5,102**	10,989
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**131,383**	130,531
Normalised adjusted earnings per share amount (pence)	**3.9p**	9.5p
Adjusted earnings per share amount (pence)	**3.9p**	8.4p

Notes to the Consolidated Financial Statements continued

For the 52-week period ended 27 February 2021

ALTERNATIVE PERFORMANCE MEASURES continued

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 annual 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 annual 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 annual 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 annual 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	52 weeks ended 27.2.21 FY21	53 weeks ended 29.2.20 FY20
Normalised Adjusted Profit After Tax (Rolling 12 months)	**5.1**	12.3
Adjusted profit after tax (rolling 12 months)	**5.1**	11.0
12-month average net loan book	**57.5**	74.3
Normalised adjusted return on assets	**8.87%**	16.61%
Adjusted return on assets	**8.87%**	14.79%
12-month average equity	**48.1**	55.3
Normalised adjusted return on equity	**10.29%**	22.32%
Adjusted return on equity	**10.29%**	19.87%

APM	Closest Statutory Measure	Definition and Purpose
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

22 June 2021	Annual General Meeting
2 July 2021	FY21 ex-dividend date
30 July 2021	FY21 final dividend paid
October 2021	FY22 half-year results announced

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