Annual Report & Accounts
2022

Developing our future

Introduction

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

Our vision

Simple, flexible credit for people who cannot typically access mainstream services.

Our mission

To provide relevant credit solutions, in-person or digitally, based on understanding people's needs and circumstances.

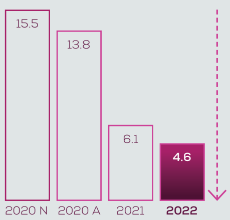
Our purpose

To meet the real needs of our customers, supporting them to a better financial life.

Contents

Morses Club PLC. Understanding customers. Understanding money.

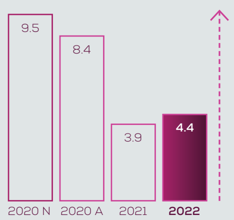
Operational Highlights



ADJUSTED PROFIT[1] (BEFORE TAX)

£4.6m

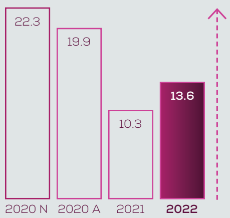
-24.6%



ADJUSTED EARNINGS[1] PER SHARE (P)

4.4p

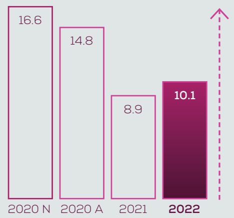
12.8%



ADJUSTED RETURN[1] ON EQUITY (%)

13.6%

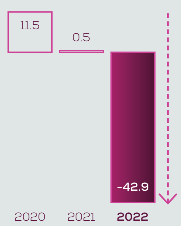
32.0%



ADJUSTED RETURN[1] ON ASSETS (%)

10.1%

13.5%



REPORTED LOSS[2] (BEFORE TAX)

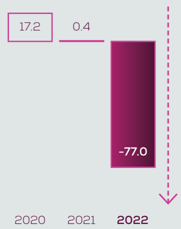
-£42.9m

-8,680.0%

BASIC LOSS PER SHARE (P)

-25.0p

-12,600.0%



RETURN ON EQUITY (%)

-77.0%

-19,350.0%

RETURN ON ASSETS (%)

-57.4%

-19,233.3%

1 Definitions and reconciliations to the nearest statutory measure are set out in the Glossary of Alternative Performance Measures on Pages 147 to 149.
2 The reported loss (before tax) is due to the recognition of the complaints liability. Further detail on page 2.

- Continued to embed a digitally focused operating model due to the pandemic, using existing technology to work remotely, whilst maintaining customer contact and collection activity
- Further developed fully online Customer Portal, with over 104,000 customers (FY21: 107,000)
- Reshaped the digital division to maximise the core credit offering and to take advantage of the wider non-standard credit market
- Delivered further technology and process enhancements in our HCC business to balance a digital service with access to in-person customer service to enable a virtually paperless documentation process
- Further developed our remote working model with the input of our employees to develop our community-based service, whilst delivering work/life balance
- Continued to develop our environmental approaches by reducing our property portfolio and company car commitments
- Performance in the year has been heavily impacted by the recognition of £42.6m in relation to redress claims as evidenced by the graphs on this page for; reported loss, basic loss, return on equity and return on assets. See Page 112

Alternative performance measures

In reporting financial information, the Group presents alternative performance measures, 'APMs' which are not defined or specified under the requirements of IFRS. The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. The APMs are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these measures are also used for the purpose of setting remuneration targets. The definition of Adjusted PBT is outlined in the glossary of APMs on page 147. Each of the APMs used is set out in the glossary at the back of the financial statements on Pages 147 to 149. Reconciliations are also provided on Page 148 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 Update

Material uncertainty regarding the Group as a going concern. Following the end of the period, the Group has made a number of announcements and gives the following update.

Redress Claims

In February 2022, the Group announced that its profitability in FY22 would be impacted by the level of unaffordable lending claims received prior to the announcement. This followed significant claims management company activity, from which a discernible trend has emerged on the cases being upheld by the Financial Ombudsman Service which could be applied retrospectively.

On 21 June 2022, the Group announced a further increase in complaints submitted by claims management companies with the associated costs of complaint volumes likely to adversely impact on the trading performance of the first half of FY23. On 20 July 2022, the Directors confirmed that, due to the emerging position relating to complaints, a significant complaints liability was expected to be recognised in the FY22 accounts, with £42.6m being recognised as an exceptional item. Following the Company announcement on 20 July regarding the potential Scheme of Arrangement, the Group experienced a higher level of unaffordable lending claims in the HCC division, which led the Group to seek a pause on the processing of claims, which was announced as effective from 11 August 2022. Without this pause, it is the Directors' belief that the Group could have suffered significant near term liquidity issues, threatening its going concern status.

The Directors accept there is a liability in relation to customer redress claims for unaffordable lending against the Company (Redress Claims) at the balance sheet date, however there is significant uncertainty of the total liability which will be paid. This is due to the fact that the methodology for assessing the population of claims is yet to be agreed, and the level of subsequent customers who may claim against that methodology not yet being known.

The rise in complaints volumes prompted a review of the root cause of complaints received which led to a review of historic lending using the date of transfer of consumer credit regulation to the Financial Conduct Authority (FCA) as a guide timeline. This review, which has incorporated third party advice, identified a potential gross redress owed to customers of £112m, though this is yet to be agreed with the FCA and further review of this amount will be required. There is therefore significant uncertainty regarding the exact quantum of the gross redress.

Of this gross redress it is not known what percentage of customers will claim. The Directors have taken third party advice and reviewed payments made by other lenders against complaints claim liabilities and have estimated a 40% take-up rate. However, there is significant uncertainty in respect of this estimate.

The Directors have applied the take-up rate to the gross redress amount, the impacts of which are recognised in the Income Statement as an exceptional item totalling £42.6m. Of this, £3.5m relates to amounts which are expected to be set off against existing customer balances, and is therefore included as write-off against the loan book. The remaining £39.1m relates to the net present value of the Redress Claims liability estimated to be paid to customers. The cost of administering payments to customers has been excluded from this liability and will be incurred in FY23 and beyond.

Funding

The Group's current facility of £35m is in place until 31 March 2023, supported by a funding consortium of two existing providers. Discussions continue with lenders regarding the future facility options. We draw attention to note 1 in the financial statements, which indicates that the Group's current facility of £35m expires on 31 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report.

The Board recognises that as the current funding facility is in place for less than 12 months following the date of signing the Financial Statements, there is material uncertainty in relation to going concern regarding secured funding.

Summary

In the announcement on 20 July 2022 the Directors stated that whilst they considered that Morses Club had adequate liquidity for the immediate future, they believed that action would be needed to secure the Group's ongoing future. Following the Company announcement on 20 July regarding the potential Scheme of Arrangement, the Group experienced a higher level of unaffordable lending claims in the HCC division, which led the Group to seek a pause on the processing of claims, which was announced as effective from 11 August 2022. Without this pause, it is the Directors' belief that the Group could have suffered significant near term liquidity issues, threatening its going concern status.

It is the view of the Directors that the Group's trading performance demonstrates a basis for the future viability of the Group and the business continues to be a going concern. However, there remains a material uncertainty

regarding both the viability of the Group and its basis as a going concern, relating to Redress Claims and funding.

In assessing the Group's going concern status the Directors produced a number of forecast scenarios, all of which include a requirement for funding in line with the current agreement with lenders.

The base case forecast on which the Directors have based the going concern assessment includes an assumption that the settlement of Redress Claims occurs in an orderly manner over a period of time and that complaints do not remain at recent peak levels. If complaints volumes are higher than this level then this will accelerate the settlement of the Redress Claims liability and will therefore have a detrimental impact on liquidity. The timing of the settlement of the Redress Claims liability is key to the going concern assessment of the Group.

Therefore, the quantum of the redress claims liability and timing of settlement, as well as the extension or deferral of the term out clause and availability of funding beyond 31 March 2023 create a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

The financial statements have been produced on a going concern basis, whilst noting the aforementioned material uncertainty.

Potential implementation of a Scheme

As a result of this increase in the level of claims, the Board has decided to pursue the potential use of a Scheme of Arrangement under Part 26 of the Companies Act 2006 (the Scheme) for dealing with Redress Claims. A key objective of a potential Scheme would be to treat all customers equitably and settle eligible Redress Claims over a period to be defined. The Directors believe that a successful Scheme would provide more certainty in respect of the total liability for Redress Claims and help to secure the long-term viability of the Group.

The Directors believe that the benefit of any potential Scheme would help to bring certainty to a currently unknown liability and assure a more stable go-forward trading position for the Group.

The Company has provided the FCA with its proposals and is engaging with them regarding a potential Scheme and its future business model. The Company has also taken steps to appoint an independent Chairperson to set up a Customer Committee to represent eligible customers and assist the Company in developing any potential Scheme. Details of any potential Scheme would be announced in due course. The Scheme would be subject to the approval of the requisite majority of affected customers (i.e. those customers who received loans during the period to be covered by any Scheme) and, thereafter, the Court.

Following the Company announcement on 20 July regarding the potential Scheme of Arrangement, the Group experienced a higher level of unaffordable lending claims in the HCC division, which led the Group to seek a pause on the processing of claims, which was announced as effective from 11 August 2022. Without this pause, it is the Directors' belief the Group could have suffered significant near term liquidity issues, threatening its going concern status. Accordingly, it is also the Directors' belief that this would lead to worse outcomes for historic customer owed redress than can be achieved through the potential Scheme.

The potential Scheme of Arrangement would detail further how we would make payment against the estimated £42.6m complaints liability and would include guidance regarding future profits treatment and dividend policy (as appropriate).

At a Glance

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 lending. Together, our two brands provide flexible, affordable and convenient access to credit for 186,000 (FY21: 180,000) 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. During the Covid-19 pandemic, we 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. Forbearance has always been a key part of our approach, and we ensure that customers are supported through any short-term difficulties.

The majority of our borrowers are repeat customers, and customer satisfaction rates are consistently at 97% (FY21: 98%) or above.

We are the largest UK Home Collected Credit lender, and serve customers throughout the UK through our network of 1,077 (FY21: 1,385) self-employed agents.

Digital

We operated under two digital brands in the period

Dot Dot offers online instalment loans of up to 48 months

Dot Dot has operated as a fully online lending provider since its launch in March 2017, offering instalment loans 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
- loans of £1,500-£5,000 for customers who want to borrow more over a longer period of up to 48 months.

Due to significant changes in market conditions, the decision was taken to withdraw the e-money account service U Account from the market. U Account closed on 3 May 2022.

39,000
ONLINE LENDING CUSTOMERS
(FY21: 23,000)

97%
HCC CUSTOMER SATISFACTION[1]
(FY21: 98%)

1. Based on annual independent satisfaction survey for HCC.

143,000
HCC CUSTOMERS
(FY21: 151,000)

43,000
DIGITAL CUSTOMERS
(FY21: 35,000)

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

Find out more on page 7

Investment Case

We are focused on continuing to operate in the non-standard credit sector.

Established market position

- 143,000 HCC customers across the UK
- Strong underlying trading performance, with high levels of customer satisfaction and repeat business
- #1 Home Collected Credit company in the UK

Read more on page 5

Sound risk management

- Prudent credit risk policy: stringent criteria applied to every customer, every loan
- High levels of operational experience and knowledge of the sector

Read more on page 24

HCC and Digital divisions now developing to maximise market opportunity

Stabilising to deliver growth

- Scalable infrastructure
- Roadmap of organic growth initiatives
- Untapped market potential of **c.10m** people

Read more on page 7

Strong executive team

- Gary Marshall appointed as Chief Executive on 21 February 2022
- An experienced Executive team and Board, with relevant sector knowledge and complementary capabilities

Read more on page 46

The Company has made changes to its credit policy and lending approaches in line with customer and market demand. This includes the introduction of breaks in lending, further assessments of affordability before loan issuance, monitoring payment performance requirements as well as continuing to assess the terms and value of each loan for each customer's circumstances.

The Company has continued to experience increases in claims submitted from claims management companies. Subsequently, the Company has announced its intention to consider a potential Scheme of Arrangement in order to ensure the best outcome for customers. The Directors believe that the benefit of any potential Scheme would help to bring certainty to a currently uncertain liability and assure a more stable go-forward trading position for both divisions. The Company has provided the FCA with its proposals and is engaging with them regarding a potential Scheme and its future business model.

Market Overview

We have the capability to support growing demand.

Market drivers

The non-standard finance market is sizeable and growing

An estimated 10-12m consumers – 20-25% of UK adults – struggle to access credit from mainstream financial institutions due to an impaired or non-existent credit history.

The effects of the pandemic, the rising cost of living and the indirect effects of the war in Ukraine are also likely to push more prime borrowers into the non-standard market, with around two million people currently moving between standard and non-standard markets due to credit scores.

Although unemployment declined during the year, large numbers of adults are working part-time while looking for full-time employment or are on zero-hour contracts. Increasing numbers of people are unable to work for health-related reasons: the number of working age people with a long-term health condition rose by 1.2 million since the beginning of the Covid-19 pandemic[1].

A proportion of the working age population – whether or not in work – are reliant on benefits, which have been reduced. Insecure work and the resultant low or fluctuating income are driving the demand for non-prime lending.

Market trends

The non-standard credit market is expected to grow as supply contracts

The last two years have seen dramatic changes to the markets in which we operate. A large number of lenders of all sizes have exited the market for various reasons, leaving fewer providers at a time when demand is increasing.

The community of small, family-owned HCC businesses has further declined, with a reduction to 246 providers (FY21: 262) from the level of 420 providers serving the market during FY19.

Our customer engagement and usage of our customer portal illustrate the strong appetite for our blend of face-to-face and digital service.

This trend of digitalising HCC services has remained due to customer demand post pandemic. Our scale and reputation within the HCC sector and changes to our business during the pandemic have put us in a good position to address this market. We have made changes to our credit and lending approaches in response to customer demand and market requirements.

The sector has continued to be impacted by complaints from claims management companies and we continue to closely monitor the situation. Please see page 2 for more information.

The opportunity for Morses Club

Market trends support Morses Club's strategy

We see growing demand for our products and services as increases in the cost of living bite and are set to continue. At the same time, customers have fewer options as the number of providers has fallen significantly. As the leading regulated provider in this space, we feel great responsibility to work with the regulator to address the issue of growing numbers who see no option but to turn to unregulated sources of credit.

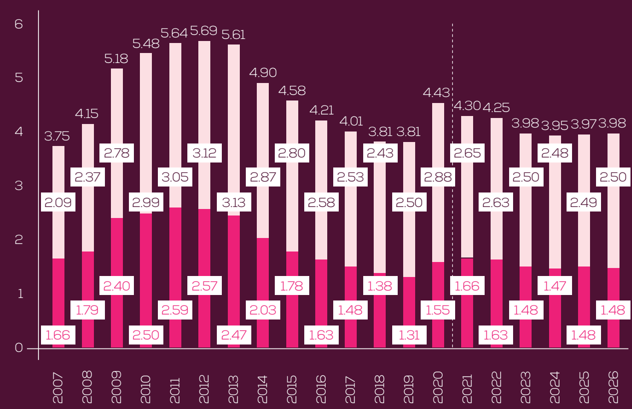
We look forward to greater clarity following regulatory reviews of the sector, and are ready to adapt our business as required.

We can benefit from reduced competition within the HCC industry, and from increasing demand for digital services.

10m

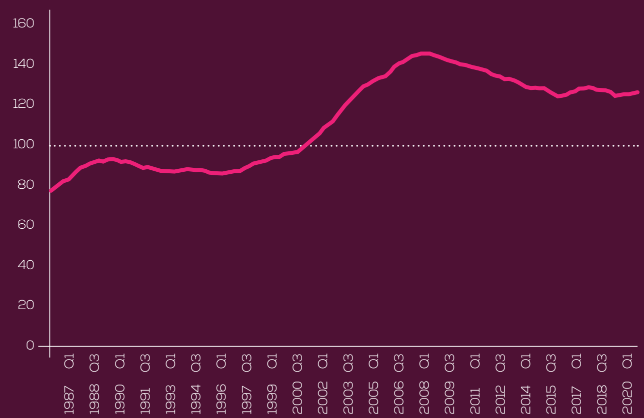
MARKET POTENTIAL

1. https://www.theguardian.com/society/2022/mar/05/covid-pandemic-sparks-steep-rise-in-number-of-people-in-uk-with-long-term-illness



- Demand for high-cost credit is driven by individuals who are in low-paid, insecure work. A key driver, therefore, is the labour market.
- However, despite higher overall employment, increased temporary and part-time working is likely to have led to higher demand.
- There has been significant growth in numbers of adults who are working part-time while looking for full-time employment, or are on zero-hour contracts. These are described in official statistics as 'underemployed'.

Source: ONS, OBR
Note: underemployed defined as workers who are employed but wish to work more hours. Forecast based on historical relationship with unemployment.



- The chart shows that overall household debt has remained high relative to household income during the period since 2018, and that it stopped falling after 2015.

Source: ONS / OBR EFO October 2021

Chief Executive Officer's Review

Our underlying performance over the period is encouraging, despite the current challenges we are facing.

"Trading throughout the year was strong in the context of robust demand for lending. We remain focused on delivering the opportunity to develop our future."

Gary Marshall
Chief Executive Officer

Introduction

We strategically decided to focus on our core strengths as a provider of credit products for the under-served segment of the market. We identified new sources of business for both divisions, and also opportunities to share learnings in processes and ways of working. Our digital division starting to trade profitably at the end of the year was a significant milestone.

While continuing to operate remotely, our people remained committed, and customers continued to be loyal, reflected in high levels of both customer satisfaction and employee engagement.

Performance

The underlying operational performance of our credit businesses was stable and consistent during the period. The performance of our e-money current account against a more competitive market led to a strategic decision to withdraw it from the market which we did in May 2022.

Digital

In the digital lending division, customer numbers exceeded 43,000 at the end of the period, an increase of 48% since the end of the prior year, (FY21: 29,000). Total credit issued for the period was £41.3m (FY21: £19.3m), a 114% increase. The gross loan book was £23.8m, an increase of 97% (FY21: £12.1m). The quality of the lending in the division remained high.

Customer demand was strong, with a focus on short-term lending during the period. Customer satisfaction for the division was 92% (FY21: N/A). Due to the IFRS 9 requirement to take forward-looking provisions at the outset of the loan period, impairment was outside the guidance range in H1; however, impairment significantly improved in H2. The overall impact of this resulted in impairment of 67.6% (FY21: £55.1m), above the guidance range of 45% – 55%.

The division is now primed for growth, with a stable platform and a significant target market. Month-to-month profitability was achieved in the last two months of FY22. Our growth plans in early FY23 are expected to increase impairment in the short term.

Home Collected Credit

The Home Collected Credit division traded consistently, despite the previously reported impact of an increase in complaints submitted by claims management companies. Full information is referenced on page 2, and the impact of the provision for potential redress liability as an exceptional item is detailed on page 23 of the financial review. We continue to monitor our credit policy on an ongoing basis, to keep this aligned to market conditions, and some tightening of criteria ensured the quality of our lending was maintained. Customer numbers of 143,000 (FY21: 151,000) at the end of the period were a strong indicator of consistent demand. Total credit issued during FY22 was £108.0m, 9% above management's budgeted plan and just marginally lower than the previous year (FY21: £109.7m). The gross loan book was £96.7m (FY21: £102.1m). Cash collection performance for the HCC division remained strong and was ahead of management's budgeted plan.

The Group continues to adapt to an evolving HCC sector influenced by changing customer and regulatory needs; 66% of all lending is now cashless (FY21: 67%), while 81% of payments are cashless (FY21: 80%.) This is consistent with FY21, despite the easing of Covid-19 measures. 81% of customers were signed up to the customer portal, an increase of 16% compared to FY21 (70%). Impairment for the financial year is below the Company's guidance range.

92%

CUSTOMER SATISFACTION FOR DOT DOT[1]

81%

CUSTOMERS NOW USE CASHLESS METHODS TO PAY THEIR LOAN

Customer satisfaction for the HCC division remained high at 97% (FY21: 98%), reflecting continued customer support for the evolving digital HCC model.

Strategy

We took the decision to close our e-money current account business in order to focus on lending, refining our strategy to focus on what we do best. As we grow our lending book, access to traditional funding will allow us to expand into longer-term facilities.

New customer acquisition in the HCC division has increasingly been using broker and online methods during the year, further reflecting the increased digital routes to market for the sector. With more than 81% (FY21: 70%) of HCC customers using our portal, through which they are able to complete applications and interact with agents online, it is now a question of embedding the strategy and ensuring that customers benefit from the level of utilisation they choose.

1. Based on independent satisfaction survey for Dot Dot from Dec 21 – Feb 22

Chief Executive Officer's Review continued

External market

There has been widespread comment regarding the focus that the sector has received from claims management companies. We remain in close contact with the FCA, and are in discussions with the FCA regarding the continued development of the business with a strong willingness to adapt so that we continue to serve our customers post Covid, and comply with our regulatory obligations which are central to our business model.

In the current climate, with ever-increasing challenges on domestic expenditure and the cost of living, we expect significantly more people to come into the market. This significant consumer demand will need to be met, and this is against a backdrop of reduced supply. Our agents provide informal feedback about the general state of people's financial circumstances and there have been concerning news reports about the number of people being forced to turn to illegal lenders. Our reshaped business is well positioned to support customers through these challenging economic times.

There has been a sharp regulatory focus on the sector, with a key outcome being the imminent consumer duty requirements, due to begin implementation in July 2023, and there are ongoing discussions about relending approaches.

People and culture

Although the impact of the pandemic has led to changes in our working model, we have worked hard to ensure that the customer-centric culture and focus on delivery has been maintained during the period. We have continued to stay in touch with our teams across the UK through regular communication and updates, to help people stay connected with the business, despite the changes that have been undertaken.

Board changes

There have been several changes to the Board. Having been Morses Club's Senior Independent Director since 2016, Sir Nigel Knowles took up the role of Chair with effect from 1 March 2022, following Stephen Karle's retirement after seven years. Sheryl Lawrence, who joined the Morses Club Board in May 2021, has assumed the position of Senior Independent Director.

Andy Thomson retired from the Board on 31 December 2021, following a period of ill-health the previous year. Andy had worked with Morses Club for 12 years and was appointed CFO in 2016, before stepping down in July 2019. Andy remained on the Board as a Non-Executive Director and stepped back in to support Morses Club as interim CFO in March 2020 for seven months. Joanne Lake also stepped down from the Board at the end of March 2022, following the completion of her second three-year term of office as a Non-Executive Director.

On behalf of the Group, I wish to extend our sincere thanks to Stephen, Andy and Joanne for their contribution to the business and wish them well for the future.

After a period of over two years as the Chief Operating Officer, with a focus on the digital division, I was delighted to take on the role of CEO from February 2022, following Paul Smith leaving the business. The strong Executive team which supports the Board is a healthy mix of long-standing, experienced colleagues, along with newer appointments as part of our succession planning.

Stakeholder engagement

As a Group we prioritise engaging with colleagues, to listen to ideas and concerns, and to ensure that everyone understands the direction we're going in. With a small number of exceptions, overall our people prefer working from home, and our engagement scores have improved the longer we have done this. Our intention over the coming months is to move further towards our ambition to support being a virtual organisation with flexible options tailored to people's needs. We're a digital business and it makes sense to work accordingly.

In terms of values, both of our businesses are very conscious of doing what's right for customers. We recognise that customers have financial shocks, and respond by being supportive. Ultimately there's a human element to this – we understand people's circumstances and act accordingly. That is what attracted me to the Group, and will continue to be the cornerstone of how we operate. We have already changed our affordability assessment to reflect and anticipate the increased cost of living. This may mean that we cannot help some customers with their lending needs every time, but ultimately, it's the responsible thing to do.

As part of our product development strategy, we will seek to reward good customers with longer-term and lower-cost products to help improve their financial wellbeing.

Understanding the expectations of our stakeholders, working collaboratively and adapting accordingly is core to our ethos. We hold regular 'town hall' briefings and management updates with employees, and gather feedback via surveys, whose results we act upon. In particular we have taken care to seek the views of employees and customers as we closed offices to pursue a remote working model, as we are keen to adapt to changing needs and behaviours, while preserving what differentiates the organisation. The closure of our offices and removal of company cars as our business moved online has reduced our environmental impact.

Following the Company announcement on 20 July regarding the potential Scheme of Arrangement, the Group experienced a higher level of unaffordable lending claims in the HCC division, which led the Group to seek a pause on the processing of claims, which was announced as effective from 11 August 2022. Without this pause, it is Directors' belief that the Group could have suffered significant near term liquidity issues, threatening its going concern status.

Outlook

It is the view of the Directors that the Group's trading performance demonstrates a basis for the future viability of the Group and the business continues to be a going concern. However there remains a material uncertainty that may cast significant doubt about the future going concern and viability of the Group.

We fully recognise the current challenges that the business faces, particularly with regard to the increase in complaints liabilities, due to the focus on the sector from claims management companies. We are deeply committed to the sector and the customers who need our services as they may already have less choice and we are committed to ensuring our products are sustainable and clear to our addressable market. This is not due to any reduced ambition, but a recognition that a reduced product range is right for the sustainability of the business.
I believe that the overall long-term outlook for the Group is positive. We have made significant strides to reshape the business and there will be more to do as we continue our discussions with the FCA. I am confident that we can work through this in a constructive way, as it is important that our customer demographic continues to be served by people who understand the market and can operate in a socially conscious way.

As part of the future development of its operating model, the Company is currently engaging in a programme to potentially end the self-employed status of agents and replace the work with a new role of employed Customer Support Associates. The aim is to complete this process by Autumn 2022.

Our strong management team, which includes a combination of people with experience in established businesses and those with experience in transitioning businesses to different ways of working, understands the need to operate at pace, and we have a renewed impetus on transforming the business to deliver sustained growth for both divisions.

We remain focused on continuing to build the trading position of the Group, and are confident that the changes that the business has made will help the business move forward from the challenges it currently faces. Its position as the only remaining HCC lender of scale in the UK, and the deep commitment it has to this sector, along with the core expertise in serving customers in this market will help its longer-term future, despite the impact on profitability for the period and impact in FY23.

97%

HCC CUSTOMER SATISFACTION[1]

1. Based on annual independent satisfaction survey for HCC.

Business Model

Our vision is to provide simple, flexible credit for people who cannot typically access mainstream services.

Our strengths

Technology
Extensive investment in digital capabilities and services.

People and culture
Experienced team of c. 550 employees (FY21: 560) and 1,077 self-employed, home-based agents (FY21: 1,385) – with the customer at the heart of what we do.

Scale
Economies of scale from a nationwide customer base of c. 186,000.

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

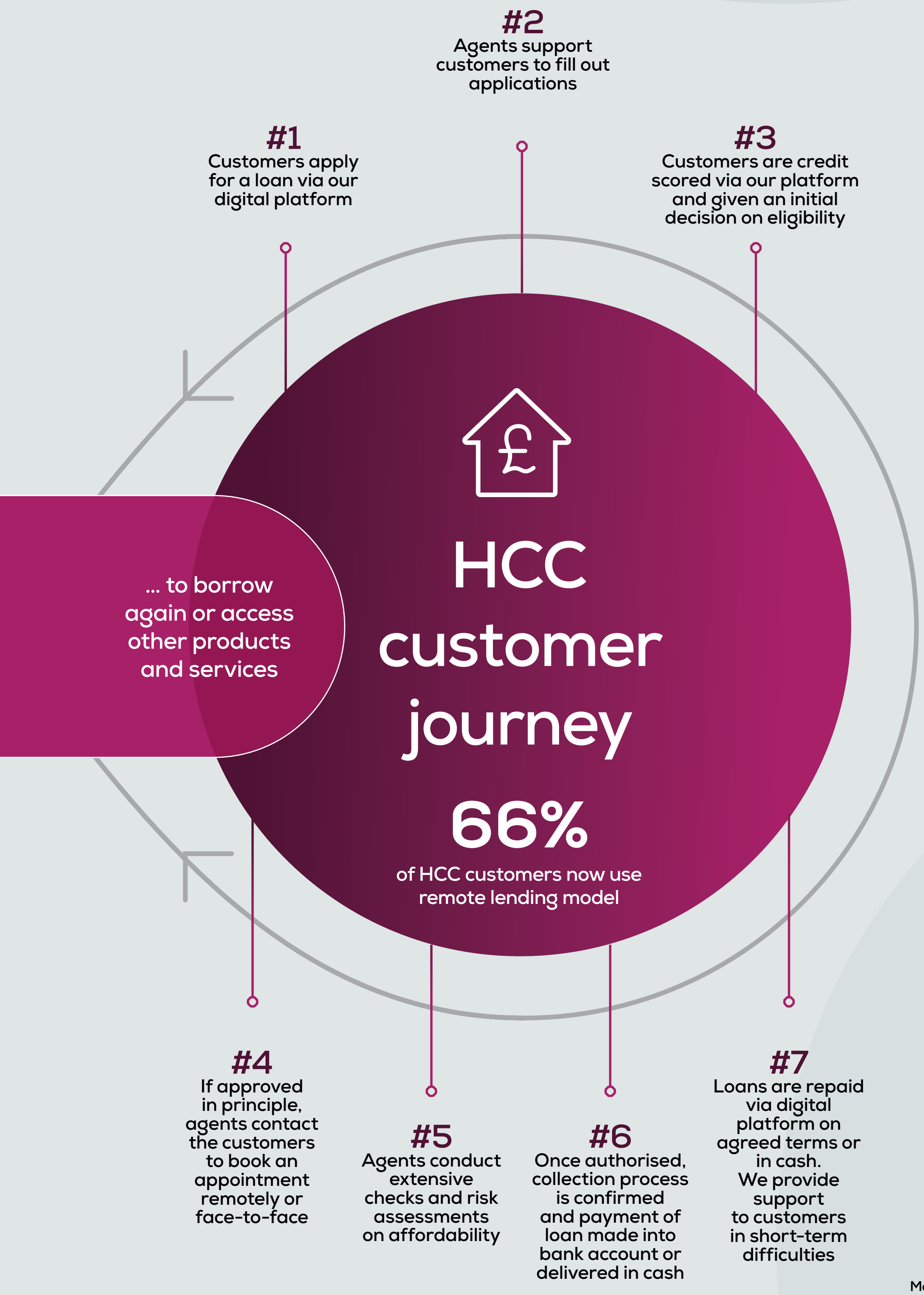
Open communication with regulator
Open and constructive dialogue with the regulator, including membership of the FCA's Smaller Business Practitioner Panel until February 2022.

See page 18 for more on our strategy

See page 24 for more on our robust risk management

See page 44 for more on our governance

What we do



How we share value with our stakeholders

Our customers:
We offer affordable, convenient access to credit and excellent customer service.

97%
CUSTOMER SATISFACTION

Our agents:
We offer flexible and rewarding roles, now done largely remotely.

Our employees:
We have an open and collaborative culture with opportunities for development.

92%
EMPLOYEES HAPPY WORKING FROM HOME

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

3.2p
ADJUSTED EPS

Delivering for our Customers

We have delivered consistently positive customer experiences as we have transformed the business, guided by ongoing customer feedback and our desire to maintain our high satisfaction ratings.

Our customers

97% CUSTOMER SATISFACTION

98% SATISFIED WITH MORSES CLUB FLEXIBILITY

95% LIKELY TO RECOMMEND MORSES CLUB TO FRIENDS AND FAMILY

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

“They made sure the agent got in contact with me within 24 hours and made sure the situation got sorted.”

“I can trust Morses. They explain it to me and makes me feel confident in them.”

“Every time I have needed a loan or to change my loan repayments or to just talk to my agent, she has been really forthcoming with details, helping me understand and helping me if I have fallen behind on payments.”

“My agent is brilliant. We communicate with each other, I am not just a number.”

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

43k
CUSTOMERS IN DIGITAL DIVISION

Dot Dot

92%
CUSTOMER SATISFACTION

Customer services was very helpful and funds were transferred very quickly."

87%
LIKELY TO RECOMMEND DOT DOT TO FRIENDS AND FAMILY

If I ever have to talk to you guys, you are there to help and always have a friendly attitude."

Very quick and easy with no embarrassing questions. I was made to feel like a normal borrower, not a bad credit person."

88%
LIKELY TO CONSIDER USING DOT DOT AGAIN IN THE FUTURE

Delivering for our Employees

Prioritising our employees' wellbeing, we increased our employee engagement in order to understand and address any concerns.

Our colleagues

71%
REPORT POSITIVE OVERALL WELLBEING

82%
DESCRIBE WELLBEING AS THE SAME OR BETTER SINCE WORKING FROM HOME

"Employee engagement across the business has been very encouraging and our colleagues seem to prefer the new way of working."

“I enjoy working from home, it gives me a much better work/ life balance.”

“I can apportion my time easier. If colleagues want my opinion or help then they book in dedicated slots rather than wandering to my desk and disturbing at inconvenient times.”

83%
MOTIVATED TO DO THEIR BEST

66%
HAVE MANAGED TO MAINTAIN NORMAL WORKING HOURS EVERY DAY OR MOST DAYS

85%
FEEL ENGAGED WITH MORSES CLUB

“Staff are happier, I think. Technology with Teams has made us a lot closer to other departments, areas and I have got to know more people across the country in different branches because of Teams.”

Our Strategy

We have a clear focus on what we do best, offering credit and supporting our customers.

Our purpose drives our **strategic pillars** in order to achieve **our vision**

Strategic pillars

Support more customers through their chosen channels

Read more on pages 12 to 13

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

Read more on page 36

We made the strategic decision to focus on our core area of expertise, providing credit to people who may not be able to access loans from mainstream lenders, and have simplified our product diversification strategy as a result.

Strategic priorities	Progress in the year	KPIs
Subject to evolving regulatory requirements, we will seek to drive volume growth among HCC and digital customers, to support greater numbers of customers in an environment of increasing costs of living and fewer regulated providers of credit.	• Retained blend of digital, remote and face-to-face lending and collection, and embedded cashless lending proposition to new and existing HCC customers. 81% (FY21: 70%) of HCC customers use the digital customer portal. • We will seek to reward good customers with longer-term and lower-cost products to improve their financial wellbeing.	**104k** HCC CUSTOMERS USING PORTAL
We remain committed to doing the right thing for our stakeholders. Our size enables us to be agile and flexible, driven by the changing needs of customers, colleagues and the regulator whilst acting in a professional and sustainable way. Safety and wellbeing continued to be priorities throughout the year. **We maintain a proactive and positive relationship with the regulator, and engage in regular communication.**	• Ongoing investment in customer dialogue and feedback. • Employees engaged during the year to check on wellbeing. • Engaged regularly with our agents to support them through the pandemic. • Withdrawal from all long-term property leases with the exception of Nottingham.	

Financial Review

"Despite the current challenges facing the business, the underlying opportunity for both trading divisions is strong. We continue to develop the proposition for both the HCC and digital divisions to maximise this opportunity."

Graeme Campbell
Chief Financial Officer

Introduction

The Company Update on page 2 gives an overview of the key elements to the date of the report which currently give material uncertainty, with particular regard to both the quantum and timing of redress claims and funding. The option of a potential Scheme of Arrangement gives the opportunity to put the business on a more certain footing in controlling the claims liability. Along with other key stakeholders, we remain in active dialogue with our funders on the future direction of the business. The current funding consortium has been supportive throughout the reporting period and to date.

Despite the current challenges, we remain confident of the market opportunities that continue to exist for the sector, and that our specific expertise in the HCC product type is both relevant and necessary in the current economic climate of the UK.

Overview

The underlying results for the Group for the 52 weeks ended 26 February 2022 reflect a stable financial performance, overcoming the many challenges presented by Covid-19 and wider market conditions, particularly with regard to the increase in complaint volumes received in the year in the HCC division, driven by claims management companies. Despite these challenges, the Group's underlying trading performance, which excludes exceptional costs, was profit-generative overall. However, due to the impact of the provision of £42.6m due to the exceptional item relating to claims (see page 2 for further details) the Statutory PBT for the Group generated an overall loss-making position.

The rise in complaint volumes in the HCC division received in the year led to further analysis of the root causes of these complaints. We engaged with an external technical expert to establish a proposal for a potential (as yet unapproved) redress methodology for customers who may have been affected by unaffordable lending. As a consequence the net present value of the cost of settling these complaints has been recognised as an exceptional item in the accounts. As management has used estimates of total redress due and an assumed take-up rate, details of which are included in Note 1 on page 111, there is material uncertainty regarding the exact quantum of this liability.

The continued impact of Covid-19 during the year created volatility of demand for our services but our customer numbers remained stable in HCC and increased substantially in our Digital division, with the resulting impact on the loan book. Our underlying debt and collection performance has been strong and we have reduced our overall cost base to mitigate the impact as much as possible. Administration and depreciation costs increased by £3.7m to £54.0m (FY21: £50.3m) but this included customer redress costs of £8.5m (FY21: £1.7m) . We also decided not to take any government support or furlough any staff during the period.

We have taken steps to develop our credit policies and product proposition in both divisions, tightening lending criteria and assessing the borrowing patterns of our customers to ensure that the risk profile of our customer base continues to be within our risk appetite.

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

	FY22			FY21			
£'m (unless otherwise stated)	**HCC**	**Digital**	**Total**	HCC	Digital	Total	**Increase/ (Decrease)**
Statutory (Loss)/Profit Before Tax	**(35.0)**	**(7.9)**	**(42.9)**	11.8	(11.3)	0.5	(43.4)
Restructuring and other non-recurring costs	**0.4**	**0.1**	**0.5**	2.9	2.4	5.3	(4.8)
Exceptional costs[2]	**44.4**	**2.4**	**46.8**	–	–	–	46.8
Amortisation of acquisition intangibles[3]	**0.2**	**–**	**0.2**	0.3	–	0.3	0.1
Adjusted Profit Before Tax[1]	**10.0**	**(5.4)**	**4.6**	15.0	(8.9)	6.1	(1.5)
Tax on Adjusted Profit Before Tax	**0.6**	**0.7**	**1.3**	(0.8)	(0.2)	(1.0)	2.3
Adjusted Profit After Tax	**10.6**	**(4.7)**	**5.9**	14.2	(9.1)	5.1	0.8
Statutory EPS[1]			**(25.0p)**			0.2p	(25.2p)
Adjusted EPS[1]			**4.4p**			3.9p	0.5p
Return on Assets[1]	**-57.3%**		**-57.4%**	22.0%		0.3%	
Adjusted Return on Assets[1]	**23.2%**		**10.1%**	27.2%		8.9%	
Return on Equity[1]	**-47.5%**		**-77.0%**	18.5%		0.4%	
Adjusted Return on Equity[1]	**19.2%**		**13.6%**	22.8%		10.3%	

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 147 to 149.
2 Costs relating to the complaints liability provision, corporate restructure and closure of U Account.
3 Amortisation of acquired customer lists and agent networks.

In FY22 we achieved an adjusted profit before tax[1] of £4.6m (FY21: £6.1m). Statutory loss before tax was (£42.9m) due to the charge in the year of (£46.8m) in exceptional costs. Statutory profit before tax last year in FY21 was £0.5m.

Following the impact of Covid-19 on the FY21 performance, HCC has demonstrated a level of stabilisation with closing customers down by 5.3% to 143,000 (FY21: 151,000) and period-end receivables decreasing by 9.2% to £43.6m (FY21: £48.0m). This resulted in adjusted profit before tax of £10.0m (FY21: £15.0m).

The Digital division recovered well from the impacts of Covid-19 with closing customers increasing by 48.3% to 43,000 (FY21: 29,000) and revenue more than doubling, up 115% to £29.6m (FY21: £13.8m). This resulted in an adjusted loss before tax of (£5.4m), compared to FY21 (£8.9m).

Total equity for the Group decreased from £70.7m in FY21 to £32.2m.

Financial Review
continued

Trading summary

£'m (unless otherwise stated)	52-week period ended 26 February 2022 HCC	Digital	Total	52-week period ended 27 February 2021 HCC	Digital	Total
Customer numbers ('000s)	**143**	**43**	**186**	151	29	180
Credit issued	**108.0**	**41.3**	**149.3**	109.7	19.3	129.0
Period end receivables	**43.6**	**12.2**	**55.8**	48.0	5.5	53.5
Average receivables	**45.7**	**12.5**	**58.2**	52.3	5.2	57.5
Revenue	**81.8**	**29.6**	**111.4**	86.4	13.8	100.2
Impairment (pre-exceptional)	**(12.5)**	**(20.0)**	**(32.5)**	(13.2)	(7.6)	(20.8)
Agent commission & other cost of sales	**(15.1)**	**(0.3)**	**(15.4)**	(20.0)	(0.6)	(20.7)
Gross Profit (pre-exceptional)	**54.2**	**9.3**	**63.5**	53.2	5.6	58.8
Administration expenses (pre-exceptional)	**(40.3)**	**(13.1)**	**(53.4)**	(33.8)	(12.2)	(46.0)
Depreciation	**(2.5)**	**(1.0)**	**(3.5)**	(3.6)	(0.7)	(4.3)
Operating Profit before exceptional items, non-recurring costs and amortisation of acquisition intangibles	**11.4**	**(4.8)**	**6.6**	15.8	(7.3)	8.5
Amortisation of acquisition intangibles	**(0.2)**	**–**	**(0.2)**	(0.3)	–	(0.3)
Restructuring and other non-recurring costs	**(0.4)**	**(0.1)**	**(0.5)**	(2.9)	(2.4)	(5.3)
Exceptional costs	**(44.4)**	**(2.4)**	**(46.8)**	–	–	–
Operating (Loss)/Profit	**(33.6)**	**(7.3)**	**(40.9)**	12.5	(9.7)	2.8
Funding costs	**(1.4)**	**(0.6)**	**(2.0)**	(0.7)	(1.6)	(2.4)
Statutory (Loss)/Profit Before Tax	**(35.0)**	**(7.9)**	**(42.9)**	11.8	(11.3)	0.5
Tax	**8.7**	**0.8**	**9.5**	(0.3)	0.1	(0.2)
Statutory (Loss)/Profit After Tax	**(26.3)**	**(7.1)**	**(33.4)**	11.5	(11.2)	0.2
Basic EPS			**-25.0p**			0.2p

Group results

Credit issued to customers increased by 15.7% to £149.3m (FY21: £129.0m) mainly because of the increased sales activity in the Digital business. HCC credit issued of £108.0m was a 1.5% reduction on the prior year (FY21: £109.7m), reflecting the continued stricter lending criteria to protect the quality of the loan book. Credit issued in the Digital business was also subject to tighter lending criteria, but despite this, credit issued increased by 114.0% to £41.3m (FY21: £19.3m).

Revenue increased by 11.2% to £111.4m (FY21: £100.2m) due primarily to the increased credit issued in Digital. HCC revenue decreased by 5.3% to £81.8m (FY21: £86.4m). Digital revenue increased by 114.5% to £29.6m (FY21: £13.8m).

Gross profit (pre-exceptional) increased by 8.0% to £63.5m (FY21: £58.8m). The gross profit (pre-exceptional) percentage decreased to 57.0% from 58.7% in FY21. The HCC impairment (pre-exceptional) charge as a percentage of revenue increased to 19.6% (FY21: 15.3%) and remains below our guidance range of 21% to 26%. This is due to a favourable impact from a shrinking loan book under IFRS 9 and tighter lending criteria. The Digital impairment charge as a percentage of revenue of 67.6% (FY21: 55.1%) remains above the upper end of our guidance range of 45% to 55% of revenue. This is the result of the significant growth in the loan book and broker commission costs being offset against revenue in line with IFRS 9.

HCC self-employed agent commission costs decreased by 24.5% to £15.1m (FY21: £20.0m), and as a percentage of revenue they decreased to 18.5% from 23.1% in FY21 as a result of the loan book reducing during Covid-19 and a reduction in commission rates. Administration expenses and depreciation increased by £3.7m to £56.9m (FY21: £50.3m), while as a percentage of revenue they increased to 51.1% (FY21: 50.2%). This is due to customer redress costs of £8.5m being reported in administration costs (FY21: £1.7m reported in cost of sales) and broker costs of £1.7m being reported in cost of sales (FY21: £0.0m). A provision of £2.8m (FY21: £2.0m) for customer redress and Financial Ombudsman (FOS) fees has been recognised in recognition of outstanding complaints at the end of the period. In estimating the FY22 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. This was then trued-up by £1.0m to £2.8m based on information available up until the reporting date.

Adjusted profit before tax decreased to £4.6m from £6.1m in FY21. HCC adjusted return on assets decreased from 27.2% in FY21 to 23.2% in FY22.

Restructuring and other non-recurring costs of £0.5m (FY21; £5.3m) relate to redundancy and office closures.

Exceptional costs were £46.8m (FY21: £Nil) relating to the recognition of: an unaffordable lending complaints liability and related loan book write-off totalling £42.6m (FY21: £Nil); as well as £4.2m (FY21: £Nil) relating to the proposed corporate restructure which was halted in December 2021; and the pre year-end decision to withdraw the e-money current account (U Account) and close the resulting operational elements effective as at 3 May 2022.

Funding costs of £2.0m were £0.4m lower than FY21 reflecting the lower level of borrowings throughout FY22.

The statutory loss before tax for FY22 was (£42.9m) compared to a statutory profit before tax of £0.5m in FY21.

Earnings per share

The adjusted earnings per share for FY22 was 4.4p, a decrease of 13% relative to the adjusted earnings per share of 3.9p for FY21. The reported loss per share for FY22 was (25.0p), relative to the reported earnings per share of 0.2p for FY21.

Dividend

The Company will not be recommending the payment of a final dividend for FY22.

Funding

In May 2021 we successfully reached agreement with a new two-lender consortium, providing a more cost-efficient and reduced £35m facility (FY21: £40m), now extended to 31 March 2023. The new facility continues funding our existing HCC products, in addition to unlocking funding for our Dot Dot loan products and helping the business achieve its immediate strategic objectives.

In FY22 borrowing peaked at £28.6m in December 2021 (December 2020: £22.5m of the £40m limit).

Management are currently in ongoing discussions with the existing lenders regarding an extension to the existing funding arrangement which would provide sufficient cash flow to meet the future needs of business as per the forecast. However, the Directors note that this is yet to be formally agreed and this, together with the extension or deferral of the term-out and with the impact of levels of redress relating to unaffordable lending claims to the HCC business, creates a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

We draw attention to note 1 in the financial statements, which indicates that the Group's current facility of £35m expires on 31 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or temporary deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions.

These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report. The Board recognises that as the current funding facility is in place for less than 12 months following the date of signing the Financial Statements there is also material uncertainty regarding secured funding.

Balance sheet

The total equity for the Group has decreased from £70.7m in FY21 to £32.2m driven by the recognition of the complaints liability. The Group's main asset is our loan book, which has increased on a net basis by 4.3% to £55.8m (FY21: £53.5m).

Summarised balance sheet £'m	FY22	FY21
Loan book	**55.8**	53.5
Goodwill	**12.9**	12.9
Bank borrowings	**(19.2)**	(8.3)
Cash at bank	**6.2**	8.3
Other net assets	**(23.5)**	4.4
Total Equity	**32.2**	70.7

Cash flow

The simplified cash flow statement below illustrates the cash generated by the business. Cash from operating activities decreased by 102.4% to (£0.8m) (FY21: £33.1m), with net borrowing increasing by £10.9m (FY21: decreased by £25.5m), as a result of the loan book growth.

Summarised cash flow £'m	FY22	FY21
Cash (outflow)/inflow from operating activities	**(0.8)**	33.1
Net borrowing increase/(decrease)	**10.9**	(25.5)
Net cash outflow from investing activities	**(4.3)**	(6.4)
Dividends paid	**(5.3)**	(1.3)
Other net cash flow movements	**(2.6)**	(3.5)
Decrease in cash and cash equivalents	**(2.1)**	(3.6)

Complaints

The increased volume of complaints in the HCC division, largely from the activity of claims management companies continues to be an area of review and close attention in relation to the cost base of HCC. Total costs relating to complaints received in the year for FY22 were £11.3m (FY21: £1.9m).

Due to the emerging position relating to complaints the Directors accept there is a liability in relation to customer redress claims for unaffordable lending against the Company at the balance sheet date. There is material uncertainty of the total liability which may be paid due to the methodology for assessing the population of claims which is yet to be agreed, and the level of subsequent customers who may claim against that methodology is based on management estimates. Based on these estimates a liability of £39.1m has been recognised and £3.5m has been written off the gross loan book in the FY22 accounts. The total of £42.6m is shown as an exceptional item in the Income Statement.

Outlook

Changes in the market have meant that we are now the leading UK proponent of HCC. Our long heritage in this sector and expertise, loyalty and dedication of our teams provide a bedrock of stability in how we develop our approach to this core product. Our Digital division now has an established operating model which we believe can grow.

Demand for our products is positive, as is the trading outlook for the Group, providing the factors creating material uncertainty are resolved.

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

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

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

The Third Line of Defence includes an Internal Audit function which reports to the Chair of the Audit Committee and is independent of the First and Second Lines of Defence. The priorities of the Internal Audit function are 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. In addition, external accountants undertake a quarterly review on behalf of the Group's external lenders. The Internal Audit function has been primarily outsourced during the year. During the year, the Group has reviewed its risk management framework in order to ensure that priority is 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 robust risk assessments continually during the year.

Following the Covid-19 lockdowns, more customers have been opting to be looked after remotely. 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 in to 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 69 to 71 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, 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.
- Supporting and challenging the business via control activities.
- Independently reviewing the effectiveness of front-line 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 assessing and assuring
  - Internal control framework
  - Risk management effectiveness

Ownership

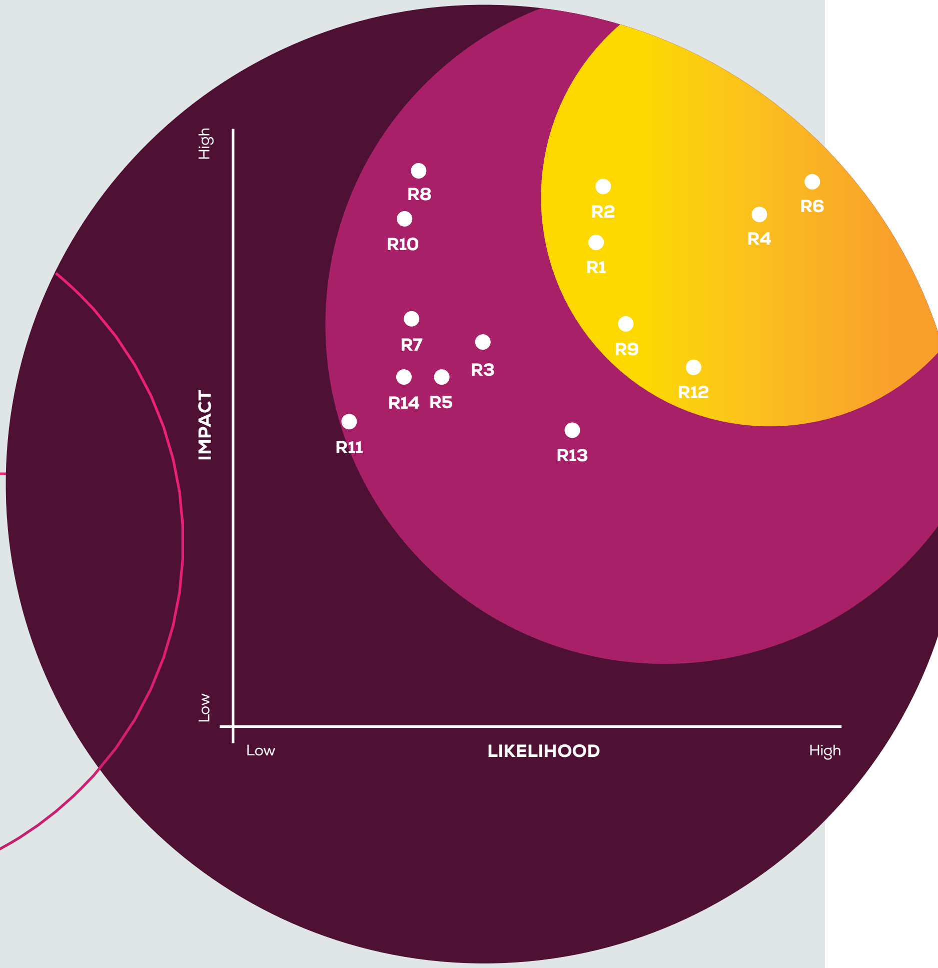
- Internal Audit Department, which reports to the Chair of the Audit Committee and is independent of the First and Second Lines of Defence.
- External accountants undertake a quarterly audit on behalf of the Group's external lenders.

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
R12	Increased cost of living
R13	People risk
R14	Impairment risk

The principal risks faced by the business by risk category are as shown below



Increase No change Decrease

R1 – CONDUCT RISK

DEFINITION

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.

RISK MITIGATION

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 Group has fully embedded the policies and procedures required by the Senior Managers and Certification Regime.

RESIDUAL MOVEMENT DIRECTION

Increase

The Group has put in place a risk mitigation framework to ensure that the Group's conduct throughout the year minimises the risk of poor outcomes for customers.

Increased risk due to increase in claims being received from CMCs.

R2 – REGULATORY RISK

DEFINITION

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.

RISK MITIGATION

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.

On 20 July 2022, the Company announced it is engaging with the FCA regarding a potential Scheme of Arrangement and its future business model.

RESIDUAL MOVEMENT DIRECTION

Increase

The HCC sector has come under closer scrutiny from the FCA during the last 12 months.

Principal Risks and Uncertainties continued

R3 – CREDIT RISK

DEFINITION

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.

RISK MITIGATION

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.

Projected higher inflation has been taken into account when reviewing a customer's affordability.

RESIDUAL MOVEMENT DIRECTION

↑

The risk has increased due to higher consumer costs. However, there have been no noticeable adverse outcomes. The subject is being monitored closely.

R4 – REPUTATIONAL RISK

DEFINITION

The risk of loss due to damage to, or a decline in, the Group's reputation.

RISK MITIGATION

Effective corporate governance provides business oversight and control.

We undertake independent monitoring, for example market surveys. In 2022, we continued surveys of all types of customers, including those who benefited from our policy of forbearance.

RESIDUAL MOVEMENT DIRECTION

↑

The higher level of complaints and the consequent reduction in profits and share price.

R5 – STRATEGIC AND BUSINESS RISK

DEFINITION

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.

RISK MITIGATION

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.

The Group continues to minimise the risks to the health and safety of our customers, employees and agents. All staff continue to operate from home effectively and the HCC business is able to lend and collect both remotely and through doorstep activities.

RESIDUAL MOVEMENT DIRECTION

→

There have been no material changes to this risk.

R6 – WIDER INDUSTRY RISK

DEFINITION

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.

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.

Provident Financial PLC and Non Standard Finance PLC have both left the HCC sector.

RISK MITIGATION

During the year, the Group has seen further increases in the level of complaints received from CMCs, principally impacting on the HCC division. Levels of claims are closely monitored, and the Company has made changes to its credit policy and lending approaches in line with customer and market demand. This includes the introduction of breaks in lending, further assessments of affordability before loan issuance, monitoring payment performance requirements as well as continuing to assess the terms and value of each loan for each customer's circumstances.

The Company has continued to experience increases in claims submitted from claims management companies, and as a result, the Company announced on 20 July 2022 that it was engaging with the FCA regarding a potential Scheme of Arrangement, in order to ensure the best outcome for customers. A potential Scheme would be prepared in consultation with a customer committee and would require (a) the approval of the requisite majority of affected customers, and (b) the approval of the Court. The FCA will be consulted extensively throughout.

It is anticipated that, if a Scheme is proposed, a separate Group company would be responsible for managing the Scheme and paying the claims. If the Company does decide to pursue a Scheme, affected customers would be notified by way of a letter, called a Practice Statement Letter. Subsequently, if it proceeds, full details of the Scheme, including the claims methodology and a timetable for claims, adjudications and settlements would be made available to affected customers.

RESIDUAL MOVEMENT DIRECTION

↑

Claims management companies are becoming more active in the financial services sector.

R7 – OPERATIONAL RISK

DEFINITION

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.

RISK MITIGATION

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.

In the event of future Covid-related, or other pandemic, restrictions, we continue to operate with a model that enables our agents to lend and collect remotely where appropriate.

We continue to offer a 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. Customers are able to have funds deposited directly into their bank account or in cash at their home if required. Employees in both divisions continue to be principally based from home.

Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained.

The Company is in discussions with the FCA regarding the development of its future business model.

RESIDUAL MOVEMENT DIRECTION

↑

The Company continues its discussions with the FCA and other stakeholders regarding its future product set and business model. There is an increased risk pending a successful conclusion to these discussions.

R8 – LIQUIDITY RISK

DEFINITION

The risk of the Group being unable to meet its current and future financial obligations on time.

RISK MITIGATION

In May 2021 we successfully reached agreement with a two-lender consortium for a more cost-efficient and reduced £35m facility, extended to December 2022. This facility continues to provide funding for our existing HCC products and also unlocked funding for our Dot Dot loan products. These arrangements were extended to 31 March 2023. The Group is currently in discussions with its lenders to extend its borrowing facility further.

Management has shared forecasts with the two lenders with a view to extending the current facility post March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or temporary deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term.

RESIDUAL MOVEMENT DIRECTION

↑

The risk is seen as increased pending any agreement to extend the Group's funding past 31 March 2023.

R9 – IT AND CYBER RISK

DEFINITION

The risk of business interruption from cyber crime or system failures.

IT/Cyber risks include:

- IT systems and networks can be damaged and/or information can be lost owing to third-party actions.
- Data protection/information security issues occur or there is a failure to meet the requirements of data protection regulation/legislation (e.g. GDPR).
- Strategy and architecture risk arising from inadequate requirements 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.

RISK MITIGATION

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.

All of our data is now encrypted at rest.

The business change team closely monitors demand and resource plans.

RESIDUAL MOVEMENT DIRECTION

↑

The risk is seen as increased owing to the increase in the number of cyber attacks globally, the potential for cyber attacks from Russia, plus the increase in the volume of online business.

Principal Risks and Uncertainties continued

R10 – AGENTS' SELF-EMPLOYED STATUS

DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
The previous risk that employment and/or tax legislation changes to such an extent that the HCC division cannot maintain self-employed status for its agents has been replaced by the risk relating to the process of converting agents from a self-employed status to that of being employees.	The HCC division is currently engaging in a programme to potentially end the self-employed status of agents and replace the work with a new role of employed Customer Support Associates. The aim is to complete this process by Autumn 2022.	→ The risk of having self-employed agents is being reduced, but any risk arising from the change process itself is the reason for there being no overall reduction in the risk this year.

R11 – COVID-19 PANDEMIC

DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
The risk that normal business is significantly affected by Covid-19 by restricting face-to-face contact with customers, reducing the number of staff working from offices and reducing the demand for loans.	The Group has adopted a hybrid position of remote working, supported by office facilities in Nottingham. With robust IT platforms, flexible operating processes and strong BCP procedures that have been successful throughout the Covid-19 period, the Group is able to adjust to any future restrictions brought about by variants of Covid-19 or any other pandemic.	↓ Lockdowns no longer in place. Hybrid working used successfully.

R12 – INCREASED COST OF LIVING

DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
Due to the increased cost of living, especially for food and energy, there is a risk that our customers are unable to repay their loans.	The Group has tightened its affordability policies to take into account the increased cost of living for new loans. The current indications are that existing loans are not being materially affected by the increased cost of living.	↑ Increased prices may result in customer loans not being repaid.

R13 – PEOPLE RISK

DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
High staff turnover, especially within IT and Customer Services.	The Group continues to monitor its onboarding process and the results of its salary benchmarking. Outsourcing is undertaken where appropriate. The Group's remote working strategy also allows flexibility when recruiting.	↑ Staff more mobile with hybrid working.

R14 – MODEL RISK

DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
Shelby Finance impairment model risk.	Much work has been undertaken in association with KPMG in developing a new impairment model for the Shelby Finance division. Formal monitoring and governance over this model are being developed.	↑ New impairment model.

Emerging risks

The Group uses proactive risk management in order to evaluate 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. During the last year we have: • reduced the quantity of properties that we occupy; • reduced our transport and fuel usage considerably; • installed LED lighting, sensor lighting and thermostat heating at our support centre; and • installed sensor lighting and blind fittings to the windows at our Leeds site. 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 Group's SECR Report can be seen on page 41. 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 and their environmental policies. In this way, we aim to ensure that any outsourcing arrangements are based on working with suppliers who adhere to our operating standards.

Viability Statement

The Directors and the Audit Committee consider a 12-month horizon as part of the going concern assessment (page 66), but in addition the Directors consider the Group's 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 three-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 26 February 2022 including the current funding position and the Directors' expectation that funding will be available;
- 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 Company's complaints liability, accepting the material uncertainty regarding quantum and timing of settlement;
- 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 12 to 19. 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 three-year strategic plan at least annually. Progress against the strategic plan is reviewed at every meeting by the Board through presentations from the Executive Management Team on the performance of their respective business units, the assessment of market opportunities, and the consideration by the Board of its ability to fund its strategic ambitions.

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

The Group's underlying trading position is profitable. 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 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report.

The Group has proven itself to remain resilient and profitable through challenging market conditions, such as the Covid-19 pandemic when the closed economy lowered demand for our services and caused our customer base and the loan book to shrink. Despite this, performance of underlying debt and collections was very strong.

The Group has observed a noticeable increase in the level of complaints received in particular from CMCs during the year. The Directors therefore accept there is a liability in relation to Redress Claims at the balance sheet date, recognising that there is a discernible trend, although there is significant uncertainty regarding the quantum and timing of the total liability which will be paid. Consequently this level of complaints falls outside the risk framework that the Board has set.

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 and credit risk
- Collections and loan book quality
- Complaints volumes
- Cash availability
- Collect-out out scenario (in accordance with Regulatory guidance)

A number of scenarios were modelled in respect of both the quantum and timing of settlement of the complaints liability.

In the base case forecast, this settlement is orderly and continues until FY26, with a reduction in complaint volumes over the coming months. In a second scenario, it was assumed settlement of the liability is via a potential Scheme. This would also ensure orderly payment of all liabilities as they fell due, and would allow the Group to continue to trade. A third scenario modelled higher customer claims, with the resultant strain on cash leading to a cessation of trading and a subsequent collect-out scenario.

Having considered these scenarios and assumptions, the Directors consider that the underlying profitability of the Group means that the business is viable. This takes into account the need to resolve the material uncertainty relating to funding, term-out clause, and the quantum and timing of settling complaints costs.

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

Although the Board confirms that it expects the Group to continue to operate and meet its liabilities as they fall due over the three-year period of assessment, this is within the context that the material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern (as detailed on page 2) is resolved.

Stakeholder Engagement and s172

Engaging with our Stakeholders

Our Key Stakeholder Groups

Customers

We have adapted our business to continue to meet our customers' evolving needs.

Agents

Our network of agents develops valued relationships with customers.

Employees

Our experienced, diverse and dedicated workforce is core to the success of our business. We continue to seek to encourage and create opportunities for our people to realise their career aspirations.

Suppliers

Our suppliers provide the goods and services to enable us to meet our customers' needs, playing a vital role in our operations.

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 operate means it is critical to maintain open and trusting dialogue with policy makers and our sector regulator, the FCA, critical to a sustainable business model.

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

Listening and engaging helps us to create a better business and improve outcomes for our internal and external stakeholders, including 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 32 to 33 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 Group 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.

83%

EMPLOYEES MOTIVATED TO DO THEIR BEST

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 Group's 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 between members of the Company.

Stakeholder Engagement and s172 continued

OUR STAKEHOLDERS	WHAT MATTERS TO THEM	HOW WE ENGAGE	HOW THEY LINK TO OUR STRATEGY
CUSTOMERS	• Affordable and accessible credit. • Simple, transparent fee structure, with no penalties or late payment charges. • 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. • 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 HCC division achieved an overall score of 97% across all six divisions, and has maintained this score across the year.	Non-standard customer base central to our business model and strategy. Digitalisation of service based on market demand and customer need.
AGENTS	• Ability to work flexibly. • Support and tools to work efficiently, effectively and flexibly. • Competitive remuneration.	• Regular virtual meetings with Managers.	Provide interface with customers and maintain relationships with our target demographic. Link to local communities and 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. • Competitive remuneration and benefits.	• Open, collaborative culture with regular Group updates and opportunities for questions and feedback. • Annual appraisal process. • Regular surveys and a detailed cultural review during the year to monitor engagement and ensure adaptations to working practices are in line with our cultural values and customer service needs. • 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.
SUPPLIERS	• Professional relationship, adhering to contractual terms. • Alignment of business culture and values, including operating responsibly.	• Due diligence conducted for all suppliers. • Monitoring of quality of products and services. • Review of policies and procedures in place. • Regular contact through procurement and account management. • 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 the needs of our business and customers.
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. • Regular 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.

OUR STAKEHOLDERS	WHAT MATTERS TO THEM	HOW WE ENGAGE	HOW THEY LINK TO OUR STRATEGY
REGULATOR AND GOVERNMENT	• 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. • Respond proactively to feedback requests. • Member of the Smaller Business Practitioner Panel through the CEO until February 2022. • Programme of contact with MPs through the CEO to share insights and ensure the business model is understood.	Delivery of regulatory framework that supports good customer outcomes. Ensure that our products and services are delivered responsibly and ethically.
SHAREHOLDERS	• Positive cash generation, and established long-term 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 Chair 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.
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 34. • The Group's SECR Report is on page 41.	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 Board continued to review the operational impact of the ongoing pandemic, and continued to support the development of systems and processes to ensure that customers were supported both digitally and with in-person services where Covid-19 restrictions allowed. The Board was updated on the summary results of the annual employee engagement survey. The Board also supported the strategic decision to focus the Group's product strategy on the provision of credit products, rather than broader financial services, which led to the decision to withdraw the e-money current account product from the Group's portfolio.

Environmental, Social and Governance

"Our new sustainability framework formalises our existing approach to responsible business and helps us identify focus areas."

Gary Marshall
Chief Executive Officer

Operating responsibly has always been at the heart of our ethos, and is key to achieving our purpose and **strategic objectives.**

Doing the right thing for our stakeholders is extremely important to us, and we are committed to operating ethically and responsibly. Our culture and values, strong governance and risk management shape our approach to responsible business. Responsible business and the Group's performance on ESG matters are overseen by the Board, and are standing items on Board meeting agendas. As we develop our approach further, we plan to establish a Board Responsible Business Committee.

Operational responsibility for the framework sits with the Executive Committee and in particular:

- The CEO has overall responsibility for governance, ethics and business conduct.
- The Group HR Director leads initiatives focused on our employees including culture, diversity, equality and inclusion and employee engagement, along with devolved responsibility for health & safety, environmental policy and charitable activity.

Focus areas during FY22

Particularly in light of the significant changes to our business and ways of working over the last two years, we recognised the need to review our approach to responsible and sustainable business to ensure we focus our efforts on issues that are material.

Lending responsibly

- Responsible lending
- Governance
- Protecting customer data
- Customer outcomes and satisfaction

Caring for our people and communities

- Employee engagement
- Health, safety and wellbeing
- Working experience
- Diversity, equality and inclusion
- Supporting our communities

Reducing our environmental impacts

- Carbon emissions, energy usage and efficiency
- Fuel and company car usage
- Waste management

During the year, particular focus areas were the support of our employees during the continued impact of Covid-19, as well as ensuring that we continued to support our customers, adapting our service model in line with the government guidance in the four countries of the UK.

Key focus areas for FY23

- Develop our responsible business approach by aligning with the UN Sustainable Development Goals (SDGs) and outlining commitments and targets.
- Develop our strategy on managing climate change and work towards compliance with the Task Force on Climate-related Financial Disclosures (TCFD).
- Enhance our focus on equality and inclusion in everything we do, including how to attract, retain and develop colleagues, and how we engage with others.
- Further reduce the environmental impact of our operations.
- Continue to support local and national charities through donations and supporting our colleagues in their fundraising activities.

Find out more on pages 41 to 43

Environmental, Social and Governance
continued

Lending approach to customers

We strive to adhere to evolving industry standards and have a constructure dialogue with the regulator to ensure that we comply with regulations as they develop

Lending approach

The FCA's Treating Customers Fairly principles are the foundation of our approach, and responsible lending runs through our customer journeys and the lending process. We assess every loan application against strict 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 able to afford the repayments. Last year, 71% (FY21: c. 75%) of loan applications were not progressed. Terms and conditions and other information relating to loans are clearly displayed and understandable. Our charging structure is clear and uncomplicated, with no penalties or fees for missed or late repayments. Our self-employed agents are paid in commission based on collections, not sales.

Governance

Our business operations are supported by the Three Lines of Defence model, which have been strongly embedded since our IPO in May 2016. We engage with various third party stakeholders, and audit partners to monitor and oversee our activity across a wide range of aspects.

We have clear policies on various elements relating to responsible lending and our wider business practices. These are available on our website and include:

- Responsible lending
- Financial difficulties
- Vulnerable customers
- Fair collections
- Conduct risk
- Data protection
- Information security

Protecting customer data

The confidentiality, integrity and availability of personal information are key to the success of our business, and we take data protection, data privacy and information security extremely seriously.

To demonstrate commitment and accountability for our data protection obligations, we maintain a Personal Information Management System (PIMS). This is part of our broader internal controls framework and enables the Group to meet data protection legislation and our own data protection requirements for the management of personal information. Our data protection policy is reviewed at least once a year or earlier if there is a change in legislation/regulation or process that impacts the policy.

As outlined in our Risk Report on page 71, we plan to increase the frequency and scope of the regular vulnerability assessments we undertake against our core infrastructure services, in light of the increasingly digital nature of our business and the prevalence of cyber attacks in wider society.

Training and advice are provided to all employees and agents on their data protection obligations at induction and at least once per year as part of a comprehensive programme of regulatory and development training for all our employees.

Customer outcomes and satisfaction

During the year we continued our programme of monthly customer satisfaction surveys for Morses Club and introduced monthly customer experience surveys for Dot Dot Loans and were delighted to receive consistently positive scores.

See page 14

We closely monitor the number and nature of complaints and seek to address these in a timely manner.

97%
MORSES CLUB OVERALL CUSTOMER EXPERIENCE SCORE [1]

92%
OF DOT DOT LOANS CUSTOMERS SATISFIED OR VERY SATISFIED [2]

1. Morses Club Good Customer Outcomes Survey, 2022
2. Dot Dot Loans Customer Experience Research, December 2021 – February 2022

Environmental, Social and Governance continued

Caring for our people and communities

We seek to provide a safe, open and inclusive working environment for all of our colleagues. We're grateful for their continued dedication and flexibility during the challenges of the past two years, which have confirmed that our culture is one of our greatest assets. This is reflected in our engagement scores, but also in the enthusiasm with which colleagues support our communities with charitable giving and more broadly.

Employee engagement

Each year we undertake an employee engagement survey to give colleagues an opportunity to provide feedback and suggestions on an anonymous basis. In 2020 we commissioned Mustard to conduct an additional online survey to understand how employees were feeling and their experiences of working from home during lockdown. In summer 2021 we undertook follow-up research to understand how attitudes had changed and explore feelings towards future hybrid working, highlights of which are outlined below:

- 86% of employees surveyed indicated that they were coping well working from home, up from 76% during May/June 2020.
- More than 80% of employees felt engaged with Morses Club and reported that their overall wellbeing was the same or better than before they started working from home.
- Nine out of ten employees were positive about the support they had received from their line manager, with 68% classifying it as 'excellent' overall. All areas of the business showed an improvement year-on-year.
- Just 3% of employees had a preference to be office-based, with the vast majority (81%) expressing a preference to continue to work from home.
- A third of staff felt that they would need to access office space at least once a month, with the remainder indicating that this need would be less often. These findings have helped to continue to develop our office space, which is now limited to a Nottingham contact centre, and two temporary office spaces in Leeds and Sheffield. We will continue to monitor employee wellbeing through tailored feedback mechanisms.

Working experience

Culture

We are proud of our culture, and have been mindful of preserving and nurturing this as our working practices have undergone significant change during the course of the Covid-19 pandemic. The frequency of our employee surveys allowed us not only to assess wellbeing and satisfaction with working from home, but also to evaluate factors that might compromise or indeed enhance our organisational culture. We were encouraged that 80% of respondents to our summer 2021 employee survey described their experience of keeping in touch with colleagues in their team as 'good' or 'excellent', with the corresponding figure for colleagues in other areas of the business being 66%, with many saying that Teams has allowed them to get to know more people around the business.

In summer 2020 we formalised and refined our practices to develop a cultural barometer, which we are now developing as part of our framework of development. Read more about this on page 52.

> We continue via Teams throughout our working day. We have a Tea & Coffee catch up on a Monday. Daily WFH calls, team meeting on a Wednesday and a Friday quiz last thing. Our team continues to have the rapport and team dynamic we had prior to WFH."
>
> **Central Operations team member**

Employee shares

Employee share ownership is a valuable way to share the success of the business with colleagues. In January 2021, employees received Morses Club shares following the vesting of their 2017 share award. The HCC division also 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 Group failing to meet its FY20 adjusted profit before tax target, but an award of 3.25% of base salary was made again in December 2021 to qualifying employees in both its HCC and Digital divisions. The Group intends to repeat this in future years, subject to the Group's profitability.

3.25%

AWARD OF THE BASE SALARY WAS MADE IN DECEMBER 2021 TO EMPLOYEES

Environmental, Social and Governance continued

Health, safety and wellbeing

The health, safety and wellbeing of our employees and the self-employed agents we work with are paramount. The majority of our workforce continued to work largely from home throughout the year, and we adhered to evolving government guidance in relation to Covid-19 measures to ensure the safety of agents entering customers' homes.

All our employees have access to the Perkbox platform, which offers employees rewards and offers, as well as confidential advice and assistance. In our most recent employee survey 71% of employees reported positive overall wellbeing, with the proportion describing it as 'excellent' almost doubling since the previous survey.

71%

OF EMPLOYEES REPORTED POSITIVE OVERALL WELLBEING,

Diversity, equality and inclusion

Our business can thrive only if we nurture an inclusive and diverse culture in which colleagues of all backgrounds feel valued, confident to contribute their ideas, and have opportunities to fulfil their potential. We live by our Company values and cherish our diversity, whether that relates to gender, race and ethnicity, sexual orientation, gender identity and expression, disability, marital status, age, nationality, religion, thought, belief, experience or expression.

Supporting our communities

In addition to the indirect contribution we make to communities across the UK by facilitating financial inclusion for people unable to access credit from mainstream lenders and providing business opportunities for self-employed agents, we also raise money for good causes. During the year, we donated c. £7,000 to a variety of local and national charities, and plan to donate a further £5,000 to the British Heart Foundation in relation to surveys completed during the year. For FY23, we have chosen to support the Trussell Trust to raise money in memory of Mark Jakeman, our Operations Director who sadly died in January 2022.

£7,000

DONATED TO A VARIETY OF LOCAL AND NATIONAL CHARITIES DURING THE YEAR

Reducing our environmental impacts

The closure of almost all of our offices has allowed us to deliver marked improvements to our environmental impact, including reducing our emissions and waste.

Carbon emissions, energy usage and efficiency, and our climate impact

When changing our property strategy, we sought to balance the practical needs of our employees and business with the need to ensure that our changes support the UK government target of being carbon neutral by 2050.

This section includes our mandatory reporting of greenhouse gas emissions in line with the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Streamlined Energy and Carbon Reporting (SECR) under the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018.

Initiatives to reduce our impact

Having reduced our long-term lease estate commitments from around 90 sites to one in the previous year, during the period we reduced the office premises that we occupy on a short-term lease to one in Leeds, and our transport and our transport and fuel usage reduced considerably. Our Nottingham office had LED lighting, sensor lighting and thermostat heating installed, and we installed sensor lighting and blind fittings to the windows at our Leeds site.

In addition, we had already made the decision to remove all leased company cars, replacing this with a car allowance to employees who need a car for business purposes. This will be complete by the end of December 2023.

The shift to remote working over the last two years has also allowed us to significantly reduce our consumption of paper and office supplies. During the period we used 1.2 million sheets of paper, down from almost 14 million sheets two years previously.

Methodology

Our GHG emissions reporting period is 28 February 2021 to 27 February 2022, in line with our financial reporting year. We consider that the most appropriate intensity ratio for our business is tonnes of CO_2 equivalent (tCO_2 e) per number of full-time equivalent employees.

The organisation took 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.

Environmental, Social and Governance continued

Methodology continued

Energy usage information (gas and electricity) was obtained directly from our energy suppliers and half-hourly (HH) data, where applicable, for the HH supplies (there was no estimation profiling required). For tenanted properties where the energy usage was not available we estimated consumption using the CIBSE guidelines. Transport mileage data was obtained from expense claims submitted for our company cars and employee-owned vehicles. CO_2e emissions were calculated using the appropriate emission factors from the UK Government GHG conversion information.

	Emissions source	2021-2022	2020-2021	2019-2020
Scope 1 (tCO_2e)	**Natural gas**	25	26	117
	Fuel for transport purposes	17	309	1,216
Total Scope 1 emissions (tCO_2e)		42	335	1,333
Total Scope 2 emissions (tCO_2e)	**Electricity**	49	70	121
Total Scope 3 emissions (tCO_2e)	**Employee-owned cars**	23.6	Not measured	Not measured
Total emissions (tCO_2e)		114	405 (Scope 1 + Scope 2 only)	1,454 (Scope 1 + Scope 2 only)
Intensity ratio – tCO_2e per number of employees		0.21	0.74	2.53

Notes:
1. tCO_2e = Tonnes of CO_2 equivalent.
2. All activities are UK-based.
3. Conversion to carbon rates used current Department for Education, Food and Rural Affairs (DEFRA) factors.
4. Calculations were carried out by Consultus International Group Limited.
5. Scope 3 emission figures include business travel, employee commuting and domestic energy usage to support staff working from home.

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD reporting is important to help us enhance our understanding both how climate change could affect our business and any impacts that our business could have on the climate. Work is underway to develop a roadmap towards TCFD reporting with the aim of ensuring that the Group can meet TCFD requirements. The first steps on our roadmap are outlined below:

- Conduct risk assessment and report on climate-related risks and opportunities.
- Set up and report on our governance framework for overseeing climate change strategy within the business, aligned to ESG governance.
- Start to consider how to undertake scenario planning and develop our strategy for managing climate change.

Fuel and company car usage

The sustained shift in customer behaviour towards greater use of digital channels meant that we were able to further reduce our company car fleet during the period, from 273 to 30 vehicles.

Waste management

We saw a substantial reduction in confidential waste during the financial year as greater numbers of customers opted to engage with us via our customer portal. The combined volumes of our general waste – all of which is repurposed – and that disposed of in skips were temporarily distorted during the process of closing the vast majority of our offices. As more customers engage with us digitally and we further transition to a more virtual way of working we anticipate our waste to reduce to negligible levels.

Waste (tonnes)	2021-2022	2020-2021	2019-2020
General	1.6	1.4	26.9
Confidential	1.7	5.6	34.9
Skips	4.5	43.5	2.0

Move to cashless/digital transactions

Transactional cash use across the UK fell from more than 50% of payments in 2010 to only 17% of all payments in 2020, with the trend accelerating during the Covid-19 pandemic (source: Bank of England). This societal decline in usage of cash is reflected in the preferences of our customers, who responded positively to the remote lending product we launched early in the pandemic. This cashless proposition and the unique circumstances of lockdowns led to a marked drop in the cash we gave out in loans to our customers between FY20 and FY21, and the figure remained stable over the last year. Similarly, the number of plastic cards we issued to customers dropped to a fraction of previous levels as customers have become more comfortable with alternative payment methods.

	2021-2022	2020-2021	2019-2020
Cash given out in loans (£ million)	108.0	109.7	172.4
Plastic cards (thousand)	3.3	34.0	62.1

“We consider our community responsibility in delivering services across the UK, working to maximise our service to customers and minimise our environmental impact.”

Corporate Governance

Contents

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.

Gary Marshall
Chief Executive Officer

Date of appointment
22 July 2019 as COO. 1 May 2021 as Executive Director.
Appointed CEO on 21 February 2022

Background and Career

When first joining the Company, Gary was given responsibility for leading the integration and development of the digital business, Shelby Finance, including the delivery of new platforms which could effectively meet customer demand as the business grows. Gary also took on overall responsibility for the Group's IT and Change functions. In February 2022, Gary was appointed Group CEO.

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
Chair

Date of appointment
14 April 2016 as Senior Independent Director. Appointed Chair on 1 March 2022

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.

Areas of Expertise

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

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 the 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.

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 Group looks to adapt its business during the coming years.

Sheryl Lawrence
Independent Non-Executive Director

Date of appointment
Appointed NED 1 May 2021 and Senior Independent Director on 1 March 2022

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.

Sheryl was appointed the Senior Independent Director and Chair of the Risk Committee at Distribution Finance Capital Holdings plc on 16 May 2022.

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 3rd 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.

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.

Chair's Introduction to Governance

"Robust governance provides a sound foundation for delivering on our strategy and ensuring the Group's success."

Sir Nigel Knowles
Chair

I am pleased to write to you in my new capacity as Chair, to present the Corporate Governance report for the year ended 26 February 2022.

Board changes

I took up the role of Chair on 1 March 2022 following Stephen Karle's retirement. Stephen had been Chairman of Morses Club since January 2015. He led the Group through its successful IPO and supported its transition from a pure home collected credit provider to including a strong digital lending business. Sheryl Lawrence, who joined the Morses Club Board in May 2021, has assumed my previous position of Senior Independent Director. Michael Yeates joined as Independent Non-Executive Director at the same time as Sheryl. Both Sheryl and Michael bring extensive financial services experience to the Board, and during the financial year they were appointed Chair of the Audit Committee and Chair of the Risk & Compliance Committee, respectively.

Andy Thomson retired from the Board on 31 December 2021, following a period of ill-health the previous year. He had worked with Morses Club for 12 years and was appointed CFO in 2016, before stepping down in July 2019. Andy remained on the Board as a Non-Executive Director and supported the Group as interim CFO for seven months from March 2020. Joanne Lake also left the Board at the end of March, following the completion of her second three-year term of office as a Non-Executive Director.

I wish to thank Stephen, Andy and Joanne for their significant contributions to the Group and wish them all well for the future.

After more than two years as the Chief Operating Officer, Gary Marshall took up the role of CEO from 21 February 2022, succeeding Paul Smith. The depth of his digital expertise has been a valuable asset to the Group and will be key to the next phase of the business's growth.

Culture and stakeholder engagement

Having significantly adapted our ways of working in response to the Covid-19 pandemic over the last two years, we have been able to build a more connected and resilient business, which is testament to our strong corporate culture. Following careful consultation with employees and customers, the decision was taken to retain the new ways of working such that colleagues continue to operate largely remotely. The safety, health and wellbeing of employees and self-employed agents continues to be of paramount importance. We use surveys to monitor wellbeing and the effectiveness of working from home, and continue to monitor customer satisfaction closely.

During the year, the Board has been in regular contact with both the Group's funders and its regulator.

Annual General Meeting

This year's AGM will be held on 4 October 2022 at 10.30am. Further details can be found in the Notice of AGM accompanying this Report.

On behalf of the Board, I would like to thank all shareholders and colleagues for their continued support in delivering our purpose, and I look forward to the year ahead.

Sir Nigel Knowles
Chair
25 August 2022

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 achievement of its wider objectives.

Five of the 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 voluntarily adopted the principles and provisions of the Code, although, being AIM listed, the Group is not obliged to comply with this.

Except as stated below, throughout the year ended 26 February 2022, the Company has complied with the provisions set out in the Code. The 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;

ii. Provision 11 of the 2018 Code that requires at least half the board, excluding the Chair, to be independent non-executive directors. From 1 April 2022, the Company had two Independent Non-Executive Directors. 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 and capitalisation of Morses Club. This will be kept under review;

iii. During the period from the resignation of Leslie Easson as Non-Executive Director on 17 March 2021 until 22 September 2021 when Sheryl Lawrence was appointed Designated Director for employee engagement, the Company did not comply with Provision 5 requiring a Non-Executive Director to be responsible for employee engagement; and

iv. Following the departure of Joanne Lake as Non-Executive Director and Chair of the Remuneration Committee on 31 March 2022, the role of Remuneration Committee Chair was taken by Sir Nigel Knowles, the Chair of the Board. Sir Nigel has spent more than two years as a member of the Company's Remuneration Committee, and therefore provides continuity to the role. However, this breaches Provision 32 of the Code that states that the Chair of the Board cannot chair this committee.

As required by AIM Rule 26, details of the Company's adherence to the Code are 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 people resources are in place for the Group to meet its objectives, and reviews management performance.

Since its IPO in 2016, the Board has established a sub-committee structure comprising Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations & Succession, and Disclosure Committees, with Sir Nigel Knowles in the role of Senior Independent Director. The role of Senior Independent Director was given to Sheryl Lawrence on 1 March 2022, upon the appointment of Sir Nigel as Board Chair.

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 were highlighted, for example relating to a potential acquisition, the Risk & Compliance Committee held special meeting(s) to consider the matter before the Board made a final decision.

In Q1 2022, 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 25 to 28.

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

Division of responsibilities

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

The Board has a formal schedule of matters reserved to it and is scheduled to hold six formal meetings during the year. In addition, two calls are convened each year in order to agree the final and interim results and dividend. Further virtual meetings are arranged, when required. During FY22, the Board held six scheduled meetings, and supplemented these with eight additional Board calls, many relating to the proposed restructuring of the business during 2021. 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 close review of complaints received by the Company, a review of relevant Board sub-committee minutes and reports, together with an update on the progress of the Group's other strategic objectives.

The Chair

The Chair 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 Chair 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 Chair 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 Chair 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.

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.

From 1 March 2022, Sheryl Lawrence was appointed the Senior Independent Director, replacing Sir Nigel Knowles who became the Board Chair. The role of the Senior Independent Director is to provide a sounding board for the Chair and serve as an intermediary for the other Directors and shareholders.

Board structure

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

The Executive Management Committee, comprising all of the Executive Managers and the Executive Directors, reports to the 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 Board uses the Group's purpose as a yardstick against which to base its decisions for the future – how to look after its customers and offer affordable credit in our target markets. The Group's vision is set out on page 12.

The Group's mission is seen as providing relevant credit solutions, in-person or digitally, based on understanding people's needs and circumstances.

In a major piece of work, the Group has been reviewing its vision, mission and purpose in readiness for the next developments within the business.

As part of its customer-centric values, and purpose, the Board has a low-risk appetite in all areas of the business except for credit risk, which is moderate due to the nature of the non-standard sector in which the Group operates. Areas of investment are carefully considered and closely monitored, with changes made if appropriate. Key investments have been made to its customer interface, Dot Dot Loan Management System and the customer portals. The Board always carefully considers its customers' interests when reviewing any changes to be made to its policies and operations, in accordance with the main purposes of the Group.

The Group 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 – 97% (FY21: 98%).
  - Likelihood of the customer recommending Morses Club – 95% (FY21: 95%).
- The HCC division's complaints handling process has been independently certified to the ISO 10002:2014 standard.
- In December 2021, the Group extended its customer satisfaction surveys to its Digital operation for the first time, achieving a satisfaction rate of over 90%.

Further details about customer satisfaction are shown on Page 14 of the Strategic Report.

Across the organisation, the four words which were strongly used to encapsulate the Group 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 Group.

As part of its comprehensive response to the Covid-19 pandemic, the Group undertook surveys of all of its staff in both May and October 2020, with a follow-up anonymised survey in August 2021, for all employees, with an 86% participation level. The key results of this survey are covered on pages 16 to 17. This was conducted to help us assess employee wellbeing, contact with colleagues and teams, as well as their ability to continue with home working.

All the surveys conducted during the pandemic period have helped us to ensure that our teams were able to work effectively and safely at home, and are in addition to the normal annual Health & Safety survey that we complete for all staff. In the latest employee survey, 86% of employees said that they were coping well with working from home (FY21: 92%).

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 SM&CR 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.

Following the creation of a cultural barometer in 2020, the Board has continued to develop a strategy which ensures that we support the ongoing needs of our customers, employees and key stakeholders. This was underpinned by major strategic initiatives with regard to:

- Learning & development to support core management training and develop key talent;
- Development of internal communications and engagement activity;
- Ongoing employee survey activity to ensure ongoing cultural assessment, both as an employer of choice, and to ensure our operating model is fit for purpose.
- Introduction of a leadership programme for senior management in order to help to embed an operating structure and 'tone from the top' in a post-Covid-19 world;
- Continued development of a flexible working project programme, with the aim of bringing the different parts of the business into one organisation.

In addition to the employee surveys, the Board is due to review the results of the cultural barometer in Autumn 2022.

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. 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 26 February 2022, the Board comprised five Non-Executive Directors and two Executive Directors, whose biographies are included on pages 46 and 47.

The Board considered three of the Non-Executive Directors (Joanne Lake, Sheryl Lawrence and Michael Yeates) to be independent in character and judgement. Sir Nigel Knowles was independent at the time of his appointment as Chair. Non-Executive Directors are not entitled to share options as part of their remuneration arrangements 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.

Changes to the Board

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.

On 31 December 2021, Andy Thomson retired from the Board after 12 years as an Executive and a Non-Executive Director.

On 18 February 2022, the CEO Paul Smith left the business and was replaced by the then COO, Gary Marshall on 21 February 2022.

On 28 February 2022, Stephen Karle stepped down as Chair, to be replaced by Sir Nigel Knowles on 1 March 2022.

On 31 March 2022, Joanne Lake left the Board having served her second three-year team as a Non-Executive Director.

Following these changes, there are two Non-Executive Directors (including the Chair) who have served for four to six years, and two who have served one to two years. The Board is satisfied that it currently contains an appropriate mix of skills and experience for a company of the size and market capitalisation of Morses Club PLC.

Further information about the appointment process and succession planning is contained in the report of the Nominations & Succession Committee on pages 58 to 61.

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 97% 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 56, 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.

During the year, the Group introduced a diversity & inclusion policy to work alongside its existing equal opportunities policy with the following aims:

- To encourage equality, diversity and inclusion in the workplace as they are good practice and make business sense.
- To create a working environment free of bullying, harassment, victimisation and unlawful discrimination, promoting dignity and respect for all.
- To endeavour to bring together a range of different styles of thinking, perspectives, knowledge, attitudes, abilities and information styles to inform our approach to operating our organisation.
- To understand that diversity of thought is influenced by many factors and to embrace the variety of viewpoints within our workforce, which better enables us to service our customers.
- To recognise and value the individual differences and the contributions of all staff regardless of their personal characteristics, demographic or background.

Following the appointment of Sheryl Lawrence in May 2021, and until Joanne Lake's departure on 31 March 2022, two members of the Board and 50% of the Independent Non-Executive Directors were women. One member of the Board is classed as ethnically diverse.

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 the Group's 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.

Corporate Governance Report continued

Effectiveness continued

Board evaluation

Our CEO has been regularly appraised by the Chair. During the year, the Chair has undertaken a formal internal Board evaluation, and undertaken individual Director appraisals and consultations in line with Senior Managers and Certification Regime (SM&CR) requirements. Sir Nigel Knowles, the then Senior Independent Director, has appraised the then Chair, Stephen Karle, 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 below.

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 the two new Independent Non-Executive Directors in May 2021.

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

Development

The Board also ensures that Directors receive relevant training upon appointment and then subsequently as appropriate.

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 Market Abuse Regulations from the Company's Nomad, Peel Hunt; a comprehensive horizon scanning briefing by the Company's lawyers, Eversheds Sutherland; and training on the new board portal software installed by the Company in early 2022.

Re-election of Directors

Following the recommendation of the July 2018 edition of the Code, all Directors submit themselves for re-election, at each AGM.

Accountability

Financial and business reporting

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

Reviews of the performance and financial position of the Group are included in the Strategic Report within pages 1 to 43 and present a fair, balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities in respect of the financial statements are described on page 82 and those of the auditor on page 93.

Risk management and internal control

The Board acknowledges that it is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Group maintains sound risk management and internal control systems, and these are described in the Risk Management section on pages 24 to 29. 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 Group to identify, manage and evaluate risks, including emerging risks. The report of the Audit Committee on pages 62 to 68 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 Group's auditor. The Audit Committee is also responsible for the Group'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 31 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 2021, 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 FY22, 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 Chair 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.

Since its IPO in May 2016, the Group's objective has been clear and resolute – to ensure that as many Morses Club employees hold shares as possible.

Share awards were granted to all eligible staff in 2017, 2018, 2019 and again in 2021. Following the employee share award in December 2021, 100% of the HCC division's employees who were employed prior to October 2020 hold shares under the Share Incentive Plan. The Group has also continued to provide 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.

Les Easson was the Group's Designated Director responsible for employee engagement, with effect from January 2020 until he resigned on 17 March 2021. He was replaced as the Designated Director by Sheryl Lawrence following a Board meeting on 22 October 2021. During the period between 17 March 2021 and 22 October 2021, the Company did not comply with Provision 5 of the Code.

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

The Group has a very robust whistle-blowing policy and procedures. The Group 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. There were no whistle-blowing events during the year, or during the previous year.

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 Group.

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	4	4	3	2
Stephen Karle	Chairman	6	–	–	4	3	2
Paul Smith	Chief Executive Officer to 18/2/2022	6	–	–	–	–	1/1
Graeme Campbell	Chief Financial Officer	6	–	–	–	–	2
Sir Nigel Knowles	Senior Independent Director	5	4	3	4	3	2
Joanne Lake	Non-Executive Director	6	4	4	4	3	2
Peter Ward	Non-Executive Director	6	–	–	–	3	2
Andy Thomson	Non-Executive Director to 31/12/2021	5/5	–	–	–	–	0/0
Sheryl Lawrence	Non-Executive Director from 1/5/21	4/4	3/3	4	–	2/3	2
Michael Yeates	Non-Executive Director from 1/5/21	4/4	3/3	4	–	2/3	2
Gary Marshall	COO from 1/5/21, CEO from 21/2/22	4/4	–	–	–	–	2
Les Easson	Non-Executive Director to 17/3/2021	0/1	–	–	–	–	0/0

The Board held several additional ad hoc meetings during the year, primarily relating to (i) the attempt to restructure the Group in the second half of 2021; and (ii) the approval of the final and interim accounts.

Membership of Committees

Membership of the Committees during the period to 26 February 2022 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 to 18/2/2022	–	–	–	–	M	X
Graeme Campbell	Chief Financial Officer	–	–	–	–	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Non-Executive Director	M	M	C	M	M	Y
Peter Ward	Non-Executive Director	–	–	–	M	M	X
Andy Thomson	Non-Executive Director to 31/12/2021	–	–	–	–	M	X
Sheryl Lawrence	Non-Executive Director from 1/5/2021	M	C	M	M	M	Y
Michael Yeates	Non-Executive Director from 1/5/2021	C	M	–	M	M	Y
Gary Marshall	COO from 1/5/21, CEO from 21/2/2022	–	–	–	–	M	X
Les Easson	Non-Executive Director to 17/3/2021	–	–	–	–	M	X

Joanne Lake was Interim Chair of the Audit Committee and of the Risk & Compliance Committee from 13 February 2021 to 3 September 2021 and 26 July 2021 respectively.

On 1 May 2021, the Company appointed Sheryl Lawrence and Michael Yeates as Independent Non-Executive Directors. On 3 September 2021, Sheryl Lawrence was appointed Chair of the Audit Committee, and on 26 July 2021, Michael Yeates was appointed Chair of the Risk & Compliance Committee.

On 1 May 2021, Gary Marshall, the COO, was appointed an Executive Director. He was subsequently appointed CEO on 21 February 2022.

Nominations & Succession Committee Report

Dear Shareholder,

I am pleased to present the report of the Nominations & Succession Committee which covers the year ended 26 February 2022.

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 Chair, and Peter Ward. The Committee and its sub-committee held six meetings during the year.

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

COMMITTEE MEMBERS

Stephen Karle (Chair to 28 February 2022)
Sir Nigel Knowles (Chair from 1 March 2022)
Joanne Lake (until 31 March 2022)
Peter Ward
Sheryl Lawrence (from 1 May 2021)
Michael Yeates (from 1 May 2021)

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.

As part of its commitment to diversity, in April 2022 the Group agreed a new Diversity & Inclusion Policy.

The policy aims to ensure that recruitment and selection processes minimise the potential for unconscious bias, and we will make opportunities for training, development and progress available to all staff, who will be helped and encouraged to develop their full potential, so their talents and resources can be fully utilised to maximise the efficiency of the organisation.

Our decisions concerning staff will be based on merit (apart from any necessary and limited exemptions and exceptions allowed under the Equality Act) and we will review employment practices and procedures when necessary to ensure fairness.

We will conduct surveys to measure and understand employee engagement and use this information to inform our approach to implementing initiatives or changes within our organisation.

The Group is currently finalising targets and/or actions in this area that are relevant to the business which are due to be reviewed by the Board during 2022.

The Group already 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.

Following the appointment of Sheryl Lawrence in May 2021, and until Joanne Lake's departure on 31 March 2022, two members of the Board and 50% of the Independent Non-Executive Directors were women. One member of the Board is classed as ethnically diverse.

As at 26 February 2022, the Executive Management Team and Company Secretary comprised ten men and two women. Their direct reports consisted of 29 men and 14 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 Group; and
- made a number of recommendations in relation to appointments to the Board, namely:
  - appointment of the COO;
  - appointment of two Independent Non-Executive Directors;
  - appointment of COO to the position of CEO.

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 Managers and 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 Group. This is not expected to be undertaken within the next 12 months.

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 Report 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 Operating Officer; on Market Abuse Regulations from the Company's Nomad, Peel Hunt; a comprehensive horizon scanning briefing by the Company's lawyers, Eversheds Sutherland; and training on the new Board portal software installed by the Company in early 2022.
- 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.

Recruitment of new Non-Executive Directors

In February 2021, the Committee commenced 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 Group 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. Sheryl Lawrence was appointed Chair of the Audit Committee and Michael Yeates became Chair of the Risk & Compliance Committee. Their biographies are included on page 47.

Appointment of additional Executive Director

The Committee also recommended the appointment of Gary Marshall, the Chief Operating Officer, to the Board effective 1 May 2021. Since he joined the Group in July 2019, Gary had been responsible for successfully leading the integration and development of the Digital business, Shelby Finance. Gary had also taken on overall responsibility for the Group's IT and Change functions. Following the departure of Paul Smith from the business in February 2022, the Committee recommended that Gary be appointed the Group's Chief Executive Officer. His biography is included on page 46.

Leavers

Les Easson

On 17 March 2021, Les Easson resigned as a 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.

Andy Thomson

Andy Thomson, who had resumed his position as Non-Executive Director on 1 January 2021, following the appointment of Graeme Campbell as CFO, retired on 31 December 2021.

Paul Smith

Paul Smith, the CEO, left the Company on 18 February 2022.

Changes to the Board after the end of the year

Stephen Karle

On 28 February 2022, Stephen Karle retired as Chair of the Board. Stephen had been Chair since January 2015 and had led the business through its IPO and supported its transition from a pure home collected credit provider to its current position as a market-leading provider of non-standard credit. Stephen's decision to retire had been announced in December 2021.

Sir Nigel Knowles

On 1 March 2022, Sir Nigel Knowles replaced Stephen Karle as Board Chair. Sir Nigel has been a member of the Board and Senior Independent Director since May 2016.

Joanne Lake

Following the completion of her second three-year term of office as a Non-Executive Director on the Board, Joanne Lake stepped down from the Board on 31 March 2022.

Corporate Governance Code

The Committee is aware that following these changes, 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. The Company has two Independent Non-Executive Directors, which the Board believes is an appropriate number for its current size and market capitalisation.

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 Group'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 Group's strategy.

Approval

On behalf of the Nominations & Succession Committee.

Sir Nigel Knowles
Chair
25 August 2022

Audit Committee Report

Dear Shareholder,

As the Chair of the Audit Committee, I am pleased to present the Committee's report for the year ended 26 February 2022.

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. Consequently we can assert that in the financial year controls have operated effectively.

COMMITTEE MEMBERS

Sheryl Lawrence (member from 1 May 2021, Chair from 3 September 2021)	
Joanne Lake (Interim Chair from 13 February 2021 to 2 September 2021). Left 31 March 2022.	
Michael Yeates (from 1 May 2021)	
Sir Nigel Knowles until he was appointed Board Chair on 1 March 2022	

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 a special meeting to review and approve a proposed new model for IFRS 9 impairment provisions for the Digital division.

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.

Sheryl Lawrence 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. In addition, Michael Yeates has had over 40 years of experience in the financial services industry.

Composition and governance

As a Chartered Accountant, the Board considers that Sheryl Lawrence has recent and relevant financial experience. All of the independent Non-Executive Directors are members of this Committee, and this has been the practice since the Group's IPO in May 2016.

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 has also met each of the Risk & Compliance Director and the Head of Internal Audit individually on an annual basis without the presence of other Executive Management.

The Committee has direct and unrestricted access to both internal and external audit functions. As the Chair, I also have regular contact with the external auditor, the Chief Financial Officer, the Risk & Compliance Director, and the Internal Audit function 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. It also held a special meeting to review and approve a proposed new model for IFRS 9 impairment provisions for the Digital division.

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 (i) the Committee members performing an evaluation of the way that the Committee operates, and (ii) comparing the Committee's terms of reference with the Committee's actions and considerations during the year. The Committee was satisfied that it had discharged its responsibilities effectively discharged its responsibilities effectively.

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 five significant areas of judgement, and these are detailed below.

1. Loan loss provisioning

IFRS 9 requires management to record impairment provisions based on the stage of credit impairment. The recording of a provision requires management to make complex judgements/estimates.

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.

For HCC, 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 management approach to HCC loan loss provisioning was reviewed with the Committee and the external auditors at one of the Committee's scheduled meetings. This approach of using cash collection curves for the previous five individual year-end snapshots of data with three years of forward-looking cash flows (in this case, 2016-2020 – see below) has remained consistent with the previous year. The Committee believes that continuing to use a weighting of the individual cash curves to give more prominence to the most recent cohort to be most appropriate in estimating the loan loss provision required.

In this way, the cash collection curves have been weighted to give prominence to the 2020 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 2020 data, which reflects the most recent performance of the loan book, 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 is consistent with that taken at the last year-end and the interim half-year-end.

Audit Committee Report
continued

In the financial year the mix of customers paying monthly and fortnightly rather than weekly has increased, resulting in the existing weekly impairment model requiring adjustment to ensure monthly and fortnightly payers are not deemed to have missed payments not yet expected to have been received. That adjustment resulted in a £1.0m reduction to impairment at the year-end.

After discussion with management and the external auditor, the Committee considered the 2016-2020 cash curves to be appropriate for the purposes of determining the base level of impairment provision required at year end.

- The adoption of multiple cohorts to construct the cash curves remained consistent with the Company's IFRS 9 policy. The impact of transitioning from 2015-2019 weighted curves used in FY21 to the 2016-2020 weighted curves used in FY22 was a £0.3m reduction in impairment.
- FY22 actual cash collections were within c.5% of those forecast in the FY21 year-end provision.

IFRS 9 requires that the impairment assessment considers reasonable and supportable information, including forward-looking information, that is relevant for the financial instrument being assessed.

In order to protect the performance of the business against any macro-economic factors that would have an impact on customers' abilities to repay (such as rising household bills, increases to energy-related costs and the impacts of inflation) an affordability buffer is built into Income and Expenditure affordability assessments. Whilst economic data is monitored, the collection performance experienced through the Covid-19 pandemic (which showed improvement immediately post first lockdown and no drop off in performance in subsequent lockdowns) is evidence that HCC is not impacted by traditional macro-economic events, partly because of the affordability buffers, and partly because these factors do not impact HCC customers. This view has been widely held among peers and sector analysts over time and leads management to the conclusion that no specific macro-economic overlay is required.

In H2 FY22 there was further evidence of the immunity of collections performance to macro-economic factors. The ending of furlough, changes to Universal Credit, and increases to energy prices experienced in the financial year did not cause collections performance to deteriorate. As such, whilst cost of living increases are monitored, and will be considered when stress-testing forecasts, management does not believe there will be an adverse impact on collections performance post year-end directly due to increased inflation.

The HCC credit policies incorporate the ONS expenditure model and has been updated for recent increases to inflation and the cost of energy. Based on the review described above as well as considering the economic factors impacting the loan receivables balance, such as inflation, interest rates, and the ending of furlough, the Committee concluded that the underlying provisions held against the HCC loan book are reasonable.

For Digital, management has updated its Digital IFRS 9 impairment methodology and modelling approach since the prior year. A relatively simplistic approach has previously been applied due to the Digital business being in its infancy and growth being lower than anticipated. The new methodology is more complex to better estimate the provisions required under IFRS 9.

Management's approach has been to determine c.800 different customer behavioural data points or nodes which are based on a combination of predictive variables including loan term, number of previous loans taken by a customer, past due status and credit scoring. Each customer is assigned a particular node and based on this assignment management then applies probability of default (PD), exposure at default (EAD), loss given default (LGD) and time to default assumptions in order to determine individual impairment provisions. The key judgement is around the determination of the estimates of the PD, EAD and LGD for each node which then drives the calculation of the estimates of the PD, EAD and LGD for each node. As the period which was sampled included the Covid-19 pandemic and associated forbearance payment breaks, the data available for use was limited. Data from agreements issued in the period November 2020 to October 2021 has been used for PD and EAD purposes to allow sufficient time for an account to reach default and May 2020 to January 2021 for LGD purposes to allow sufficient time for post-default recoveries.

Management and the Committee feel that the data periods used reflect the most recent performance of the loan book and will give a closer fit to the performance of the end of year loan book.

The management approach to Digital loan loss provisioning was reviewed with the Committee and the external auditors at one of the Committee's scheduled meetings. After discussion with management and the external auditor, the Committee considered the updated methodology to be appropriate for the purposes of determining the base level of impairment provision required at year end. The impact of adopting the updated methodology model in FY22 was a reduction of £1.4m. Given the short-term nature of most of the Digital lending, and that affordability buffers are put in place at loan inception, management does not believe there will be an adverse impact on collections performance post year-end directly due to increased inflation.

Based on the review described above, the Committee concluded that the underlying provisions held against the Digital 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.

For HCC, in order to arrive at the average expected life for each product type, management have taken an average of the expected lives of loans within the December 2016–2020 cohorts. These expected lives were adjusted where appropriate to reflect the actuals.

As with prior year, in FY22, the cohorts have been weighted to give prominence to the 2020 cohort using a weighting of 60%, with a 10% weighting for each of the other four cohorts. This approach is deemed reasonable given the data sets align with those used to construct the cash collection curves for loan loss provisioning purposes (as described above), thereby resulting in consistency across management's IFRS 9 modelling methodology. The Committee has reviewed the expected life assumptions and management's judgement paper.

The management treatment of revenue recognition was reviewed with management and the external auditors at one of the Committee's scheduled meetings. This treatment has remained consistent with the previous year. The Committee has also challenged the expected life of products by reference to both historical and forecast data and comparability with the contractual life under IFRS 9. As a result of this review, the Committee has concluded that the Group's treatment of this is reasonable.

For Digital, the modelling approach for revenue recognition has been updated alongside the impairment methodology. The EIR for each agreement is used for the purposes of revenue recognition rather than an expected average life for each product. The effective interest rate is calculated using estimated cash flows with revenue recognised on the gross receivable when accounts are in IFRS 9 stages 1 and 2 and on the net receivable for accounts in stage 3.

For both HCC and Digital brokers are used to generate new business leads. As with revenue, and in line with IFRS 9, broker commission costs are recognised on an EIR basis in the income statement spread over the term of the related customer contract. As this is a cost of generating revenue, revenue is stated net of this cost.

3. Goodwill impairment

A third significant area of judgement/estimation is that of goodwill impairment.

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

The Committee has reviewed the forecast cash flows in the goodwill impairment model. These are based on the expectations within the current business plan, which are the key assumptions in driving the first five 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 perpetuity. The Company used a pre-tax weighted average cost of capital (WACC) of 13.36% in order to discount future cash flows. If the WACC were to decrease by 1% to 12.36% the headroom over the discounted future cash flows would increase by £11.7m.

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 goodwill.

In reviewing impairment indicators, the Committee considered a number of factors. The key area under consideration was the market capitalisation of the entity compared to the carrying value of its net assets. At the year end the market capitalisation of £17.9m was below net assets of £32.2m. It is the view of management that the share price is artificially low as a result of uncertainty surrounding the complaints liability and availability of funding and that once resolved the share price will recover. The share price would need to increase to 23p to have parity with the balance sheet valuation. Whilst the Committee considered this as a potential impairment indicator, it has concluded that this is insufficient evidence of a permanent impairment of balance sheet value, and that it is unconnected to goodwill. It is the expectation of management that the share price will recover and as such no impairment to goodwill has been recognised.

4. Complaints

IAS 37 (Provisions, Contingent Liabilities and Contingent Assets) describes the accounting for provisions as the present value of the best estimate of the expenditure required to settle a present obligation.

During FY21 Morses Group PLC adopted a policy to recognise at the balance sheet date the cost to settle existing complaints received by customers. In FY22 this policy continues to be adopted.

CMCs prompted a review of complaints received, identifying any key root causes. A review was undertaken with an external technical specialist (Huntswood CTC Limited) outlining proposals for any redress methodology which could be considered as part of any potential Scheme of Arrangement.

IAS 37 requires recognition of a liability when there is a present obligation. The original lending to the customer gives rise to the present obligating event, and not the raising of the complaint. Review of root cause indicated that outflow is probable as a discernible trend and becomes identifiable from FOS decisions. The proposals for any redress methodology under a potential Scheme, with the input from the external technical specialist, sets out a total potential gross quantum liability and provides management with a best estimate of likely take-up rates from customers from similar types of Schemes, giving an ability to measure.

The Directors accept there is a liability in relation to customer redress claims for unaffordable lending against the Company at the balance sheet date, however there is significant uncertainty of the total liability which will be paid. This is due to the methodology for assessing the population of claims is yet to be agreed, and the level of subsequent customers who may claim against that methodology not yet being known.

Audit Committee Report
continued

Using a risk-free discount rate of 2.1% a discounted liability of £39.1m has been calculated and recognised in these financial statements. Management and the Committee believe this is the best estimate of the present value of the liability payable to customers in relation to unaffordable lending complaints. An amount totalling £3.5m has been written off the gross loan book in relation to claims expected to be received where customers have an existing loan. The total exceptional charge to the Income Statement is £42.6m.

5. Going concern and business plan

In assessing going concern, the Directors and the Committee have reviewed the latest forecasts of the business and satisfied themselves of the ongoing viability of the business.

This assessment is subject to two factors. Firstly, the agreement of a Scheme of Arrangement on a timely basis with the FCA to facilitate an orderly settlement of the liability in relation to unaffordable lending complaints. Secondly, the extension of, or securing of an alternative, funding facility, with the renewal date currently set at 31 March 2023.

The assessment of the Group's business plan included review of a number of scenarios relating to the key areas of sensitivities, namely:

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

The Group has previously demonstrated its agility in adapting to emerging challenges, such as the impact of the Covid-19 pandemic in FY21. The scenarios produced covering the key areas of sensitivities include corrective action to adapt to potential strains on cash flows arising on rising levels of complaints or impacts on collections.

In assessing the business plan the Directors derived three scenarios:

1. A base case scenario demonstrated the business was a going concern providing that the settlement of Redress Claims occurs in an orderly manner over a period of time and that complaints levels do not remain at recent peak levels. If complaints volumes are higher than this level then this will accelerate the settlement of the redress claims liability and will therefore have a detrimental impact on liquidity. The timing of the settlement of the redress claims liability is key to the going concern assessment of the Group. The base scenario also assumes funding is available through the forecast period in line with the current facility.

2. A scheme scenario showed that with the agreement of a Scheme of Arrangement with the FCA, together with the protection a related moratorium on paying complaints would place on cash, the business would be viable in terms of cash generation and future profitability, again subject to assumed funding in line with current facility.

3. In an alternative collect-out scenario the business would enter a solvent collect-out with no further lending. In this scenario the cash remaining to redress customer complaints relating to unaffordable lending would be significantly less.

The base case and the scheme scenarios both assume a level of funding in line with current facility. In May 2021, the Group agreed a loan facility with a consortium of two lenders and this was subsequently extended to 31 March 2023. Discussions continue with lenders regarding the future facility options, as well as other funding sources. We draw attention to note 1 in the financial statements, which indicates that the Group's current facility of £35m expires on 31 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report. The Board recognises that as the current funding facility is in place for less than 12 months following the date of signing the Financial Statements there is also material uncertainty regarding secured funding. The Committee recognise that the quantum of the redress claim liability and timing of settlement, as well as the extension or deferral of the term-out clause and funding beyond March 2023 create a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

As explained on page 2, the financial statements have been prepared on a going concern basis, whilst noting the aforementioned material uncertainty.

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 are found on pages 111 to 113.

Meetings of the Committee

The Committee held four scheduled meetings during the year, in accordance with its terms of reference. It also held a special meeting to review and approve a proposed new model for estimating IFRS 9 impairment provisions for the Digital division.

Attendance records can be found on page 56.

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 Group'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 2021 accounts, and 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 2022 Annual Report and Financial Statements

At the request of the Board, the Committee considered whether, in its opinion, the 2022 Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides 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?

Audit Committee Report
continued

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 pages 111 to 113. 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 2022 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 2022.

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, is 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 Committee, 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 26 February 2022, the level of audit fees amounted to £728k (FY21: £312k), and non-audit fees amounted to £36k (FY21: £35k). The ratio of non-audit fees to audit fees was 4.9% (FY21: 11.2%). The non-audit work carried out during FY22 related solely 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. As a company listed on AIM, Morses Club PLC is not a Public Interest Entity and therefore is not required to review its external auditor after 10 years.

Deloitte LLP have notified the Company of their intent to stand down as external auditor. A new external auditor will be announced once appointed.

Internal Audit function

The Group has an Internal Audit function which was headed for the majority of the year by an experienced and highly qualified Head of Internal Audit who reported directly to the 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 Head of Internal Audit undertook an internal promotion to another part of the Group. Since then, any reviews normally undertaken by the Internal Audit department have been outsourced and the Company is currently reviewing its approach to Internal Audit.

During the year, the Internal Audit function delivered a diverse selection of reviews. This year saw assurance work on areas such as lead generation for the Digital division, penetration testing, and IT development. Outsourced work included an audit of financial crime management within the Digital division and financial resilience in the HCC division.

The Committee closely reviews the reports of the Internal Audit function. Its work is primarily risk-based, utilising the Group's risk registers and in 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 was invited to attend all of the Committee's meetings and met the Committee members on an annual basis without management present, the last time being in June 2021.

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

Sheryl Lawrence
Chair
25 August 2022

Risk & Compliance Committee Report

Dear Shareholder,

As Chair of the Risk & Compliance Committee, I am pleased to present my report which covers the year ended 26 February 2022.

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

- the Group is compliant with the FCA's rules and regulations;
- the Group's risk management policies and procedures are kept continuously under review; and
- the Group's risk management framework is operating effectively.

COMMITTEE MEMBERS

Michael Yeates (member from 1 May 2021, and Chair upon approval from the FCA on 26 July 2021)

Joanne Lake (Interim Chair from 13 February 2021 to 25 July 2021). Left 31 March 2022.

Sir Nigel Knowles until he was appointed Board Chair on 1 March 2022

Sheryl Lawrence (from 1 May 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. Emerging risks are captured via the firm's horizon scanning approach, which is a combination of substantive review of the regulatory landscape and relationships with external stakeholders e.g., regulators, trade associations, legal partners etc. See also page 28. The Committee ensures that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Group. Following the Committee's annual review, it is their opinion that the Risk Management Framework is fully fit for purpose.

The Board and its Committees discharge their duties in this area through:

- the review of financial performance including budgets, KPIs, forecasts and debt covenants on a regular basis;
- the receipt of reports which provide an assessment of key risks and controls and how effectively they are working, including a robust assessment of the Group's emerging and principal risks. Many risks have increased in weighting and we have material uncertainty over going concern;
- 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.

Risk & Compliance Committee Report continued

Composition and governance

In addition to my role as Chair of the Risk & Compliance Committee, I am also a member 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 to 26 February 2022, with a further meeting held on 1 March 2022.

Both the Risk Executive Committee and the Credit Risk Committee of Morses Club have reported directly to this Risk & Compliance Committee and summaries 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 Group's risk management function. As the new Chair, I have ensured that the Committee concentrates even more on areas of potentially higher risk, but in general I am satisfied with the functioning of the Committee, and the information provided by management.

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 of risk and compliance to the business 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 Committee has a low-risk appetite in all areas of the business except for credit risk, which is moderate due to the nature of the non-standard sector that the Group operates in. The Committee monitors adherence to risk appetite on a regular basis assisted by the Executive;
- 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;
- the 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 customer complaints, cyber security and data protection, Treating Customers Fairly, regulatory matters, whistle-blowing policy, and further enhancements to our system for checking each customer's affordability which includes an update to the minimum expenditure values to capture recent overall inflation and fuel/utility price increases.

Identifying risks

The Committee regularly reviews the procedures adopted by the Group 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 constant review.

The Committee carries out a robust assessment of the Group's emerging and principal risks as described on pages 24 to 29.

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

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

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

Cyber security and data protection

Cyber security has been a major topic for the Committee. During the year, the Group continued to perform penetration testing using external specialists. Regular phishing exercises are conducted in order to maintain employee vigilance against genuine attacks. All data is now encrypted at rest.

Regulatory matters

The Committee has been actively involved in the Group's continuing constructive dialogue with the FCA, notably concerning complaints and a potential Scheme. The Group has also submitted data to the FCA regarding financial resilience and operational matters on a regular basis.

Treating Customers Fairly

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

During the year, the HCC division has implemented further enhanced affordability procedures. 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 Group'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 Group 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 pages 14 and 15. During the last year, the Group extended its customer satisfaction surveys to its Digital operation for the first time, achieving a satisfaction rate of over 90%.

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 continued high standards maintained by the complaints handling team as demonstrated by its continued accreditation of ISO 10002:2018 for complaints handling. 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 this certification.

In February 2022, the Group announced that its profitability in FY22 would be impacted by the level of unaffordable lending claims received prior to the announcement. This followed significant claims management company activity, from which a discernible trend has emerged on the cases being upheld by the Financial Ombudsman Service which could be applied retrospectively. The rise in complaints volumes prompted a review of the root cause of complaints received which led to a review of historic lending. See page 2 for further details.

In response to market developments, including the level of claims received, the Group has taken steps to develop its credit policies and product proposition in both divisions, tightening lending criteria and assessing the borrowing patterns of our customers.

Business continuity

The Committee was pleased to see that the Group has continued to operate successfully through a mixture of remote and face-to-face working, in accordance with government guidelines, since the start of the Covid-19 pandemic. Morses Club has continued to lend to new customers without interruption by Covid-19 since July 2020.

The future

A third-party audit of the Group's Risk & Compliance function is due to take place during the next 12 months. This will bring an outside perspective that can be valuable every few years. A section on the Group risks can be found on pages 24 to 29.

Covid-19

The Committee has been kept fully informed of the actions taken by the Group in response to the unprecedented effects of the Covid-19 virus. It reviewed these actions and was satisfied by the speed of response and the diligence of the Group and its employees to the challenges posed by this pandemic.

Covid-19 features strongly 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.

Climate change

Regarding climate change, the Group does not currently see this as a principal risk to the business. Nevertheless, during the last year we have:

- reduced the quantity of properties that we occupy;
- reduced our transport and fuel usage considerably;
- installed LED lighting, sensor lighting and thermostat heating at our support centre; and
- installed sensor lighting and blind fittings to the windows at our Leeds site.

The subject of climate change, and any potential threats to the business arising from this, will continue to be monitored closely.

Approval

On behalf of the Risk & Compliance Committee

Michael Yeates
Chair
25 August 2022

Remuneration Report

Committee members:

- Sir Nigel Knowles – Chair from 1 April 2022
- Sheryl Lawrence – from 1 February 2022
- Michael Yeates – from 25 April 2022
- Joanne Lake – Chair until 31 March 2022
- Stephen Karle – until 28 February 2022

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 26 February 2022. The CFO, Graeme Campbell, has served as a Director since the start of the year. Paul Smith served as CEO until 18 February 2022. Gary Marshall, previously COO, became an Executive Director on 1 May 2021 and was subsequently appointed CEO on 21 February 2022.

Remuneration & Corporate Social Responsibility Committee

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 Group'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 Group 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. Executive 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 4 October 2022. 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

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 Group's strategy. The Group's remuneration policy is aligned to its purpose, values and strategy by looking at short and long-term objectives, together with adherence to its values, for example Treating Customers Fairly.

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 Group's remuneration approach.
- Remuneration structures have been developed in line with the appropriate regulatory environment, including the SM&CR and the Group's values.
- A blend of short-term and long-term incentives aimed at supporting the long-term security of the Group 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 Group as well as individual performance, with a foundation of fairness and ability to pay.
- We will communicate policies clearly and in a timely manner.

Committee decisions on remuneration

In addition to targets being set in respect of profitability and Total Shareholder Return (TSR), Directors are also required to satisfy the Committee that their personal actions and performance meet the required standards, namely:

a) the Participant's personal performance has been satisfactory;

b) the Participant has not been subject to any disciplinary action;

c) all the Group's internal and external audits have been satisfactory;

d) the Group has appropriately delivered compliance training to all of its relevant employees;

e) the Group has obtained and retained all relevant FCA authorisations for the carrying of its business; and

f) the Group has appropriately managed all of its material customer and conduct risks.

Due to the impact of the cost of complaints, the targeted Adjusted Profit Before Tax[1] level was not reached, so no executive bonus is payable for FY22 and all executive share options awarded during the year have lapsed. The bonuses shown below as having been paid in FY22 were awarded in FY21.

Directors' remuneration

		Base Salary		Allowance and Benefits		Pension Contribution		Bonus		Deferred Share Plan		Expenses		Total Remuneration		Total Fixed Pay		Total Variable Pay	
Name	Role	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £	**2022 £**	2021 £
Paul Smith[1]	CEO	**313,504**	302,940	**19,448**	18,813	**20,378**	17,040	**151,470**	–	**181,525**	140,483	**9,572**	3,313	**695,897**	482,589	**353,330**	338,793	**342,567**	143,796
Gary Marshall[2]	COO/ CEO	**183,333**	–	**3,903**	–	**12,833**	–	**67,500**	–	**–**	–	**1,735**	–	**269,305**	–	**200,070**	–	**69,235**	–
Graeme Campbell	CFO	**220,000**	36,667	**12,000**	2,000	**11,000**	1,833	**36,667**	–	**–**	–	**–**	–	**279,667**	40,500	**243,000**	40,500	**36,667**	–
Andy Thomson[3,10]		**–**	170,984	**–**	7,588	**–**	12,033	**82,323**	–	**139,200**	107,699	**–**	1,517	**221,523**	299,821	**–**	190,605	**221,523**	109,216
Andrew Hayward[4]		**–**	106,449	**–**	4,406	**–**	1,108	**–**	–	**–**	–	**–**	459	**–**	112,422	**–**	111,963	**–**	459
Total		**716,838**	617,040	**35,351**	32,807	**44,211**	32,014	**337,960**	–	**320,725**	248,182	**11,307**	5,289	**1,466,393**	935,332	**796,400**	681,861	**669,992**	253,471

Remuneration Report
continued

Non-Executive Directors

Name	Role	Base Salary 2022 £	Base Salary 2021 £	Additional Responsibility Payments 2022 £	Additional Responsibility Payments 2021 £	Expenses 2022 £	Expenses 2021 £	Total Remuneration 2022 £	Total Remuneration 2021 £	Total Fixed Pay 2022 £	Total Fixed Pay 2021 £	Total Variable Pay 2022 £	Total Variable Pay 2021 £
Stephen Karle[5]	Chair	**120,000**	120,000	**–**	–	**1,615**	583	**121,615**	120,583	**120,000**	120,000	**1,615**	583
Sir Nigel Knowles[6]	Senior Independent NED	**50,000**	50,000	**7,500**	7,500	**–**	333	**57,500**	57,833	**57,500**	57,500	**–**	333
Joanne Lake[7]	Chair of Remuneration Committee and Interim Chair of Audit and Risk & Compliance Committees	**50,000**	50,000	**14,135**	7,500	**–**	–	**64,135**	57,500	**57,500**	57,500	**–**	–
Peter Ward	NED	**50,000**	50,000	**–**	–	**–**	1,015	**50,000**	51,015	**50,000**	50,000	**–**	1,015
Sheryl Lawrence[8]	Chair of Audit Committee	**41,667**	–	**6,250**	–	**–**	–	**47,917**	–	**47,917**	–	**–**	–
Michael Yeates[9]	Chair of Risk & Compliance Committee	**41,667**	–	**6,250**	–	**–**	–	**47,917**	–	**47,917**	–	**–**	–
Andy Thomson[3, 10]	NED	**33,333**	12,500	**–**	–	**–**	–	**33,333**	12,500	**33,333**	12,500	**–**	–
Les Easson[11]	NED	**4,167**	50,000	**–**	–	**–**	–	**4,167**	50,000	**4,167**	50,000	**–**	–
Baroness Simone Finn[12]	Chair of Audit and Risk & Compliance Committees	**–**	47,756	**–**	9,551	**–**	–	**–**	57,307	**–**	57,307	**–**	–
Total		**390,834**	380,256	**34,135**	24,551	**1,615**	1,931	**426,583**	406,738	**424,968**	404,807	**1,615**	1,931

1 P Smith left the business as CEO on 18 February 2022. Paul was the highest paid Director.
2 G Marshall was appointed Executive Director on 1 May 2021. He was subsequently appointed CEO on 21 February 2022.
3 A Thomson stepped down as a NED on 17 March 2020 and became CFO on the same date.
4 A Hayward resigned on 17 March 2020. His base salary for 2021 of £106,449 includes £90,615 notice pay.
5 S Karle resigned as Board Chair on 28 February 2022.
6 Sir Nigel Knowles was appointed Board Chair on 1 March 2022 and on the same date stepped down as Senior Independent NED.
7 J Lake stepped down as a NED on 31 March 2022.
8 S Lawrence was appointed as a NED on 1 May 2021 and Chair of the Audit Committee on 3 September 2021. On 1 March 2022 she became the Senior Independent NED.
9 M Yeates was appointed as a NED on 1 May 2021 and Chair of the Risk & Compliance Committee on 26 July 2021.
10 A Thomson stepped down as a CFO on 1 January 2021 and became a NED on the same date. He resigned as a NED on 31 December 2021.
11 L Easson stepped down as a NED on 17 March 2021.
12 S Finn stepped down as a NED on 12 February 2021.

Directors' remuneration policy

Service contracts
All Executive Directors have a service contract as part of the arrangements covering a continuous period (i.e., not a fixed term), with a notice period of six months applying to both the Company and to individuals. There have been no compensation payments for loss of office. This includes the instance of the then CEO leaving the business on 18 February 2022.

Letters of appointment
Non-Executive Directors do not have service contracts but are appointed under letters of appointment in line with the requirements of the Senior Managers and 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 Executive Directors only. The Chair and Non-Executive Directors do not receive any allowances or benefits.

Additional responsibility payments
Non-Executive Directors who chair the Audit, Risk & Compliance, and Remuneration & CSR Committees, together with the Senior Independent Director, are entitled to receive additional responsibility payments.

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.

Performance bonus conditions

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

Deferred share plan (this section is subject to audit)

Executive Directors may participate in a deferred share plan, a three-year plan (commencing 2016/17) awarded through an annual deed of grant, subject to the discretion of the Remuneration Committee. There have been no variations to the terms and conditions or performance criteria for share options during this 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 for the nominal cost of 1p, or an option to acquire Ordinary Shares at no cost to the participant (or 1p) 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

2021/22 Award

The profit target and TSR performance conditions specified in the 2021/22 award were not met, and as a consequence the award lapsed.

Vesting of 2018 award

The Committee confirmed that the performance conditions for the 2018 award were satisfied, and the awards duly vested in August 2021. The then CEO exercised only that element of the option to satisfy HMRC obligations (sell to cover).

In addition, Andy Thomson who was an Executive at the time that the award was granted in May 2018, also exercised only that element of his options to satisfy HMRC obligations. No further shares have been exercised.

Name	Role	Shares Vested	Sell to Cover	Shares Retained
Paul Smith	CEO	246,150	(118,152)	127,998
Andy Thomson	NED	188,757	(90,603)	98,154

Directors' shareholdings

The table below details the shareholdings and other share interests of the Directors as at 26 February 2022.

Name	Role	Ordinary Shares	Percentage Shareholding
Stephen Karle	Chair	227,991	0.27
Graeme Campbell	CFO	40,000	0.03
Gary Marshall	CEO	350,000	0.26
Peter Ward	NED	40,000	0.30
Sir Nigel Knowles	Senior Independent Director	55,148	0.04
Joanne Lake	Independent NED	23,142	0.02

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 147 to 149.
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.

Remuneration Report
continued

All-employee remuneration

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

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 Group issues shares to Morses Club employees under the framework of its approved employee share option scheme. In December 2021, all eligible employees received a share award of 3.25% of salary under the Group's Share Incentive Plan.

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 2021 and 2022 financial years.

	Salary or fee %	Benefits %	Bonus[3] %
Employees [1, 2]	4	18	100
Executive Directors:			
Paul Smith	3	24	100
Gary Marshall [4]	19	28	100
Graeme Campbell [5]	156	82	100
Non-Executive Directors			
Stephen Karle	0	N/A	N/A
Joanne Lake [6]	12	N/A	N/A
Sir Nigel Knowles	0	N/A	N/A
Peter Ward	0	N/A	N/A
Michael Yeates [7]	N/A	N/A	N/A
Sheryl Lawrence [7]	N/A	N/A	N/A

1 The strict legal requirement is to only provide details of employees of Morses Club PLC, so we have decided to voluntarily disclose in respect of all Group employees.
2 For the purposes of this calculation, we have compared the salary, benefits and bonus of all employees who worked for the Group for the full years of FY21 and FY22.
3 No bonus was paid in FY21, but a bonus was paid to eligible Directors and employees in FY22.
4 G Marshall was appointed an Executive Director on 1 May 2021 and was appointed CEO on 21 February 2022.
5 G Campbell joined the Company on 20 October 2020. Most of the increase in his salary and benefits was the result of him working a full year in FY22.
6 The increase in J Lake's fee was solely due to the Additional Responsibility Payments arising from her role as Interim Chair of the Audit and the Risk & Compliance Committees for a few months during the year.
7 M Yeates and S Lawrence were appointed on 1 May 2021 and therefore there are no comparative figures for FY21.

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:

FY22

Percentile	Value	CEO Pay Ratio
25th	£24,520.65	28:1
Medium	£33,710.73	21:1
75th	£42,840.00	16:1

FY21

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

The variation from the ratio in FY21 is due to the absence of any bonus payments during this year.

Relative importance of spend on pay

The total pay (including performance bonuses) for all Morses Club PLC employees for FY22 is £17,172,453 compared to £22,599,004 for FY21. The total pay for Shelby Finance Limited for FY22 is £6,107,582 (FY21: £5,293,110).

Corporate Social Responsibility (CSR)

Due to Covid-19 restrictions, the Group has again run a very limited CSR programme during FY22. The Group donated a total of £7,150 to good causes, including £5,000 to the Cornwall Hospice after it provided end-of-life care for a senior member of the management team during the year (FY21: £7,500).

Sir Nigel Knowles
Chair – Remuneration & Corporate Social Responsibility Committee
25 August 2022

Disclosure Committee Report

COMMITTEE MEMBERS:

- Stephen Karle (Chair until 28 February 2022)
- Sir Nigel Knowles (Chair from 1 March 2022)
- Sheryl Lawrence (from 1 May 2021)
- Michael Yeates (from 1 May 2021)
- Peter Ward
- Gary Marshall (COO, Executive Director from 1 May 2021, then CEO from 21 February 2022)
- Graeme Campbell (CFO)
- Andy Thomson (until 31 December 2021)
- Les Easson (until 17 March 2021)
- Paul Smith (CEO until 18 February 2022)
- Joanne Lake (until 31 March 2022)

The Board of Directors

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 insider list.

On 18 February 2022, the Committee held a special meeting to review an updated projection from the Finance Department for the likely FY22 results. Since the adjusted profit before tax[1] for FY22 was estimated to be 20%-30% below the market consensus, the Committee agreed that the Company should issue a trading statement immediately on the next working day. The resulting trading update was released the following working day, 21 February 2022, before markets opened.

Following the year end, the Committee held two further meetings which agreed to the announcement on 25 May 2022 of a delay in reporting the FY22 results until August 2022, and one on 21 June 2022 regarding the potential Scheme. These announcements were released on the next working day following the meeting, before markets opened.

The Committee held two meetings during the year.

Approval

On behalf of the Disclosure Committee

Sir Nigel Knowles
Chair
25 August 2022

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 147 to 149.

Directors' Report

The Directors present their report and audited consolidated financial statements for the year ended 26 February 2022 and up to the date of signing the financial statements.

The Corporate Governance Report set out on pages 50 to 77 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 26 February 2022, and up to the date of this report, are:

Sir Nigel Knowles	Senior Independent Director to 28 February 2022 and Non-Executive Chair from 1 March 2022
Peter Ward	Non-Executive Director
Sheryl Lawrence	Independent Non-Executive Director from 1 May 2021 and Senior Independent Director from 1 March 2022
Michael Yeates	Independent Non-Executive Director from 1 May 2021
Graeme Campbell	Chief Financial Officer
Gary Marshall	COO and Executive Director from 1 May 2021, then Chief Executive Officer from 21 February 2022
Joanne Lake	Independent Non-Executive Director, until 31 March 2022
Stephen Karle	Non-Executive Chair, until 28 February 2022
Paul Smith	Chief Executive Officer, until 18 February 2022
Andy Thomson	Non-Executive Director, until 31 December 2021
Les Easson	Non-Executive Director, until 17 March 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 72 to 76.

Biographical details of the current Directors are given on pages 46 to 47. 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.

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 Group. Under normal circumstances, the Board intends to distribute between 50% and 60% of adjusted earnings after tax to shareholders as dividends.

On at least an annual basis, and before proposing a dividend payout, the Directors assess the Group'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 Group 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 29.

Following a detailed review of the performance of the business and its future working capital requirements, the Board has concluded that the Group is unable to make a final dividend payment in respect of FY22.

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 26 February 2022, the Company had 134,431,518 Ordinary Shares of 1 pence each in issue (2021: 132,530,539).

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 2006 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 in the Corporate Governance Report on page 57.

Going concern

The Directors have considered the appropriateness of adopting the going concern basis in preparing the financial statements. The quantum of the redress claims liability and timing of settlement, as well as the extension or deferral of the term-out clause and availability of funding beyond March 2023 create a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business. As explained on page 2, the financial statements have been prepared on a going concern basis, whilst noting the aforementioned material uncertainty.

Information contained in other sections

The Group'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 24 to 29.

The Group's environmental policies and actions are contained in the Strategic Report on pages 41 to 43.

Anti-bribery and corruption

The corporate policies reflect the requirements of the Bribery Act 2010 and a corporate hospitality register is maintained using a risk-based approach. Although the risks for the Group arising from the Bribery Act 2010 continue to be assessed as low, all parts of the business are required to undergo appropriate training and instruction to ensure that they have effective anti-bribery and corruption policies and procedures in place. Every staff member receives regular and relevant training on bribery and corruption using the Group'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 Group 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 Group 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. There were no whistle-blowing reports during FY22 or during FY21.

Directors' and officers' insurance

The Group has throughout the year maintained directors' and officers' insurance for the benefit of the Group, 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 Group, 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 Group 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. As everyone was working from home, the LMS was used to communicate, support and train employees on skills relating to remote working, remote management, wellbeing and agile working.

During 2021, we introduced a Management Development programme for all new and aspiring Managers which cover the core skills required for their role. The programme consists of a number of online modules supported by six online workshops and there are currently 42 Managers on the programme. Existing Managers are able to attend the core skills workshops in order to refresh their skills.

Directors' Report continued

With the focus on more short training interventions, we have partnered with Inrehearsal, a leading digital learning company that provides bite-size learning videos and made them available for all employees to use as and when needed. There are 377 employees who have registered with Inrehearsal and are accessing their training videos.

To complement the monthly modules, there is also a programme of training supplied to all employees relating to cyber security and phishing. Bite-size videos and quizzes are supplied monthly, by email, covering topical subjects that help protect people online. This is backed up with a phishing subscription service that tests and trains employees specifically in relation to phishing. Supplied by one of our security partners, CMI, this enables us to track and understand the level of cyber security knowledge within the organisation.

The Group offers a defined contribution pension scheme, matching employee contributions up to a maximum of 7% of salary. This rate is uniform throughout the whole Group, including its executives.

The Group 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. The Health & Safety Committee has been monitoring, updating and communicating our approach to Covid-related restrictions based on the government guidance throughout the pandemic.

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) which in 2019 won an award from ProShare, the voice of the employee share ownership industry in the UK. In December 2018, 2019, and 2021, all eligible employees applied to participate in the SIP and each have 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). Due to the Group failing to meet its profit targets in FY20, no award was made to employees in December 2020.

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 receive dividends, so giving them a real stake in the business in which they work.

Providing the Group 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.

Please see pages 16 and 17 for further details about the Group's employee engagement activities.

SECR and energy efficiency

Details of our reporting under the Streamlined Energy & Carbon Reporting (SECR) framework, and our energy efficiency initiatives, are included on page 41.

Substantial interests in shares

As at 29 July 2022, the Company had been notified of the following substantial interests of 3% or more in its Ordinary Shares:

	Number of Shares	% Issued Capital
Hay Wain Group	46,762,986	34.79
Premier Miton Investors	16,406,536	12.20
J O Hambro Capital Management	10,329,359	7.68
Hargreaves Lansdown, stockbrokers	8,799,263	6.55
Interactive Investor	8,082,349	6.01
Janus Henderson Investors	5,695,763	4.24
Wood & Company Financial Services	4,300,000	3.20

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 26 February 2022 continues to hold 34.79% 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 2022 (2021: £Nil).

Post balance sheet events
As announced on 22 December 2021, Stephen Karle retired as Chair on 28 February 2022, after seven years on the Board.

On 31 March 2022, Joanne Lake stepped down from the Board as an Independent Non-Executive Director following the completion of her second three-year term of office as a Non-Executive Director.

During the year, the Group made the decision to withdraw the e-money current account (U Account) and closed the resulting operational elements effective as at 3 May 2022.

Funding
During the period we extended the Group's facility with the current lending consortium of £35m until 31 March 2023. Discussions continue with lenders regarding the future facility options, as well as other funding sources. We draw attention to note 1 in the financial statements, which indicates that the Group's current facility of £35m expires on 31 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or temporary deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report.

The Board recognises that as the current funding facility is in place for less than 12 months following the date of signing the Financial Statements there is also material uncertainty regarding secured 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 have notified the Company of their intent to stand down as external auditor. A new external auditor will be announced once appointed.

Notice of Annual General Meeting
The notice convening the Annual General Meeting to be held at the premises of DWF Group at 20 Fenchurch St, London EC3M 3AG on 4 October 2022, 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 who wish to attend the AGM, in person or virtually, are asked to contact the Company in advance at investors@morsesclubplc.com.

By order of the Board

Dave Belmont
Company Secretary
25 August 2022

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, 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 25 August 2022 and is signed on its behalf by:

Gary Marshall
Director
25 August 2022

Graeme Campbell
Director
25 August 2022

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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 26 February 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated and Parent Company balance sheets;
- the consolidated and Parent Company statements of changes in equity;
- the consolidated and Parent Company cash flow statements; and
- the related Notes 1 to 30.

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom adopted international accounting standards and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

2. BASIS FOR OPINION

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the FRC's) Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to note 1 in the financial statements, which indicates the material uncertainty due to quantum and timing of unaffordable lending redress potentially payable to customers, and in respect of the extension or deferral of the term-out clause and availability of funding past the current formal facility end date of 31 March 2023.

The Group's current facility of £35m is in place until 31 March 2023 supported by a funding consortium of two existing providers. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause and the facility possible extension. Note 1 in the financial statements sets out the impact of the term-out clause on the business, including with regard to obtaining new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions with the lenders. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. The Board recognises that the current funding facility is in place for less than 12 months following the date of signing the Financial Statements.

In assessing the Group's going concern status the Directors produced a number of forecast scenarios, all of which include a requirement for funding in line with the current agreement with lenders, such that the term-out clause is not triggered and any future covenant testing can be met. The forecast on which the Directors are basing its going concern assessment includes an assumption that the settlement of the complaints provision ("Redress Claims") occurs in an orderly manner over a period of time and that complaints do not remain at recent peak levels. If complaints volumes are higher than this level then this will accelerate the settlement of the Redress Claims liability and will therefore have a detrimental impact on liquidity. The timing of the settlement of the Redress Claims liability is key to the going concern assessment of the Group.

As stated in Note 1, these events or conditions, along with the other matters as set forth in Note 1 to the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Group's and the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

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, notwithstanding this material uncertainty.

Our evaluation of the Directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included the following procedures:

- Assessed the feasibility of the Directors' scenarios and proposed mitigating actions through working with our internal restructuring specialists to assist in our challenge of management's plans and holding discussions with management's third-party advisers;
- Assessed and challenged the relevance and reliability of the underlying data and the assumptions on which the assessment is based, including consistency with related assumptions used in other areas;
- Evaluated the Directors' latest covenant compliance forecasts up to the date of signing our audit opinion;
- Evaluated plans for future actions, with a focus on how the group is managing relationships with existing lenders and stakeholders, including the Financial Conduct Authority ("FCA");
- Evaluated and challenged whether events or conditions give rise to a risk of management bias in the preparation of the financial statements, specifically considering the treatment of customer complaints, ability to secure funding, and potential future breach of covenants on the borrowing facility;
- Reviewed Audit Committee meeting minutes and regulatory correspondence, considering the impact of any open regulatory matters;
- Performed a stand-back assessment to consider all relevant audit evidence obtained, whether corroborative or contradictory; and
- Considered and challenged whether the disclosures are appropriate in the context of the applicable financial reporting framework.

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; and
- the directors' identification in the financial statements of the material uncertainty related to the group's and parent company's ability to continue as a going concern over a period of at least twelve months from the date of approval of the financial statements.

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

4. SUMMARY OF OUR AUDIT APPROACH

Key audit matters	The key audit matters that we identified in the current year were: • Going concern (see material uncertainty related to going concern section); • Loan impairment provisions (HCC and Digital); • Revenue recognition; and • Complaints provision. 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 £670,000 which was determined on the basis of 0.66% of total assets (2021: 1% of net assets). We revised the benchmark applied in the current year to total assets as it is a key focus area for a number of stakeholders, it is considered to be a more stable base compared to net assets in light of the significant increase in complaints provisions, and furthermore it is also capable of being applied consistently in future periods.

Independent Auditor's Report
to the members of Morses Club PLC continued

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 loss before tax and 100% of net assets across the Group.
Significant changes in our approach	In the prior year, we identified a key audit matter around the impact of the volume of complaints on the Group's contingent liabilities, due to the noticeable increase in complaints raised by claims management companies ('CMC's') within both the Group and the wider home collect credit industry. In the current year, this key audit matter has been revised as management has now observed a discernible trend in the upheld complaints and based on this has recognised an additional provision of £39.1m in the current year. Our key audit matter is now focused on the complaints provision recorded by management to account for potential future claims from customers, rather than the consideration of a contingent liability which is where our key audit matter was focused in the prior year. We have expanded our key audit matter regarding loan impairment provisioning in the current year as management has updated its Digital IFRS 9 impairment methodology and modelling approach. The new methodology is more complex, with management having determined different customer behavioural data points i.e., nodes, based on a combination of predictive variables, and each customer being assigned a node to determine the level of impairment provision to be recorded. We are expanding our key audit matter to capture the determination of the respective nodes given this requires significant management judgement. We have removed our key audit matter on impairment of goodwill within the Digital division, having previously been focussed on the forecast cash flows in the goodwill impairment model, in particular the growth rates and discount rate used. We have observed a significant increase in the size of the Digital loan book and credit issued during the year with actual loan volumes exceeding the break-even point identified in the underlying goodwill impairment calculations. We, alongside our valuation specialists, also expected the discount rate to reduce this year thereby providing more headroom than shown in management's goodwill impairment calculations. As such, this risk has reduced in the current year and is not considered to be a key audit matter.

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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

5.1. Loan impairment provisions (HCC and Digital)

Key audit matter description	The Group held loan impairment provisions of £30.7m (2021: £32.6m), against gross loan carrying amounts of £74.3m (2021: £80.5m) within the home collect credit ("HCC") business, and loan impairment provisions of £6.5m (2021: £4.0m), against gross loan carrying amounts of £18.8m (2021: £9.6m) within the Digital business. **HCC** 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 2016-2020. The collection curve methodology has not changed since prior year with cohort weightings applied to give more prominence (60%) to the most recent 2020 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. **Digital** Management has updated its Digital IFRS 9 impairment methodology and modelling approach since the prior year. A relatively simplistic approach has previously been applied due to the Digital business being in its infancy and growth being lower than anticipated, however the new methodology is more complex. Management has determined different nodes which are based on a combination of predictive variables including loan term, number of previous loans taken by a customer, past due status and credit scoring. Each customer is assigned a particular node and based on this assignment management will then apply probability of default, exposure at default, loss given default and time to default assumptions to determine individual impairment provisions. We have identified a key audit matter around the determination of the respective nodes, given this component of the methodology requires the highest degree of judgement. We have also focused on recency weightings applied, including any inconsistency with the HCC loan loss provisioning methodology. 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 103 to 113 with detail about judgements in applying accounting policies and critical accounting estimates on page 111 and within the Audit Committee Report on pages 62 to 68. The trade and other receivables note is on page 125.

Independent Auditor's Report
to the members of Morses Club PLC continued

5.1. Loan impairment provisions (HCC and Digital)

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, the determination of nodes and management's judgement paper. **HCC** We specifically challenged the appropriateness of the cash collection curves used to determine the HCC impairment provision, which included a review of the methodology used to construct the curves and involving our IT specialists to independently reconstruct the curves. We worked with 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. **Digital** We worked with our credit risk specialists to review and challenge management's Digital impairment provisioning methodology, assess compliance with the technical requirements of IFRS 9, and ensure the enhanced complexity is appropriately reflected through the detailed modelling which underpins the methodology. We assessed for any indicators of management bias given the new methodology results in lower impairment provisions when compared to the previous methodology. As part of our broader procedures around the key audit matters, we performed the following: • 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 assessed whether the historic collections data being used by management were an appropriate basis upon which to predict future recoveries in the current economic environment. • We performed a retrospective review comparing forecasted cash collections for FY22 against actual cash collections, including an assessment of the impact of any differences on the validity of management's modelling. • We challenged the defined staging triggers as these are the other key assumptions 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 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 assessed the completeness of management overlays considering relevant macro-economic factors, in particular the current events surrounding the cost of living crisis and rising inflation. We challenged management's assessment regarding a retrospective application of current affordability rules, which have been adjusted for the expected impacts associated to the cost of living crisis, to identify any customers that may be at a heightened risk of impairment and therefore could represent a significant increase in credit risk as at the balance sheet date, noting no material potential impact.
Key observations	We concluded that the impairment models were working as intended. We concluded that the estimation of future cash flows within the HCC model was reasonable and thus the impairment provision recorded was appropriate. We concluded that the methodology for determining nodes within the Digital model was reasonable and thus the impairment provision recorded was appropriate.

5.2. Revenue recognition

Key audit matter description	The Group recognised revenue of £81.8m (2021: £86.4m) against amounts receivable from HCC customers during the year ended 26 February 2022. 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 103 to 113 with detail about judgements in applying accounting policies and critical accounting estimates on page 111 and within the Audit Committee Report on pages 62 to 68. The segment reporting note which shows revenue per division is on page 115.
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 26 February 2022.
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 reasonable.

Independent Auditor's Report
to the members of Morses Club PLC continued

5.3. Complaints provision

Key audit matter description	The group has provided for £41.9m (2021: £2m) for customer complaints as disclosed in note 29. Due to the sustained volume of complaints relating to unaffordable lending raised by Claims Management Companies ("CMC's") within both the Group and the wider home collect credit industry, the directors have now recognised an additional provision of £39.1m in the current year. Under the requirements of IAS 37, a provision should be recognised for a present obligation that arises from past events, where the likelihood of economic outflow is probable, and where the quantum can be reliably measured. In the current year, the directors have identified a discernible trend in the upheld complaints and based on this has recognised a liability for the full cost of settling the complaints in relation to all affected lending from the date of transfer of the consumer credit regulation to the FCA as a guide timeline up to the balance sheet date estimated at a gross redress of £112m for customers who are eligible to be redressed at an estimated take up rate of 40%. Our key audit matter in the current year is focussed on the accuracy and completeness of the key assumptions used by management, namely the gross redress exposure and the level of take-up from eligible customers, to derive the complaints provision. The provision represents a key source of estimation uncertainty, with a range of outcomes as disclosed in Note 1, due to the fact that there is significant uncertainty regarding management's estimate of the exact quantum of the gross redress exposure and the level of take-up from eligible customers and a different methodology or assumptions could subsequently be adopted based on ongoing discussions with the FCA and ultimately through approval at the UK Courts should the proposed scheme of arrangement proceed. Given the degree of judgement involved, we also identified that there is a potential for fraud through manipulation of this balance. Management's associated accounting policies are detailed on pages 103 to 113 with detail about judgements in applying accounting policies and critical accounting estimates on page 111 and within the Audit Committee report on pages 62 to 68. The provisions note is on page 112.
How the scope of our audit responded to the key audit matter	We obtained an understanding of the relevant control over management's judgement paper including the methodology used for calculating the provision. We assessed the trend in complaints observed during the year and up until the date of signing and evaluated the level of complaints raised in comparison to that observed at peers using publicly available information. We assessed whether the requirements of IAS 37 have been applied appropriately in recognition of the provision by determining that the origination of the loans rather than receipt of a complaint represents a present obligation that arises from past events and now management has identified a discernible trend in the upheld complaints the likelihood of an economic outflow is both probable and can be reliability estimated. We involved our regulatory specialists to assess any additional areas of concern or risk based on complaints received to date, to review and challenge management's proposed methodology for determining the potential gross redress exposure to future claims and to review any correspondence with regulators. In addition, we tested the accuracy and completeness of management's analysis which has been used to determine customer eligibility for the gross redress exposure. We challenged the level of take-up from eligible customers within management's proposed methodology by reference to publicly available data regarding other customer redress programmes and considering the current macroeconomic environment in particular the current events surrounding the cost of living crisis and rising inflation. We held discussions with the FCA and management's third-party advisers regarding developments with the potential scheme of arrangement, being the proposed mechanism for settling the complaints provision. We assessed the associated disclosures within the financial statements for the key sources of estimation uncertainty alongside the detailed explanation of how management has derived the estimate.
Key observations	While we note the significant estimation uncertainty we consider, the methodology, underlying assumptions and data applied to determine the complaints provision, based on information available up until the reporting date, to be reasonable. We have considered the disclosures within the financial statements in relation to how management has derived the provision, including the related sensitivity analysis to be appropriate.

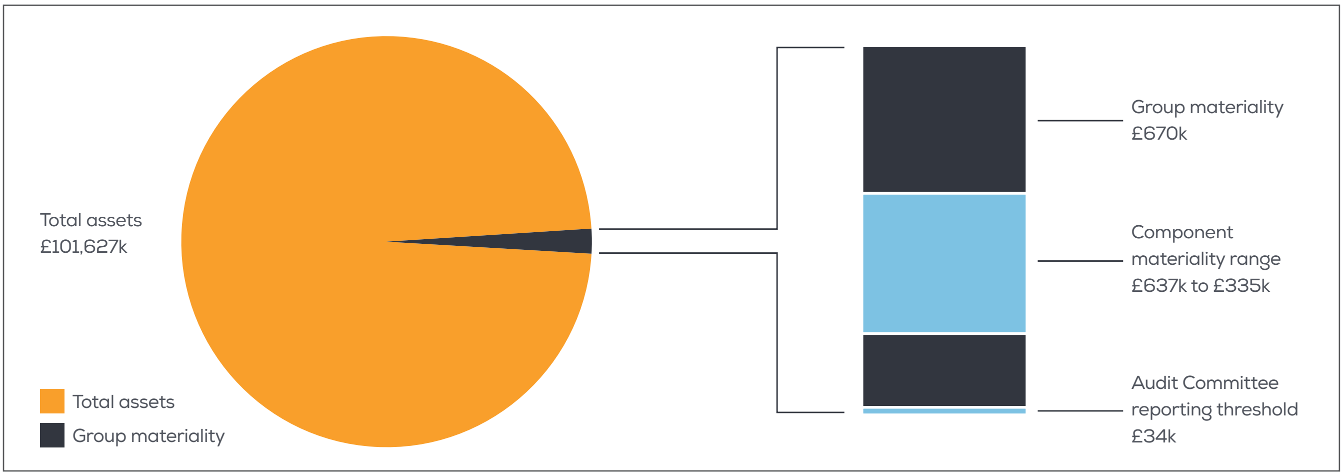
6. OUR APPLICATION OF MATERIALITY

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	£670k (2021: £724k)	£637k (2021: £636k)
Basis for determining materiality	0.66% of total assets (2021: 1% of net assets)	0.66% of total assets (2021: 1% of net assets) We have capped the Parent Company materiality at 95% of the Group materiality, consistent with the approach taken in the prior year.
Rationale for the benchmark applied	We initially considered net assets as the benchmark for determining materiality. However, we revised the benchmark applied in the current year to total assets as it is a key focus area for a number of stakeholders, it is considered to be a more stable base compared to net assets in light of the significant increase in complaints provisions, and furthermore it is also capable of being applied consistently in future periods.	



Independent Auditor's Report
to the members of Morses Club PLC continued

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	70% (2021: 65%) of Group materiality	70% (2021: 65%) of Parent Company materiality
Basis and rationale for determining performance materiality	We set performance materiality at a lower level 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 70% of materiality for the 2022 audit (2021: 65%). We reduced performance materiality in the prior year to reflect the increased control risks inherent within the business given it was operating in a Covid 19 environment. While these risks are still present, we did not identify any control observations in the prior year audit as a direct result of Covid 19 and have determined to increase our performance materiality to 70%. In addition, we considered our risk assessment, including the level of misstatements identified in the previous period audit and the group and parent company's control environment and our ability to rely on controls.	

6.3. Error reporting threshold
We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £34k (2021: £36k), 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 identify 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 loss; this is consistent with the approach in the 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.

7.3. Our consideration of climate-related risks
In planning our audit, we have considered the potential impact of climate change on the Group's business and its financial statements. The Group continues to develop its assessment of the potential impacts of environmental, social and governance (ESG) related risks, including climate change, as outlined on page 41.

As a part of our audit, we have held discussions with management to understand the process of identifying climate-related risks, the determination of mitigating actions and the impact on the Company's financial statements.

We performed our own risk assessment of the potential impact of climate change on the Group's account balances and classes of transactions and did not identify any additional risks of material misstatement.

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 the audit, or otherwise appears to be materially misstated.

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

We have nothing to report in this regard.

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.

Independent Auditor's Report
to the members of Morses Club PLC continued

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 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; and
- the matters discussed among the audit engagement team and relevant internal specialists, including tax, credit risk, regulatory, restructuring, valuations, IT, 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 the complaints provision. 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 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 2006 and tax legislation.

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 FCA, 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 the complaints provision 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; and
- 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.

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 reporting;
- 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.

Independent Auditor's Report
to the members of Morses Club PLC continued

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
25 August 2022

Consolidated Income Statement
For the 52-week period ended 26 February 2022

	Notes	52 weeks ended 26.02.22 £'000	52 weeks ended 27.02.21 £'000
Revenue		**111,396**	100,234
Impairment of financial assets		**(35,960)**	(20,794)
Cost of sales		**(15,406)**	(20,657)
Gross profit		**60,030**	58,783
Administration expenses	2 & 4	**(100,901)**	(55,967)
Operating profit before amortisation of intangibles and exceptional items		**6,095**	3,161
Amortisation of acquisition intangibles	12	**(187)**	(345)
Exceptional items			
Complaints liability		**(42,640)**	–
Corporate restructuring costs		**(1,759)**	–
U Accounts closure costs		**(2,380)**	–
Exceptional items total	3	**(46,779)**	–
Operating (loss)/profit		**(40,871)**	2,816
Finance costs	6	**(1,985)**	(2,360)
(Loss)/profit before taxation	4	**(42,856)**	456
Tax on profit on ordinary activities	7	**9,489**	(239)
(Loss)/profit after taxation		**(33,367)**	217

Earnings per share		26.02.22 Pence	27.02.21 Pence
Basic	9	**(25.03)**	0.17
Diluted	9	**(25.03)**	0.17

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 26 February 2022

	Notes	Group 26.2.22 £'000	Group 27.2.21 £'000	Company 26.2.22 £'000	Company 27.2.21 £'000
Assets					
Non-current assets					
Goodwill	11	**12,854**	12,854	**3,293**	3,293
Other intangible assets	12	**8,514**	8,863	**6,264**	5,092
Investment in subsidiaries	14	**–**	–	**31,011**	23,011
Property, plant & equipment	13	**689**	734	**134**	129
Right-of-use assets	15	**1,739**	1,696	**1,217**	1,113
Deferred tax	21	**9,112**	581	**8,442**	671
Amounts receivable from customers	16	**2,633**	82	**–**	–
		35,541	24,810	**50,361**	33,309
Current assets					
Amounts receivable from customers	16	**53,214**	53,408	**43,626**	47,952
Taxation receivable	16	**2,790**	1,387	**2,596**	1,387
Other receivables	16	**3,903**	4,927	**27,867**	23,900
Cash at bank		**6,179**	8,258	**4,689**	6,616
		66,086	67,980	**78,778**	79,855
Total assets		**101,627**	92,790	**129,139**	113,164
Liabilities					
Current liabilities					
Trade and other payables	17	**(6,401)**	(10,039)	**(6,122)**	(9,858)
Complaints provision and liability	29	**(20,237)**	(2,012)	**(20,237)**	(2,012)
Lease liabilities	19	**(778)**	(790)	**(721)**	(740)
		(27,416)	(12,841)	**(27,080)**	(12,610)
Non-current liabilities					
Bank and other borrowings	18	**(19,226)**	(8,302)	**(19,226)**	(8,302)
Complaints provision and liability	29	**(21,692)**	–	**(21,692)**	–
Lease liabilities	19	**(1,063)**	(994)	**(469)**	(343)
		(41,981)	(9,296)	**(41,387)**	(8,645)
Total liabilities		**(69,397)**	(22,137)	**(68,467)**	(21,255)
Net assets		**32,230**	70,653	**60,672**	91,909
Equity					
Called up share capital	22	**1,344**	1,325	**1,344**	1,325
Group reconstruction reserve	23	**–**	–	**(9,276)**	(9,276)
Retained earnings	23	**30,886**	69,328	**68,604**	99,860
Total equity		**32,230**	70,653	**60,672**	91,909

The Parent Company's loss for the financial period was £26,180,550 (2021 profit: £11,531,489). The consolidated and Company financial statements of Morses Club PLC were approved by the Board of Directors on 25 August 2022.

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

GARY MARSHALL
Director

GRAEME CAMPBELL
Director

Consolidated Statements of Changes in Equity
For the 52-week period ended 26 February 2022

Group	Notes	Called Up Share Capital £'000	Retained Earnings £'000	Total Equity £'000
As at 29 February 2020		1,312	69,343	70,655
Profit for year		–	218	9,477
Total comprehensive income for the period		–	218	218
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
Loss for year		–	(33,367)	(33,367)
Total comprehensive loss for the period		–	(33,367)	(33,367)
Share issue		19	–	19
Share-based payments charge	27	–	242	242
Dividends paid	8	–	(5,317)	(5,317)
As at 26 February 2022		**1,344**	**30,886**	**32,230**

The Group has retained earnings of £30.9m which are made up of distributable reserves of £30.6m and a non-distributable share-based payment reserve of £0.3m.

Company	Notes	Called Up Share Capital £'000	Group Reconstruction Reserve £'000	Retained Earnings £'000	Total Equity £'000
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
Loss for year		–	–	(26,181)	(26,181)
Total comprehensive loss for the period		–	–	(26,181)	(26,181)
Share issue		19	–	–	19
Share-based payments charge	27	–	–	242	242
Dividends paid	8	–	–	(5,317)	(5,317)
As at 26 February 2022		**1,344**	**(9,276)**	**68,604**	**60,672**

Cash Flow Statement
For the 52-week period ended 26 February 2022

	Notes	Group 26.2.22 £'000	Group 27.2.21 £'000	Company 26.2.22 £'000	Company 27.2.21 £'000
Net cash (outflow)/ inflow from operating activities	1	**(819)**	33,054	**6,052**	40,071
Cash flows used in financing activities					
Dividends paid	8	**(5,317)**	(1,312)	**(5,317)**	(1,312)
Proceeds from additional long-term debt		**25,100**	11,500	**25,100**	11,500
Repayment of long-term debt		**(14,200)**	(37,000)	**(14,200)**	(37,000)
Principal paid under lease liabilities		**(943)**	(1,499)	**(893)**	(1,435)
Interest received		**–**	–	**-**	1,544
Interest paid		**(1,398)**	(1,622)	**(1,398)**	(1,622)
Interest paid (lease liabilities)		**(222)**	(353)	**(128)**	(251)
Net cash inflow/(outflow) from financing activities		**3,020**	(30,286)	**3,164**	(28,576)
Cash flows used in investing activities					
Purchase of intangibles		**(4,074)**	(5,282)	**(3,059)**	(1,625)
Purchase of property, plant and equipment		**(206)**	(1,096)	**(85)**	(839)
Additional investment in subsidiary		**–**	–	**(8,000)**	(12,000)
Net cash outflow from investing activities		**(4,280)**	(6,378)	**(11,144)**	(14,464)
Decrease in cash and cash equivalents		**(2,079)**	(3,610)	**(1,928)**	(2,969)
Reconciliation of increase in cash and cash equivalents					
Movement in cash and cash equivalents in the period		**(2,079)**	(3,610)	**(1,928)**	(2,969)
Cash and cash equivalents, beginning of year		**8,258**	11,868	**6,617**	9,585
Cash and cash equivalents, end of year		**6,179**	8,258	**4,689**	6,616

Notes to the Consolidated Cash Flow Statements
For the 52-week period ended 26 February 2022

1. RECONCILIATION OF PROFIT BEFORE TAXATION TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	Group		Company	
	26.2.22 £'000	27.2.21 £'000	**26.2.22 £'000**	27.2.21 £'000
Profit before tax and exceptional items	**3,923**	456	**9,490**	11,818
Exceptional costs	**(46,779)**	–	**(44,398)**	–
(Loss)/profit before taxation	**(42,856)**	456	**(34,908)**	11,818
Interest received included in financing activities	**–**	–	**(488)**	(1,544)
Interest paid included in financing activities	**1,577**	2,006	**1,483**	1,904
Share issue	**19**	13	**19**	13
Depreciation charges	**1,211**	1,915	**963**	1,646
Share-based payments charge	**242**	1,079	**242**	1,079
Impairment of goodwill	**–**	126	**–**	–
Amortisation of intangibles	**2,565**	2,811	**1,713**	2,139
Write off of right-of-use assets	**108**	261	**108**	261
Loss on disposal of tangible assets	**–**	92	**–**	–
Loss on disposal of intangible assets	**1,857**	969	**173**	–
(Increase)/decrease in debtors	**(1,333)**	18,667	**871**	18,186
Increase in creditors	**35,791**	5,849	**35,876**	5,759
	42,037	33,788	**40,960**	29,443
Taxation paid	**–**	(1,190)	**–**	(1,190)
Net cash (outflow)/ inflow from operating activities	**(819)**	33,054	**6,052**	40,071

Notes to the Consolidated Cash Flow Statements continued
For the 52-week period ended 26 February 2022

2. RECONCILIATION OF LIABILITIES ARISING FROM FINANCIAL ACTIVITIES

Group	Long-term Borrowings £'000	Lease Liabilities £'000	Total £'000
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	10,087
Non-cash changes:			
– Amortised fees	24	–	24
– Lease additions & disposals		1,000	1,000
– Interest	1,398	222	1,620
Cash flows:			
– Repayments	(14,200)	(943)	(15,143)
– Drawdown	25,100	–	25,100
– Interest	(1,398)	(222)	(1,620)
At 26 February 2022	**19,226**	**1,841**	**21,068**

Company	Long-term Borrowings £'000	Lease Liabilities £'000	Total £'000
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
Non-cash changes:			
– Amortised fees	24	–	24
– Lease additions & disposals	–	1,000	1,000
– Interest	1,398	128	1,526
Cash flows:			
– Repayments	(14,200)	(893)	(15,093)
– Drawdown	25,100	–	25,100
– Interest	(1,398)	(128)	(1,526)
At 26 February 2022	**19,226**	**1,190**	**20,417**

Notes to the Consolidated Financial Statements

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 26 February 2022 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:

New amended standard or interpretation	Effective date – for accounting periods beginning on or after
Amendments to IAS 1, Presentation of financial statements on classification of liabilities	1 January 2023
IFRS 17, Insurance contracts	1 January 2023
Amendments to IAS 8, Definition of accounting estimates	1 January 2023
Amendments to IAS 12, Deferred tax relating to assets and liabilities from a single transaction	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 prepared these financial statements in consideration of the appropriateness of the going concern basis, taking account of the material uncertainty due to the quantum and timing of unaffordable lending redress potentially payable to customers, and in respect of the extension or deferral of the term-out clause and availability of funding past the current formal facility end date of 31 March 2023.

The Group's current funding facility of £35m is in place until 31 March 2023, supported by a funding consortium of two existing providers. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facilities possible extension. This term out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions with the lenders. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up to the date of the report. Whilst discussions are at an advanced stage, if a formal agreement is not reached by the end of September 2022, then a term-out clause would be enacted, which would place restrictions on the ability of the Group to issue new loans. However, management is in discussion with the lenders regarding a potential extension to the term-out. The Board recognises that the current funding facility is in place for less than 12 months following the date of signing the financial statements.

The Group has observed a noticeable increase in the level of complaints received in particular from CMCs during the year. The Directors accept there is a liability in relation to customer redress claims for unaffordable lending against the Company ("redress claims") at the balance sheet date, however there is significant uncertainty of the total liability which will be paid. This is due to the methodology for assessing the population of claims being yet to be agreed, and the level of subsequent customers who may claim against that methodology not yet being known.

Notes to the Consolidated Financial Statements continued

1. ACCOUNTING POLICIES CONTINUED

Going concern continued

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 and credit risk
- Collections and loan book quality
- Complaints volumes
- Cash availability
- Collect-out scenario (in accordance with regulatory guidance)

In assessing the Group's going concern status the Directors produced a number of forecast scenarios, all of which include a requirement for funding in line with the current agreement with lenders, such that the term-out clause is not triggered, and any future covenant testing can be met. The forecast on which the Directors are basing its going concern assessment includes an assumption that the settlement of the complaints provision ("Redress Claims") occurs in an orderly manner over a period of time and that complaints do not remain at recent peak levels. If complaints volumes are higher than this level then this will accelerate the settlement of the Redress Claims liability and will therefore have a detrimental impact on liquidity. The timing of the settlement of the Redress Claims liability is key to the going concern assessment of the Group.

Having considered these scenarios and assumptions, the Directors consider that the underlying profitability of the Group means that the business is viable.

Based on this the financial statements for the Group and the Company have been prepared on the going concern basis.

However the quantum of the redress claims liability and timing and settlement as well as the extension or deferral of the term-out clause and the availability of funding beyond 31 March 2023 create a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern such that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

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 separately on the face of the balance sheet.

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 26 February 2022 consolidate the financial statements of the Company and its subsidiary undertakings from the date control passes to the Group until the date control ceases. Control is achieved when the Group:

- has the power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect returns.

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

Revenue recognition

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

Stage 1 – Accounts at initial recognition. Revenue is recognised on the gross receivable before impairment provision.

Stage 2 – Accounts which have suffered a significant deterioration in credit risk but have not defaulted. Revenue is recognised on the gross receivable before impairment provision.

Stage 3 – Accounts which have defaulted. Revenue is recognised on the net receivable after impairment provision.

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

Digital revenue for recurring monthly management fees in relation to current accounts is recognised in accordance with 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 111 for more information.

Notes to the Consolidated Financial Statements continued

1. ACCOUNTING POLICIES CONTINUED

Broker commissions

In line with IFRS 9 broker commission costs are recognised on an EIR basis in the income statement spread over the term of the contract.

Net loan book

All customer receivables are initially recognised at the amount loaned to the customer i.e., fair value. After initial recognition the amounts receivable from customers are subsequently measured at amortised cost.

The Directors assess on an ongoing basis whether there is 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 and considers the outlook for macro-economic conditions 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 months' 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 payments in a 13-week period and in the Digital division 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 ten missed payments in a 13-week period. In the Digital division Stage 3 is represented by more than two missed monthly payments.

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.

Payment frequency adjustment

During the latter months of FY22, management noticed an emerging trend around the profiling of debt and collection performance around calendar month ends. After reviewing data, it was identified that a growing number of customers were opting to make their repayments either fortnightly or monthly.

In practice, what was identified was that as these non-weekly payers were not paying each week, they were showing as having 'missed' a payment, and slipping down the payment performance bands, despite there being no expectation from management that the customers would be making a payment. As the customers' payment performances were deteriorating (as their fortnightly/monthly payment was not yet due), these customers would attract a larger provision than was necessary. When the customers next made their payment, their payment performance would correct to its rightful state.

In order to ensure that the HCC division did not provide for customers at the wrong level – customers who were showing as having missed payments when they had not – management has split the customer book into three tranches: weekly payers, fortnightly payers and monthly payers. These tranches were used to assess whether a payment was due at the period end and the impairment rating by band was updated accordingly.

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 the Digital division when more than three 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 111 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 the conflict in Ukraine and the continued impact of Covid-19, with a potential risk of recession and increased levels of unemployment. In terms of the impact of 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.

In addition to monitoring economic data, the collection performance experienced through the Covid-19 pandemic, which showed improvement immediately post first lockdown and no drop off in performance in later lockdown periods, is evidence that collection performance is not impacted by traditional macro-economic events.

The Company's credit policies incorporate the ONS expenditure model and have been updated for recent increases to inflation and the cost of energy. After carefully considering the economic factors impacting the Group's loan receivables balance, such as inflation, interest rates, the ending of furlough, 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 111 for more information.

Notes to the Consolidated Financial Statements continued

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, with 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, with 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.

Software-as-a-Service (SaaS) arrangements

The IFRS Interpretation Committee (IFRIC) has published two agenda decisions clarifying how SaaS should be accounted for. The first agenda decision, published in March 2019, concludes that a SaaS arrangement that conveys to the customer only the right to receive access to the supplier's application software in the future is a service contact, rather than a software lease or the acquisition of a software intangible asset.

The second agenda decision, published in April 2021, addresses how a customer should account for the costs of configuration or customisation of the supplier's application software in a SaaS arrangement that is determined to be a service contract.

Where a change in accounting policy is required to apply the conclusions reached by the IFRS Interpretation Committee, this must be accounted for by applying IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and if the impact is material, to restate prior year comparatives. The agenda decisions have not resulted in a material impact on the Group or Company therefore the prior year comparatives have not been restated.

The Group recognises the cost of SaaS arrangements in the income statement over the term of the contract. Configuration and customisation costs are recognised in the income statement when the service is received except for customisation costs that are not distinct from the SaaS access, in which case the costs are recognised over the term of the contract.

Interest Rate Benchmark Reform Phase 2

In 2021 the Group adopted the Interest Rate Benchmark Reform Phase 2 amendments issued by the IASB. These amendments require that changes to expected future cash flows that both arise as a direct result of IBOR reform and are economically equivalent to the previous cash flows are accounted for as a change to the effective interest rate with no adjustment to the asset or liability carrying value and no immediate gain or loss is recognised.

Property, plant and equipment

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

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

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 de-consolidated from the date on which control ceases.

Investments in subsidiaries are stated at cost less any provision for impairment. The investments in subsidiaries are considered for impairment on a 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 legal right of offset and intention to settle on a net basis 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.

Notes to the Consolidated Financial Statements continued

1. ACCOUNTING POLICIES CONTINUED

Dividend policy
The Directors will assess dividend payments in the context of consolidation opportunities, new product investment requirements, cash availability and the broader growth strategy of the Company.

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

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

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

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

Share-based payments
The Company operates three equity-settled share-based compensation schemes, Deferred Share Plan for the Directors and a Share Option Plan and Share Incentive Plan for the 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).

The cost of administrating any scheme in relation to the complaints liability is not included in the year-end provision.

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 reviews 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 HCC

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 £30.7m (2021: £32.6m) 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 uses 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 has 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 and EIR calculation would materially understate the provision. A weighting of the individual cash curves to give more prominence to the most recent cohort was adopted.

	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Impairment Provision	Deferred Income
Option 1	20%	20%	20%	20%	20%	(£29.7m)	(£22.3m)
Option 2	15%	15%	15%	15%	40%	(£29.3m)	(£22.4m)
Option 3	10%	10%	10%	10%	60%	(£28.8m)	(£22.4m)
Option 4	0%	0%	0%	0%	100%	(£28.0m)	(£22.4m)

Management believes that option 3 is the most appropriate weighting as a review of expected collections versus actual collections in the prior year confirms the relevance and accuracy of the method of weighting used.

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 has not applied this weighting to the Digital division. The impairment numbers above are for Home Collected Credit only.

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 £2.1m (2021: £4.4m) higher/lower.

Another key estimate is the determination of whether there has been a significant increase in credit risk on financial assets since initial recognition which determines whether 12-month or lifetime expected credit losses are recognised.

If lifetime expected credit losses were recognised on all assets this would result in an increase in expected credit losses of £0.4m (2021: £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

1. ACCOUNTING POLICIES CONTINUED

Limitations in the impairment model or data inputs will be identified through the ongoing assessment and validation of the output of the model. In these circumstances, management makes appropriate adjustments to the allowance for impairment losses to ensure that the overall provision adequately reflects all material credit risks. These adjustments are determined by considering exposures which have not been adequately captured by the impairment model and range from changes to model inputs and parameters, at account level, through to more qualitative post-model overlays. Changes applied to model inputs and parameters are deemed to be in-model overlays; more qualitative changes that have a higher degree of management judgement are deemed to be post-model overlays. All adjustments are reviewed quarterly and are subject to internal review and challenge to ensure that amounts are appropriately calculated.

As a growing number of customers now pay fortnightly or monthly instead of weekly, an adjustment was made to the impairment provision, as using legacy methods, customers were showing as having missed a weekly payment(s), when in reality they were not due to make a payment as the customer had opted to pay fortnightly or monthly. In order to ensure the impairment provision was not overstated, customers who had opted to pay fortnightly or monthly had their payment performance restated where they were previously inaccurately attracting a higher rate of impairment.

This adjustment resulted in a reduction to the impairment provision of £973k (FY21: £Nil).

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 cash curves and EIR calculation 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 111.

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 lower (2021: £0.6m 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.

Goodwill

Under IAS 36 an annual impairment review for goodwill balances is required. The Group has also considered both internal and external indicators of impairment, particularly the market capitalisation of the Group compared to the carrying value of net assets.

Determining whether goodwill is impaired requires an estimation of the future cash flows. These are based on the expectations within the current business plan taking into account the current performance of the business.

Digital has conducted several sensitised scenarios on the goodwill impairment assessment given the base scenario provides modest headroom of £7m against the CGU's assets. The key assumptions in the forecast are:

- Lending levels which drive the sales growth and revenue.
- Customer performance which impacts collections and therefore impairment levels.
- Growth rate.
- Discount rate.

Forecast sales would have to reduce by more than 11% or the discount rate used would have to be increased to more than 16.4% before giving rise to any impairment.

Complaints liability

The non-standard lending sector has continued to experience the impact of CMCs and high-profile publicity campaigners promoting the potential for customers to claim redress from their lenders. As a result, the number of complaints in regard of unaffordable lending and referrals to the FOS has risen significantly across the sector. The HCC division has experienced an increase in complaints and FOS referrals during the period which was impacted by a rapid increase in claim volumes submitted via claims management companies. As a result, a discernible trend has emerged and so the Group has recognised a liability for the cost of fully settling complaints in relation to all affected lending from the date of transfer of the consumer credit regulation to the FCA as a guide timeline up to the balance sheet date estimated at a gross redress of £112m for customers who will be eligible to be redressed, at an estimated take-up rate of 40%. IAS 37 requires that where the time value of money is material the present value of costs should be reflected. The liability of £39.1m has been discounted by £2.2m and represents the present value of management's best estimate of the future outflow of cash required to settle these claims. In addition management estimates that approximately 7.8% of redress will be written off against the loan book. The complaints provision has been determined based on information available up until the reporting date. There is significant uncertainty regarding the exact quantum of the gross redress exposure and the level of take up from eligible customers and a different methodology or assumptions could be subsequently adopted based on discussions with the FCA and ultimately through the approval at the UK courts should a scheme of arrangement proceed.

In producing the gross redress amount there was a movement from a draft estimate to the final estimate of 6%, as a result Management considers that the gross redress could be +/- 10% resulting in a change of +/- £12m in the gross redress value. As the estimate used for the take-up rate is 10% higher than the highest rate seen elsewhere in the industry historically, Management also believes the take-up rate could be +/- 10% resulting in a range of take-up rates of 36% to 44%.

The following table sets out the increase/(decrease) to the provision and therefore charge should the gross redress or the take-up rate be an indicative 10% lower or higher than recognised:

Increase/(decrease) £'000	10% lower	Gross Redress No change	10% higher
Take-up rate			
10% lower	(7,199)	(3,768)	(373)
No change	(3,768)	–	3,734
10% higher	(373)	3,734	7,787

Other accounting estimates

Impairment Digital

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 £6.5m (2021: £4.0m) was recognised as an impairment provision against amounts receivable from customers.

Dot Dot Loans 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 one or more contractual monthly payments have been missed, since only at this point do the expected future cash flows from loans deteriorate significantly. The determination of expected credit losses involves complex modelling techniques and requires management to apply significant judgements to calculate expected credit losses. For the purpose of IFRS 9, default is assumed when two contractual repayments have been missed.

During the second half of 2021 Dot Dot Loans implemented a new IFRS 9 model to assess provision requirements in a more sophisticated manner given the availability of more data. This model will be regularly tested using subsequent cash collections to assess accuracy. The impact of implementing this model was a £1.4m decrease in the provision. No overlays have been made in Digital in 2022.

The impairment model will be subject to periodic monitoring and validation of model components, including probability of default, exposure at default and loss given default to ensure it remains accurate.

The most sensitive component of the Digital impairment model is the probability of default. If the probability of default was 5% higher/lower the impact on the impairment provision would be £0.4m higher/lower.

2. STAFF COSTS

	Group		Company	
	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000	**52 weeks ended 26.2.22 £'000**	52 weeks ended 27.2.21 £'000
Wages and salaries	**19,832**	22,059	**14,573**	17,453
Social security costs	**2,002**	2,588	**1,509**	2,171
Other pension costs	**894**	979	**659**	770
Total staff costs	**22,728**	25,626	**16,741**	20,394
Redundancy costs	**497**	1,172	**431**	1,122
Total staff costs	**23,225**	26,798	**17,172**	21,516

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 26.2.22	52 weeks ended 27.2.21	**52 weeks ended 26.2.22**	52 weeks ended 27.2.21
Management	**265**	218	**180**	182
Clerical & field staff	**271**	382	**210**	289
	536	600	**390**	471

Notes to the Consolidated Financial Statements continued

3. EXCEPTIONAL COSTS

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Complaints liability	**42,640**	–
Corporate restructuring costs	**1,759**	–
U Account closure costs	**2,380**	–
Total exceptional costs	**46,779**	–

The complaints liability is a provision recognised in relation to unaffordable lending.

The corporate restructuring costs include legal and professional fees in relation to a restructuring of the Group corporate entities that the Board decided not to proceed with in December 2021.

U Account closure costs include the write-off of assets and contracts. An assessment was performed to conclude if U Account represents a discontinued operation in line with the technical requirements of IFRS 5 Non-Current Assets Held for Sale and Discontinued Operations. As U Account does not represent a major line of business, it was concluded that it is not a discontinued operation therefore the costs of closure are recognised as exceptional costs.

These items are considered to be exceptional due to their size and they are all one-off and are not expected to recur. £43.3m of the exceptional costs sit within administration expenses on the income statement and £3.5m is within impairment of financial assets.

4. LOSS BEFORE TAX

The operating loss is stated after charging:

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Depreciation – owned assets	**251**	329
Amortisation of intangibles	**2,565**	3,135
Depreciation of right-of-use asset	**960**	1,586
Impairment of financial assets	**35,960**	20,794
Lease liability finance costs	**222**	353
Lease rentals – motor vehicles	**118**	205
Lease rentals – property	**144**	443

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

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Short-term employee benefits	**1,515**	1,055
Post-employment benefits	**44**	32
Long-term benefits	**–**	–
Termination benefits	**–**	–
Share-based payments	**321**	248
	1,880	1,335
The number of Directors to whom retirement benefits were accruing was as follows:		
Money purchase schemes	**3**	4

Information regarding the highest paid Director is as follows:

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Emoluments	**666**	462
Pension contributions to money purchase schemes	**20**	17

The analysis of auditor's remuneration is as follows:

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Fees payable to the Company's auditors for the audit of the Group's annual accounts	**728**	312
Total audit fees	**728**	312
Audit-related assurance services	**36**	35
Total non-audit fees	**36**	35

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 26.2.22 £'000	52 weeks ended 27.2.21 £'000	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Home Collected Credit	**81,789**	86,430	**9,561**	14,050
Digital	**29,607**	13,804	**(5,606)**	(10,512)
Total Group before amortisation of acquisition intangibles and exceptional items	**111,396**	100,234	**3,955**	3,538
Intra-Group elimination*	**–**	–	**155**	36
Amortisation of intangibles	**–**	–	**(187)**	(3,118)
Exceptional items	**–**	–	**(46,779)**	–
Total Group	**111,396**	100,234	**(42,856)**	456

	Segment assets		Segment liabilities		Net assets/(liabilities)	
Group	26.2.22 £'000	27.2.21 £'000	26.2.22 £'000	27.2.21 £'000	26.2.22 £'000	27.2.21 £'000
Home Collected Credit	**130,460**	114,485	**(68,467)**	(21,255)	**61,993**	93,230
Digital	**28,453**	23,260	**(28,393)**	(23,976)	**60**	(716)
Total before intra-Group elimination	**158,913**	137,745	**(96,860)**	(45,231)	**62,053**	92,514
Eliminations*	**(33,405)**	(25,290)	**3,582**	3,429	**(29,823)**	(21,861)
Intra-Group elimination	**(23,881)**	(19,665)	**23,881**	19,665	**–**	–
Total Group	**101,627**	92,790	**(69,397)**	(22,137)	**32,230**	70,653

* Group assets includes fixed asset investment of £31,011,415 (2021: £23,011,415), a tax asset of £24,000 (2021: £40,000) which are offset by intangible assets on acquisition of £Nil (2021: £Nil), goodwill on acquisition of £Nil (2021: £Nil) and inter-company provision of £941,176 (2021: £786,000) which are not attributable to a specific segment.

Notes to the Consolidated Financial Statements continued

5. SEGMENT REPORTING CONTINUED

Group	Capital expenditure 26.2.22 £'000	Capital expenditure 27.2.21 £'000	Depreciation 26.2.22 £'000	Depreciation 27.2.21 £'000	Amortisation 26.2.22 £'000	Amortisation 27.2.21 £'000
Home Collected Credit	**3,144**	1,727	**80**	170	**1,711**	2,101
Digital	**1,136**	3,884	**171**	152	**854**	710
Total Group	**4,280**	5,611	**251**	322	**2,565**	2,811

6. FINANCE COSTS

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Lease liabilities	**222**	472
Other interest payable	**1,763**	1,888
Total interest payable	**1,985**	2,360

7. TAXATION

Analysis of the tax charge

The tax charge on loss before tax for the period was as follows:

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Current tax		
UK corporation tax	**(380)**	318
Adjustment in respect of prior years	**(542)**	24
Total current tax	**(922)**	342
Origination and temporary timing differences	**(9,228)**	(103)
Adjustment in respect of prior years	**642**	–
Effect of change of tax rates	**20**	–
Total deferred tax	**(8,566)**	(103)
Tax on (loss)/profit on ordinary activities	**(9,488)**	239

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 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Profit before exceptional costs	3,923	456
Exceptional costs	(46,779)	–
(Loss)/profit on ordinary activities before tax	(42,856)	456
(Loss)/profit on ordinary activities before exceptional items multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	(8,143)	87
Effects of:		
Expenses not deductible for tax purposes	339	233
Adjustment in respect of prior periods	101	24
R&D expenditure credit	(92)	–
Rate difference – deferred tax	(2,651)	(67)
Movement in amounts not provided in deferred tax	1,171	9
Tax losses surrendered by another Group company	–	(52)
Fixed asset differences	(214)	5
Tax on (loss)/profit on ordinary activities	**(9,489)**	239

The standard rate of corporation tax applicable for the period ended 26 February 2022 is 19% (2021: 19%), the effective tax rate is 18% (2021: 52%). Deferred tax is calculated in full on temporary differences under the liability method using a rate of 25% (2021: 19%). The increase in the main rate of corporation tax was substantively enacted on 24 May 2021. The rate of 25% is applicable from 1 April 2023, rather than the previously enacted reduction of 19%.

Following discussion with our tax advisors, the complaints liability provision is being treated as tax deductible on the basis that it is a specific provision for redress payments which are trade-related revenue expenses.

8. DIVIDEND PER SHARE

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Dividend (£'000)	5,317	1,312
Weighted average number of shares ('000s)	133,300	131,383
Per share amount (pence)	**3.99**	1.00

The Company will not be recommending the payment of a final dividend for FY22.

Notes to the Consolidated Financial Statements continued

9. EARNINGS PER SHARE

	52 weeks ended 26.2.22	52 weeks ended 27.2.21
(Loss)/earnings (£'000)	(33,367)	218
Number of shares		
Weighted average number of shares	133,300	131,383
Effect of dilutive potential Ordinary Shares through share options[1] ('000s)	-	200
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	133,300	131,583
Basic (loss)/earnings per share amount (pence)	(25.03)	0.17
Diluted (loss)/earnings per share amount (pence)	(25.03)	0.17

1 Potential ordinary shares are not treated as dilutive when they would decrease a loss per share.

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. LOSS 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 loss for the financial period was £26,180,550 (2021: profit £11,531,489).

11. GOODWILL

	Group Goodwill £'000	Company Goodwill £'000
Cost		
At 29 February 2020	13,330	3,642
Additions 2020/21	–	–
At 27 February 2021	13,330	3,642
Additions 2021/22	–	–
At 26 February 2022	**13,330**	**3,642**
Impairment		
At 29 February 2020	(349)	(349)
Impairment loss for the period	(127)	–
At 27 February 2021	(476)	(349)
Impairment loss for the period	–	–
At 26 February 2022	**(476)**	**(349)**
Net book value		
At 26 February 2022	**12,854**	**3,293**
At 27 February 2021	12,854	3,293
At 29 February 2020	12,981	3,293

Key assumptions used in goodwill impairment review

The market share price of the Company at 26 February 2022 was £0.134, 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 £17.9m which is below the Company's net asset value of £32.2m 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% (FY21: 13%) and an initial growth rate over the first three years of 11% (FY21: 47%) followed by a terminal value based on a minimum future growth rate of 2% (FY21: 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 in the forecast are:

- Lending levels which drive the sales growth and revenue.
- Customer performance which impacts collections and therefore impairment levels.
- Growth rate.
- Discount rate.

Lending has been informed by the business's ability to previously expand in this market. Performance assumptions are based on targeting the products and customers that will deliver an acceptable return. As the cost base is relatively stable, the key to deliver a return is the scale achieved by higher lending levels. The growth rates are the result of a slow-down in sales in FY23 due to cash availability from settling redress claims followed by a return to previously experienced levels of lending by FY25. 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 carrying amount of goodwill has been allocated to cash-generating units (see Note 5) as follows:

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
HCC	**3,293**	3,293
Digital	**9,561**	9,561
	12,854	12,854

Notes to the Consolidated Financial Statements
continued

12. OTHER INTANGIBLE ASSETS

Group	Software & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
At 29 February 2020	12,761	21,620	874	35,255
Additions	5,282	–	–	5,282
Disposals	(3,085)	–	–	(3,085)
At 27 February 2021	14,958	21,620	874	37,452
Additions	4,074	–	–	4,074
Disposals	(2,614)	–	–	(2,614)
At 26 February 2022	**16,418**	**21,620**	**874**	**38,912**
Accumulated amortisation				
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
Charge for the period	2,378	178	7	2,563
Eliminated on disposal	(757)	–	–	(757)
Impairment losses	–	–	2	2
At 26 February 2022	**8,074**	**21,460**	**864**	**30,398**
Net book value				
At 26 February 2022	**8,344**	**160**	**10**	**8,514**
At 27 February 2021	8,505	338	19	8,862
At 29 February 2020	6,621	705	35	7,361

Company	Software & Licences £'000	Customer Lists £'000	Agent Networks £'000	Totals £'000
Cost				
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
Additions	3,059	–	–	3,059
Disposals	(267)	–	–	(267)
At 26 February 2022	**13,982**	**3,689**	**154**	**17,825**
Accumulated amortisation				
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
Charge for the period	1,642	67	2	1,711
Eliminated on disposal	(93)	–	–	(93)
Impairment losses	–	–	2	2
At 26 February 2022	**7,790**	**3,624**	**147**	**11,561**
Net book value				
At 26 February 2022	**6,192**	**65**	**7**	**6,264**
At 27 February 2021	4,949	132	11	5,092
At 29 February 2020	5,293	294	19	5,606

Research and development expenditure expensed during the year was £Nil (2021: £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 26 February 2022, 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 intangible assets

Group

Intangible assets	**Carrying Value as at 26 February 2022 £'000**	Carrying Value as at 27 February 2021 £'000	Amortisation period Years
Morses Club acquired customer lists	**160**	339	10 years
Morses Club IT software development (CAP/MAP)	**6,192**	4,949	Various at 20%-33% PA
Shelby IT software development (Equiniti)	**2,037**	3,287	Various at 20%-33% PA

Company

Intangible assets	**Carrying Value as at 26 February 2022 £'000**	Carrying Value as at 27 February 2021 £'000	Amortisation period Years
Morses Club acquired customer lists	**65**	132	10 years
Morses Club IT software development (CAP/MAP)	**6,192**	4,949	Various at 20%-33% PA

Notes to the Consolidated Financial Statements continued

13. PROPERTY, PLANT AND EQUIPMENT

Group	Computers & Tablets £'000	Fixtures & Fittings £'000	Leasehold £'000	Totals £'000
Cost				
At 29 February 2020	3,141	660	3	3,804
Additions	160	169	–	329
Disposals	(736)	(77)	(3)	(816)
At 27 February 2021	2,565	752	–	3,317
Additions	206	–	–	206
Disposals	–	(124)	–	(124)
At 26 February 2022	**2,771**	**628**	**–**	**3,399**
Depreciation				
At 29 February 2020	2,779	204	3	2,986
Charge for period	196	126	–	322
Eliminated on disposal	(669)	(53)	(3)	(725)
At 27 February 2021	2,306	277	–	2,583
Charge for period	123	128	–	251
Eliminated on disposal	–	(124)	–	(124)
At 26 February 2022	**2,429**	**281**	**–**	**2,710**
Net book value				
At 26 February 2022	**342**	**347**	**–**	**689**
At 27 February 2021	259	475	–	734
At 29 February 2020	362	456	–	818

Company	Computers & Tablets £'000	Fixtures & Fittings £'000	Leasehold £'000	Totals £'000
Cost				
At 29 February 2020	2,109	168	–	2,277
Additions	103	–	–	103
Disposals	(290)	(43)	–	(333)
At 27 February 2021	1,922	125	–	2,047
Additions	85	–	–	85
Disposals	–	(113)	–	(113)
At 26 February 2022	**2,007**	**12**	**–**	**2,019**
Depreciation				
At 29 February 2020	1,938	143	–	2,081
Charge for period	153	17	–	170
Eliminated on disposal	(290)	(43)	–	(333)
At 27 February 2021	1,801	117	–	1,918
Charge for period	75	5	–	80
Eliminated on disposal	–	(113)	–	(113)
At 26 February 2022	**1,876**	**9**	**–**	**1,885**
Net book value				
At 26 February 2022	**131**	**3**	**–**	**134**
At 27 February 2021	121	8	–	129
At 29 February 2020	171	25	–	196

14. INVESTMENT IN SUBSIDIARIES

	Company £'000
Cost	
At 29 February 2020	11,011
Additions – Shelby share issue	12,000
At 27 February 2021	23,011
Additions – Shelby share issue	8,000
At 26 February 2022	**31,011**

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 has been performed using forecast future cash flows of the Digital business. As the discounted future cash flows equate to a multiple of the investment value with headroom of £7m no provision for impairment has been made.

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 £	Tablets £'000 £	Totals £'000 £
Cost					
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
Additions	17	376	–	717	1,110
Disposals	(605)	–	(616)	–	(1,221)
At 26 February 2022	**786**	**1,748**	**842**	**717**	**4,093**
Accumulated depreciation					
At 29 February 2020	515	328	769	–	1,612
Charge	474	451	661	–	1,586
Disposals	(393)	(16)	(281)	–	(690)
At 27 February 2021	596	763	1,149	–	2,508
Charge	180	485	215	80	960
Disposals	(529)	–	(585)	–	(1,114)
At 26 February 2022	**247**	**1,248**	**779**	**80**	**2,354**
Net book value					
At 26 February 2022	**539**	**500**	**63**	**637**	**1,739**
At 27 February 2021	778	609	309	–	1,696
At 29 February 2020	1,373	642	768	–	2,783

Notes to the Consolidated Financial Statements continued

15. RIGHT-OF-USE ASSETS CONTINUED

Company	Building £'000 £	Equipment £'000 £	Vehicles £'000 £	Tablets £'000 £	Totals £'000 £
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
Additions	2	375	–	717	1,094
Disposals	(605)	–	(616)	–	(1,221)
At 26 February 2022	**68**	**1,747**	**842**	**717**	**3,374**
Depreciation					
At 29 February 2020	458	328	769	–	1,555
Charge	365	451	661	–	1,477
Disposals	(347)	(16)	(281)	–	(644)
At 27 February 2021	476	763	1,149	–	2,388
Charge	103	485	215	80	883
Disposals	(529)	–	(585)	–	(1,114)
At 26 February 2022	**50**	**1,248**	**779**	**80**	**2,157**
Net book value					
At 26 February 2022	**18**	**499**	**63**	**637**	**1,217**
At 27 February 2021	195	609	309	–	1,113
At 29 February 2020	703	642	768	–	2,113

Write-off of ROU assets is £0.1m (2021: £0.3m).

See Note 19 for additional information on leases.

16. TRADE AND OTHER RECEIVABLES

Amounts receivable from customers

	Group		Company	
	26.2.22 £'000	27.2.21 £'000	**26.2.22 £'000**	27.2.21 £'000
Amounts falling due within one year:				
Net receivable from advances to customers	**53,214**	53,408	**43,626**	47,952
Amounts falling due after one year:				
Net receivable from advances to customers	**2,633**	82	**–**	–
Net loan book	**55,847**	53,490	**43,626**	47,952
Other debtors	**3,594**	2,880	**2,996**	2,046
Amounts owed by Group undertakings	**–**	–	**25,203**	20,987
Prepayments	**3,099**	3,434	**2,266**	2,254
	62,540	59,804	**74,091**	73,239

Within the Company, an impairment provision of £0.9m (2021: £0.8m) is held against amounts owed by Group undertakings due in less than one year. This consists of performing loans of £26.1m categorised as Stage 1 against which the provision of £0.9m has been recognised. As the intercompany balance is Stage 1 its credit risk grade is assessed as being very good, see page 130. The Company has assessed the credit risk as low and calculated 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 £0.1m charge to the Company income statement in 2022 (2021: £Nil).

	Group		Company	
	26.2.22 £'000	27.2.21 £'000	**26.2.22 £'000**	27.2.21 £'000
Analysis by security				
Other loans not secured	**55,847**	53,490	**43,626**	47,952
Amounts receivable from customers	**55,847**	53,490	**43,626**	47,952

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 111.

At 26 February 2022 the amounts receivable from customers are as follows:

	Group		Company	
	26.2.22 £'000	27.2.21 £'000	**26.2.22 £'000**	27.2.21 £'000
Gross carrying amount	**93,076**	90,063	**74,344**	80,529
Impairment provision	**(37,229)**	(36,573)	**(30,718)**	(32,577)
Net amounts receivable	**55,847**	53,490	**43,626**	47,952

Notes to the Consolidated Financial Statements continued

16. TRADE AND OTHER RECEIVABLES CONTINUED

Amounts receivable from Group customers can be reconciled as follows:

Group	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2021/22 IFRS 9 Total £'000
Gross carrying amount					
At 27 February 2021		48,763	20,565	20,735	90,063
New financial assets originated	1	148,548	374	328	149,250
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(30,499)	30,499	–	–
From Stage 1 to Stage 3	2	(17,847)	–	17,847	–
From Stage 2 to Stage 1	2	1,269	(1,269)	–	–
From Stage 2 to Stage 3	2	–	(6,491)	6,491	–
From Stage 3 to Stage 1	2	74	–	(74)	–
From Stage 3 to Stage 2	2	–	1,759	(1,759)	–
Write-offs	3	(11,734)	(4,779)	(22,195)	(38,708)
Collections	4	(191,658)	(25,672)	(778)	(218,108)
Revenue	5	104,229	6,086	491	110,806
Other movements	6	(2,111)	(211)	2,095	(227)
At 26 February 2022		**49,034**	**20,861**	**23,181**	**93,076**
Loan loss provision account					
At 27 February 2021		8,214	10,732	17,627	36,573
Movements through income statement:					
New financial assets originated	7	29,400	251	467	30,118
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(12,913)	15,433	–	2,520
From Stage 1 to Stage 3	2	(14,531)	–	15,757	1,226
From Stage 2 to Stage 1	2	251	(277)	–	(26)
From Stage 2 to Stage 3	2	–	(5,530)	5,514	(16)
From Stage 3 to Stage 1	2	18	–	(20)	(2)
From Stage 3 to Stage 2	2	–	1,122	(1,121)	1
Remeasurements within existing stage	3	5,123	(5,977)	3,966	3,112
Payment frequency underlay	8	27	(677)	(323)	(973)
Total movements through income statement		7,375	4,345	24,240	35,960
Other movements:					
Write-offs	3	(11,734)	(4,779)	(22,195)	(38,708)
Other movements	6	2,501	(711)	1,614	3,404
Loan loss provision account at 26 February 2022		**6,356**	**9,587**	**21,286**	**37,229**
Reported amounts receivable from customers at 26 February 2022		**42,678**	**11,274**	**1,895**	**55,847**
Reported amounts receivable from customers at 27 February 2021		40,549	9,833	3,108	53,490

* 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 and complaints liability write-off
(7) Impairment provision associated with new loans issued in the year
(8) Payment frequency underlay

Company	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2021/22 IFRS 9 Total £'000
Gross carrying amount					
At 27 February 2021		41,983	18,557	19,990	80,530
New financial assets originated	1	107,299	374	328	108,001
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(25,610)	25,610	–	–
From Stage 1 to Stage 3	2	(8,648)	–	8,648	–
From Stage 2 to Stage 1	2	1,232	(1,232)	–	–
From Stage 2 to Stage 3	2	–	(6,251)	6,251	–
From Stage 3 to Stage 1	2	70	–	(70)	–
From Stage 3 to Stage 2	2	–	1,745	(1,745)	–
Write-offs	3	(1,233)	(1,496)	(16,893)	(19,622)
Collections	4	(150,904)	(24,403)	(154)	(175,461)
Revenue	5	76,472	5,249	68	81,789
Other movements	6	(2,594)	467	1,234	(893)
At 26 February 2022		**38,067**	**18,620**	**17,657**	**74,344**
Loan loss provision account					
At 27 February 2021		6,258	9,168	17,151	32,577
Movements through income statement:					
New financial assets originated	7	16,831	251	467	17,549
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(11,411)	12,295	–	884
From Stage 1 to Stage 3	2	(7,235)	–	7,795	560
From Stage 2 to Stage 1	2	246	(265)	–	(19)
From Stage 2 to Stage 3	2	–	(5,327)	5,327	–
From Stage 3 to Stage 1	2	17	–	(19)	(2)
From Stage 3 to Stage 2	2	–	1,111	(1,111)	–
Remeasurements within existing stage	3	1,449	(6,830)	3,338	(2,043)
Payment frequency underlay	8	27	(677)	(323)	(973)
Total movements through income statement		(76)	558	15,474	15,956
Other movements:					
Write-offs	3	(1,233)	(1,496)	(16,893)	(19,622)
Other movements	6	–	–	1,807	1,807
Loan loss provision account at 26 February 2022		**4,949**	**8,230**	**17,539**	**30,718**
Reported amounts receivable from customers at 26 February 2022		**33,118**	**10,390**	**118**	**43,626**
Reported amounts receivable from customers at 27 February 2021		35,725	9,389	2,839	47,953

* 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) Payment frequency underlay

Notes to the Consolidated Financial Statements continued

16. TRADE AND OTHER RECEIVABLES CONTINUED

Group	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2020/21 IFRS 9 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
Prior year Covid-19 overlay reversal	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

Company	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2020/21 IFRS 9 Total £'000
Gross carrying amount					
At 29 February 2020		55,786	32,489	24,499	112,774
New financial assets originated	1	109,692	4	–	109,696
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(27,214)	27,214	–	–
From Stage 1 to Stage 3	2	(8,114)	–	8,114	–
From Stage 2 to Stage 1	2	2,139	(2,139)	–	–
From Stage 2 to Stage 3	2	–	(10,382)	10,382	–
From Stage 3 to Stage 1	2	90	–	(90)	–
From Stage 3 to Stage 2	2	–	2,755	(2,755)	–
Write-offs	3	(4,432)	(6,251)	(13,884)	(24,567)
Collections	4	(163,726)	(33,490)	(6,643)	(203,859)
Revenue	5	77,818	8,363	249	86,431
Other movements	6	(62)	14	104	55
At 27 February 2021		41,977	18,577	19,975	80,529
Loan loss provision account					
At 29 February 2020		8,024	15,364	21,506	44,894
Movements through income statement:					
New financial assets originated	7	14,248	2	–	14,250
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	2	(10,848)	11,638	–	790
From Stage 1 to Stage 3	2	(6,319)	–	6,778	459
From Stage 2 to Stage 1	2	316	(339)	–	(23)
From Stage 2 to Stage 3	2		(8,637)	8,637	–
From Stage 3 to Stage 1	2	25	–	(27)	(2)
From Stage 3 to Stage 2	2	–	1,758	(1,758)	–
Remeasurements within existing stage	3	5,834	(3,248)	(2,927)	(341)
Prior year Covid-19 overlay reversal	8	(591)	(1,132)	(1,615)	(3,339)
Total movements through income statement		2,665	41	9,088	11,794
Other movements:					
Write-offs	3	(4,432)	(6,251)	(13,884)	(24,567)
Other movements	6	–	13	443	456
Loan loss provision account at 27 February 2021		6,257	9,167	17,153	32,577
Reported amounts receivable from customers at 27 February 2021		35,720	9,410	2,823	47,952
Reported amounts receivable from customers at 29 February 2020		47,762	17,125	2,993	67,880

* 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

Notes to the Consolidated Financial Statements continued

16. TRADE AND OTHER RECEIVABLES CONTINUED

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

Group

	2021/22			
Credit Risk Grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Very Good	32,737	10,884	13,113	56,734
Good	12,152	8,417	7,299	27,868
Satisfactory	3,137	1,138	992	5,267
Lower Quality	1,008	422	1,777	3,207
Total	**49,034**	**20,861**	**23,181**	**93,076**

Company

	2021/22			
Credit Risk Grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Very Good	28,015	9,611	8,852	46,478
Good	9,878	8,120	7,016	25,014
Satisfactory	167	693	422	1,282
Lower Quality	7	196	1,367	1,570
Total	**38,067**	**18,620**	**17,657**	**74,344**

Group

	2020/21			
Credit Risk Grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'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

Company

	2020/21			
Credit Risk Grade	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	Total £'000
Very Good	27,518	7,416	8,831	43,765
Good	13,652	9,701	8,574	31,927
Satisfactory	765	1,126	561	2,452
Lower Quality	42	334	2,009	2,385
Total	41,977	18,577	19,975	80,529

Morses Club assesses the quality of its customers according to payment performance. Customers who have a payment performance of 100% are classified as Very Good. Customers with a payment performance of between 75% and 99% are classified as Good. Customers with a payment performance of between 40% and 74% are classified as Satisfactory. All other customers are classified as Lower Quality.

17. TRADE AND OTHER PAYABLES

	Note	Group		Company	
		26.2.22 £'000	27.2.21 £'000	26.2.22 £'000	27.2.21 £'000
Trade creditors		**2,468**	3,842	**2,138**	2,956
Amounts owed to Group undertakings		**–**	–	**1,321**	1,321
Social security and other taxes		**634**	925	**471**	925
Other creditors		**538**	778	**397**	740
Customer complaints provision	29	**41,929**	2,012	**41,929**	2,012
Accrued expenses		**2,761**	4,494	**1,795**	3,916
		48,330	12,051	**48,051**	11,870

18. BANK AND OTHER BORROWINGS: AMOUNTS FALLING DUE AFTER ONE YEAR

	Group and Company	
	26.2.22 £'000	27.2.21 £'000
Bank loans	**19,400**	8,500
Unamortised arrangement fees	**(174)**	(198)
	19,226	8,302

In May 2021 the Company reached an agreement with a new two-lender consortium, providing a more cost-efficient and reduced £35m facility (FY21: £40m), now extended to the end of March 2023. The new facility continues funding our existing HCC products, in addition to unlocking funding for our Dot Dot Loan products and helping the business achieve its immediate strategic objectives.

We draw attention to note 1 in the financial statements, which indicates that the Group's current facility of £35m expires on 31 March 2023. Discussions continue with lenders regarding the covenants within the facility, the extension or temporary deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans. Discussions with the lenders have already led to a temporary deferral of the testing of two covenants from August to September 2022, to allow time for further discussions. These two covenants are linked to profitability and, if tested, are likely to fall outside of covenant range. There has been no breach, nor waiver of covenants up until the date of the report. The Board recognises that as the current funding facility is in place for less than 12 months following the date of signing the Financial Statements there is also material uncertainty regarding secured funding.

As anticipated, the impact of Covid-19 resulted in reduced lending volumes, a smaller loan book and lower levels of borrowing. In FY22 borrowing peaked at £28.6m in December 2021 (December 2020: £22.5m). The bank loan is made up of a revolving credit facility held with Shawbrook Bank Limited and a major high street bank. 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 £55,847,008 (2021: £53,490,135).

Notes to the Consolidated Financial Statements continued

19. LEASES

	Group 26.2.22 £'000	Group 27.2.21 £'000	Company 26.2.22 £'000	Company 27.2.21 £'000
Current	**778**	790	**721**	740
Non-current	**1,063**	994	**469**	343
	1,841	1,784	**1,190**	1,083

	Other leases		Land & buildings		Total	
	Group 26.2.22 £'000	Company 26.2.22 £'000	Group 26.2.22 £'000	Company 26.2.22 £'000	Group 26.2.22 £'000	Company 26.2.22 £'000
Existing:						
Within one year	**711**	**711**	**67**	**10**	**778**	**721**
Between one and five years	**452**	**452**	**341**	**17**	**793**	**469**
In more than five years	**–**	**–**	**270**	**–**	**270**	**–**
	1,163	**1,163**	**678**	**27**	**1,841**	**1,190**

	Other 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

The total cash outflow from leases in the 52 weeks ended 26 February 2022 amounted to £1,165,019 (2021: £1,851,976) for the Group including short-term lease cash outflows of £Nil (2021: £12,949). At the end of the period, the Group is also committed to £Nil (2021: £Nil) for short-term leases. Total cash outflows for the Company amounted to £1,021,018 (2021: £1,685,719).

See Note 15 for additional information on leases.

20. 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	**26.2.22 £'000**	27.2.21 £'000
Existing:		
Within one year	**75**	35
Between one and five years	**–**	9
	75	44

21. DEFERRED TAX

	Group 26.2.22 £'000	Group 27.2.21 £'000	Company 26.2.22 £'000	Company 27.2.21 £'000
Fixed asset temporary differences	**(124)**	102	**(124)**	102
Other temporary differences	**9,236**	479	**8,566**	569
Deferred tax asset	**9,112**	581	**8,442**	671

	Group £'000	Company £'000
Balance as at 27 February 2021	581	671
Accelerated capital allowances		
Deferred tax charge in profit and loss account for period – current year	(44)	(50)
Deferred tax charge in profit and loss account for period – prior year	(25)	–
Deferred tax rate change	30	55
Short-term timing differences		
Deferred tax charge in profit and loss account for period – current year	(84)	(98)
Deferred tax charge in profit and loss account for period – prior year	5	–
Deferred tax rate change	171	168
Intangibles		
Deferred tax charge in profit and loss account for period – current year	(437)	(548)
Deferred tax charge in profit and loss account for period – prior year	(648)	(324)
Deferred tax rate change	(287)	(172)
Share-based payments		
Deferred tax charge on share-based payments included in OCI	(35)	(35)
Deferred tax charge in profit and loss account for period – current year	(183)	(183)
Deferred tax charge in profit and loss account for period – prior year	–	–
Deferred tax rate change	58	58
Losses		
Deferred tax charge in profit and loss account for period – current year	9,976	8,900
Deferred tax charge in profit and loss account for period – prior year	26	–
Deferred tax rate change	8	–
Balance as at 26 February 2022	**9,112**	**8,442**

	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	748	748
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	1,224	235
Total value of assets on which deferred tax has not been recognised	1,972	983

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.

Notes to the Consolidated Financial Statements continued

22. CALLED UP SHARE CAPITAL

Authorised, allotted, issued and fully paid:

Number	Class	Nominal Value	26.2.22 £'000	27.2.21 £'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**	13
1,900,979	Ordinary	£0.01	**19**	–
			1,344	1,325

23. RESERVES

Group	Retained earnings £'000	Total £'000
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
Loss for the period	(33,367)	(33,367)
Share-based payment charge	242	242
Dividends paid	(5,317)	(5,317)
At 26 February 2022	**30,886**	**30,886**

Company	Group reconstruction reserve £'000	Retained earnings £'000	Total £'000
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
Loss for the period	–	(26,181)	(26,181)
Share-based payment charge	–	242	242
Dividends paid	–	(5,317)	(5,317)
At 26 February 2022	**(9,276)**	**68,604**	**59,328**

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 £893,834 (2021: £979,110) 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 £180,667 (2021: £180,943).

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 loans.

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 26 February 2022 the Company and Group's indebtedness amounted to £19.4m (2021: £8.5m).

Currency risk

The Group and the Company have 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.

There is additional credit risk at Company level in relation to amounts owed from Group undertakings, this amounted to £25.2m (2021: £21.0m).

(i) Amounts receivable from customers

The Group's maximum exposure to credit risk on amounts receivable from customers as at 26 February 2022 is the carrying value of amounts receivable from customers of £55,847,008 (2021: £53,490,135).

The Company's maximum exposure to credit risk on amounts receivable from customers as at 26 February 2022 is the carrying value of amounts receivable from customers of £43,626,363 (2021: £47,952,408).

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.

Loan applications can be made via the agent, directly through the customer portal or via brokers. The loans offered to customers are short-term, typically a contractual period of between 22 and 52 weeks (2021: between 22 and 52 weeks), with an average value of approximately £423 (2021: £396). 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. The agent also has the ability to take collections remotely if this better serves the customer.

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.

Notes to the Consolidated Financial Statements continued

26. FINANCIAL INSTRUMENTS CONTINUED

Home Collected Credit continued

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 £194,512,833 (2021: £198,346,704) were provided to customers.

Digital

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

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

There are short and long-term loans offered to customers. Short-term loans typically have a contractual period of between three months and nine months (2021: between three and nine months), with an average value of approximately £365 (2021: £363). Long-term loans have a contractual period of between 18 months and 48 months (2021: between 18 and 48 months). The loans offered to customers are typically between three and nine months with an average value across these terms of £365 (2021: £363). 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 more than three 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 £78,488,280 (2021: £35,339,405) were provided to customers.

(ii) Bank counterparties

The Group's maximum exposure to credit risk on bank counterparties as at 26 February 2022 was £6,178,543 (2021: £8,257,930).

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 placed with banks are only made with investment grade counterparties with the level of permitted exposure to a counterparty firmly linked to the strength of its credit rating. All counterparties in both current year and prior year have been investment grade A-1. The gross carrying amount of the counterparty balances as at 26 February 2022 was £6,178,543 (2021: £8,257,930).

Liquidity risk

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

Liquidity risk is managed by daily monitoring of expected cash flows and ensuring that the Group maintains headroom on its committed borrowing facilities to fund growth and contractual maturities for at least the following 12 months. In the year funding was available through a £35m revolving asset-based credit facility. The Group's liquidity risk is shown in the following tables which measure the cumulative liquidity gap. Most of the Group's financial assets are repayable within one year which results in a positive liquidity position.

In May 2021 we successfully reached agreement with a new two-lender consortium, providing a more cost-efficient and reduced £35m facility (FY21: £40m), now extended to March 2023. The new facility continues funding our existing HCC products, in addition to unlocking funding for our Dot Dot Loan products and helping the business achieve its immediate strategic objectives. Management are currently in ongoing discussions with the existing lenders regarding an extension to the existing funding arrangement which would provide sufficient cash flow to meet the future needs of business as per the forecast.

However this is yet to be formally agreed and as such, gives rise to an area of material uncertainty to the Group's and Company's ability to continue as a going concern.

Group At 26 February 2022	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial assets	59,393	2,633	–	–	–	62,026
Other assets	10,179	2,925	4,186	177	22,134	39,601
Total assets	69,572	5,558	4,186	177	22,134	101,627
Shareholders' funds	–	–	–	–	(32,229)	(32,229)
Financial liabilities	(3,784)	(19,612)	(407)	(270)	–	(24,073)
Other liabilities	(23,633)	(12,089)	(9,603)	–	–	(45,325)
Total liabilities and shareholders' funds	(27,417)	(31,701)	(10,010)	(270)	(32,229)	(101,627)
Cumulative position	42,155	16,012	10,188	10,095	–	–

Group At 27 February 2021	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 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	–	–

Company At 26 February 2022	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	No fixed maturity date £'000	Total £'000
Financial assets	73,518	–	–	–	–	73,518
Other assets	7,919	2,109	2,761	15	42,817	55,621
Total assets	81,437	2,109	2,761	15	42,817	129,139
Shareholders' funds	–	–	–	–	(60,672)	(60,672)
Financial liabilities	(3,256)	(19,547)	(148)	–	–	(22,951)
Other liabilities	(23,824)	(12,089)	(9,603)	–	–	(45,516)
Total liabilities and shareholders' funds	(27,080)	(31,636)	(9,751)	–	(60,672)	(129,139)
Cumulative position	54,357	24,830	17,840	17,855	–	–

Notes to the Consolidated Financial Statements continued

26. FINANCIAL INSTRUMENTS CONTINUED

Home Collected Credit continued

Company At 27 February 2021	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 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	–	–

Interest rate risk

The Group's and Company'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 and Company are exposed to movements in SONIA rates on its external borrowings. A 1% movement in the interest rate applied to financial liabilities during FY22 would not have had a material impact on the Group's or Company's results for the year.

Capital risk management

The Board of Directors assess the capital needs of the Group on an ongoing basis and approve all capital transactions ensuring these adhere to the criteria set out in the external loan facility.

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

While the Group was not previously subject to any externally imposed capital requirements, it entered into a new funding arrangement during the period which limited capital expenditure in any given period. The limit of this expenditure is £6.5m in the current year with an allowance to carry forward any unutilised headroom into the next 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 26 February 2022 was:

	26.2.22 £'000	27.2.21 £'000
Gross debt	**19,400**	8,500
Equity	**32,230**	70,653
Gearing	**0.60**	0.12

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 26 February 2022.

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

Fair values of financial assets and liabilities

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

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

The fair values of amounts receivable from customers, bank and other borrowings 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 (i.e., 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. Assets and liabilities outside the scope of IFRS 9 are shown within non-financial assets/liabilities.

Group At 26 February 2022	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	6,179	–	–	6,179
Amounts receivable from customers	55,847	–	–	55,847
Trade and other receivables	–	–	6,693	6,693
Property, plant and equipment	–	–	689	689
Right-of-use asset	–	–	1,739	1,739
Goodwill	–	–	12,854	12,854
Deferred tax assets	–	–	9,112	9,112
Other intangible assets	–	–	8,514	8,514
Total assets	62,026	–	39,601	101,627
Liabilities:				
Bank and other borrowings	–	(19,226)	–	(19,226)
Trade and other payables	–	(3,006)	(3,395)	(6,401)
Customer complaints provision	–	–	(41,929)	(41,929)
Lease liabilities	–	(1,841)	–	(1,841)
Total liabilities	–	(24,073)	(45,324)	(69,397)

Notes to the Consolidated Financial Statements continued

26. FINANCIAL INSTRUMENTS CONTINUED

Fair values of financial assets and liabilities continued

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
Deferred tax assets	–	–	581	581
Goodwill	–	–	12,854	12,854
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 26 February 2022	**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	**4,689**	**–**	**–**	**4,689**
Amounts receivable from customers	**43,626**	**–**	**–**	**43,626**
Trade and other receivables	**25,203**	**–**	**5,260**	**30,463**
Property, plant and equipment	**–**	**–**	**134**	**134**
Right-of-use asset	**–**	**–**	**1,217**	**1,217**
Goodwill	**–**	**–**	**3,293**	**3,293**
Investment in subsidiary	**–**	**–**	**31,011**	**31,011**
Deferred tax assets	**–**	**–**	**8,442**	**8,442**
Other intangible assets	**–**	**–**	**6,264**	**6,264**
Total assets	**73,518**	**–**	**55,621**	**129,139**
Liabilities:				
Bank and other borrowings	**–**	**(19,226)**	**–**	**(19,226)**
Trade and other payables	**–**	**(2,535)**	**(3,587)**	**(6,122)**
Customer complaints provision	**–**	**–**	**(41,929)**	**(41,929)**
Lease liabilities	**–**	**(1,190)**	**–**	**(1,190)**
Total liabilities	**–**	**(22,951)**	**(45,516)**	**(68,467)**

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)

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

Group	**26.2.22 Fair Value £'000**	**Book Value £'000**	27.2.21 Fair Value £'000	Book Value £'000
Assets:				
Cash and cash equivalents	**6,179**	**6,179**	8,258	8,258
Amounts receivable from customers	**69,012**	**55,847**	72,764	53,490
Trade and other receivables	**–**	**–**	2,880	2,880
Total assets	**75,191**	**62,026**	83,902	64,628
Liabilities:				
Bank and other borrowings	**(19,400)**	**(19,226)**	(8,500)	(8,302)
Trade and other payables	**(3,006)**	**(3,006)**	(4,621)	(4,621)
Lease liabilities	**(1,841)**	**(1,841)**	(1,784)	(1,784)
Total liabilities	**(24,247)**	**(24,073)**	(14,905)	(14,707)

Notes to the Consolidated Financial Statements continued

26. FINANCIAL INSTRUMENTS CONTINUED

Fair values of financial assets and liabilities continued

Company	26.2.22 Fair Value £'000	Book Value £'000	27.2.21 Fair Value £'000	Book Value £'000
Assets:				
Cash and cash equivalents	**4,689**	**4,689**	6,616	6,616
Amounts receivable from customers	**56,738**	**43,626**	64,195	47,952
Trade and other receivables	**25,203**	**25,203**	23,033	23,033
Total assets	**86,630**	**73,518**	93,844	77,601
Liabilities:				
Bank and other borrowings	**(19,400)**	**(19,226)**	(8,500)	(8,302)
Trade and other payables	**(2,535)**	**(2,535)**	(5,018)	(5,018)
Lease liabilities	**(1,190)**	**(1,190)**	(1,083)	(1,083)
Total liabilities	**(23,125)**	**(22,951)**	(14,601)	(14,403)

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

Group At 26 February 2022	Repayable demand £'000	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	**–**	**3,006**	**–**	**–**	**–**	**3,006**
Bank loans	**–**	**–**	**19,226**	**–**	**–**	**19,226**
Lease liabilities	**–**	**778**	**386**	**407**	**270**	**1,841**
At 26 February 2022	**–**	**3,784**	**19,612**	**407**	**270**	**24,073**

Company At 26 February 2022	Repayable demand £'000	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	**–**	**2,535**	**–**	**–**	**–**	**2,535**
Bank loans	**–**	**–**	**19,226**	**–**	**–**	**19,226**
Lease liabilities	**–**	**721**	**321**	**148**	**–**	**1,190**
At 26 February 2022	**–**	**3,256**	**19,547**	**148**	**–**	**22,951**

Group At 27 February 2021	Repayable on demand £'000	Less than 1 year £'000	Between 1 and 2 years £'000	Between 2 and 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	Between 1 and 2 years £'000	Between 2 and 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

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, with a third share option plan being granted on 5 May 2018 when 964,100 share options were issued. The share award in 2019/20 lapsed since the TSR performance conditions were not met. A fourth share option plan was granted on 21 May 2020 when 1,100,252 share options were issued.

The share award made in FY22 has lapsed due to the Company not meeting its required profit target. This leaves the award granted on 21 May 2020 (the '2020 Award') as the only one that is currently in existence.

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 assesses the Company's absolute total shareholder return (TSR), over a 12-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. The 2020 Award satisfied this TSR requirement.

Any vesting of the 2020 Award was also subject to the satisfaction of further performance conditions measured up to the end of the financial year ending February 2021. The Company was required to achieve the targeted level of profit before tax for the financial year ending in February 2021, which it did successfully. Finally, the vesting of the 2020 Award 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 year ending February 2023 will at least in part be subject to the Company's TSR performance.

Future share options are granted to Executive Directors and senior managers on a rolling annual basis at the discretion of the Remuneration Committee.

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 £0.13 (2021: £0.63). This has resulted in a charge to the profit or loss account of £145,474 (2021: £847,654) during the year.

Notes to the Consolidated Financial Statements continued

27. SHARE-BASED PAYMENTS CONTINUED

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

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 Jul 2019	22 Jul 2019	1 Sep 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%

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 27 February 2021	2,064,352	–
Awarded/granted	1,067,475	–
Lapsed	(1,289,637)	–
Exercised	(1,066,769)	–
Outstanding at 26 February 2022	**775,421**	**–**
Exercisable as at 26 February 2022	**–**	**–**

For the share options outstanding at 26 February 2022, the weighted average remaining contractual life is 8.3 years (2021: 8.3 years).

All options are expected to be equity-settled. The estimated amount to be transferred to the tax authority to settle the employer's tax obligations is £13,355.

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. A second share option was granted on 5 December 2018 when 29,896 share options were issued, with a third share option plan being granted on 4 December 2019 when 19,285 share options were granted.

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 £0.13 (2021: £0.63). This has resulted in a charge to the profit or loss account of £15,248 (2021: £37,650) 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 year	1 year	1 year
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 27 February 2021	134,069	0.01
Lapsed	–	0.01
Exercised	(12,827)	0.01
Outstanding at 26 February 2022	**121,242**	**0.01**
Exercisable as at 26 February 2022	**101,957**	**0.01**

For the share options outstanding at 26 February 2022, the weighted average remaining contractual life is 6.2 years (2021: 7.2 years).

All options are expected to be equity-settled. The estimated amount to be transferred to the tax authority to settle the employer's tax obligations is £2,088.

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. A second share option was granted on 4 December 2019 when 311,011 share options were issued, with a third share option plan being granted on 6 December 2021 when 748,496 share options were granted.

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 £0.13 (2021: £0.63). This has resulted in a charge to the profit or loss account of £230,124 (2021: £238,048) during the period.

	SIP		
Grant date	5 December 2018	5 December 2019	6 December 2021
Expected volatility	41%	36%	59%
Expected term	1 year	1 year	1 year
Risk-free rate	0.68%	0.98%	0.64%
Dividend yield	0%	6.14%	5.33%

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 27 February 2021	536,021	–
Awarded/granted	748,496	–
Lapsed	(22,534)	–
Exercised	(9,657)	–
Outstanding at 26 February 2022	**1,252,326**	**–**
Exercisable as at 26 February 2022	**232,183**	**–**

For the share options outstanding at 26 February 2022, the weighted average remaining contractual life is 8.8 years (2021: 8.3 years).

All options are expected to be equity-settled. The estimated amount to be transferred to the tax authority to settle the employer's tax obligations is £21,568.

Notes to the Consolidated Financial Statements continued

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 26 February 2022			
Hay Wain Holdings Limited	**–**	**–**	**–**
Hay Wain Group Limited	**(1,880)**	**–**	**–**
Shopacheck Financial Services Limited	**–**	**–**	**–**
Shelby Finance Limited	**–**	**488**	**–**
	(1,880)	**488**	**–**
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	–

At the period end the following balances were outstanding:

	26.2.22 £'000	27.2.21 £'000
Hay Wain Holdings Limited	**–**	–
Hay Wain Group Limited	**–**	–
Shopacheck Financial Services Limited	**(1,321)**	(1,321)
Shelby Finance Limited	**26,144**	21,773
Amounts owed from/(to) related parties	**24,823**	20,452

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
At 27 February 2021	2,012
Provisions utilised in the year	(2,012)
Additional provisions in the year	1,786
True-up	1,008
Additional complaints liability provision	39,135
At 26 February 2022	**41,929**

Group

	26.2.22 £'000	27.2.21 £'000
Analysed as:		
Current liabilities due less than 1 year	**20,237**	2,012
Non-current liabilities due more than 1 year but no more than 2 years	**12,089**	–
Non-current liabilities due more than 2 years but no more than 5 years	**9,603**	–
At 26 February 2022	**41,929**	2,012

Complaints provision

The complaints provision in relation to normal customer complaints 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 has incorporated historical Company information for the average percentage of complaints which are upheld, and the average value of compensation claims paid out. A true-up of £1.0m was then applied based on uphold rates observed up until the signing of the accounts.

The HCC division has experienced an increase in complaints and FOS referrals during the period which was impacted by a rapid increase in claim volumes submitted via claims management companies. As a result, a discernible trend has emerged leading the Group to recognise a liability for the cost of fully settling complaints in relation to all affected lending up to the balance sheet date estimated at a gross redress of £112m for customers who will be eligible to be redressed, at an estimated take-up rate of 40%. IAS 37 requires that where the time value of money is material the present value of costs should be reflected. The liability of £39.1m relating to Redress Claims represents the present value of management's best estimate of the future outflow of cash required to settle these claims. The full provision is recorded in the accounts of Morses Club PLC. See also Key sources of estimation uncertainty in note 1, page 111.

30. POST BALANCE SHEET EVENTS

Due to significant changes in market conditions, the decision was taken pre year-end to withdraw the e-money account service U Account from the market. U Account subsequently closed post year-end on 3 May 2022.

As part of the future development of its operating model, the Company is currently engaging in a programme to potentially end the self-employed status of agents and replace the work with a new role of employed Customer Support Associates. The aim is to complete this process by Autumn 2022.

In light of the increased level of claims the Board decided post year-end to pursue the potential use of a Scheme of Arrangement under Part 26 of the Companies Act 2006 for dealing with Redress Claims. On 11 August, the Company announced it had taken steps to pause the processing of all new redress claims for unaffordable lending with effect from that date.

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.

Notes to the Consolidated Financial Statements continued

ALTERNATIVE PERFORMANCE MEASURES CONTINUED

APM	Closest Statutory Measure	Definition and Purpose
Sales Growth (%)	None	Sales growth is the period-on-period change in Credit Issued and is used by management as a measure of comparative sales 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.
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

	FY22			FY21		
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Statutory (Loss)/Profit Before Tax	**(35.0)**	**(7.9)**	**(42.9)**	11.8	(11.3)	0.5
Restructuring and other non-recurring costs	**0.4**	**0.1**	**0.5**	2.9	2.4	5.3
Exceptional costs[2]	**44.4**	**2.4**	**46.8**	–	–	–
Amortisation of acquisition intangibles[3]	**0.2**	**–**	**0.2**	0.3	–	0.3
Adjusted Profit/(Loss) Before Tax[1]	**10.0**	**(5.4)**	**4.6**	15.0	(8.9)	6.1
Tax on Adjusted Profit Before Tax	**0.6**	**0.7**	**1.3**	(0.8)	(0.2)	(1.0)
Adjusted Profit/(Loss) After Tax	**10.6**	**(4.7)**	**5.9**	14.2	(9.1)	5.1
Statutory EPS[1]			**(25.0p)**			0.2p
Adjusted EPS[1]			**4.4p**			3.9p
Return on Assets[1]	**-57.3%**		**-57.4%**	22.0%		0.3%
Adjusted Return on Assets[1]	**23.2%**		**10.1%**	27.2%		8.9%
Return on Equity[1]	**-47.5%**		**-77.0%**	18.5%		0.4%
Adjusted Return on Equity[1]	**19.2%**		**13.6%**	22.8%		10.3%

1 Definitions are set out in the Glossary of Alternative Performance Measures on pages 147 to 149 of the Annual Report and Accounts.
2 Costs relating to the complaints liability, corporate restructure and closure of U Account.
3 Amortisation of acquired customer lists and agent networks.

	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Adjusted basic earnings per share		
Basic (loss)/earnings	**(33,367)**	217
Amortisation of acquisition intangibles	**187**	345
Restructuring and other non-recurring costs	**506**	–
Exceptional costs	**46,779**	5,339
Tax effect of the above	**(8,186)**	(799)
Adjusted earnings	**5,919**	5,102
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**133,300**	131,383
Adjusted earnings per share amount (pence)	**4.4p**	3.9p

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

Adjusted return on assets and adjusted return on equity

Adjusted Return on Assets and Adjusted Return on Equity £'m	52 weeks ended 26.2.22 FY22	52 weeks ended 27.2.21 FY21
Adjusted Profit After Tax (rolling 12 months)	**5.9**	5.1
12-month average Net Loan Book	**58.2**	57.5
Adjusted Return on Assets	**10.14%**	8.87%
12-month average Equity	**43.4**	48.1
Adjusted Return on Equity	**13.59%**	10.29%

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 2022

27 August 2022 End of H1, FY23
4 October 2022 Annual General Meeting

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