7 October 2021

Morses Club PLC
Interim results for the 26 weeks ended 28 August 2021
Steady growth and continued business transformation

Morses Club PLC ("the Company" or "the Group"), an established provider of non-standard financial services, is pleased to announce its interim results for the 26 weeks ended 28 August 2021.

Operational Highlights:

- 100% growth in lending customer numbers in Digital division since the year end
- Quality of lending in Digital division remains high alongside growth in customer numbers
- Continued adaptation to a structurally changing HCC sector driven by customer demand
- Digital HCC offering remains popular - 65% of all lending and 86% of payments now cashless
- Over 75% of HCC customers are registered for the customer portal
- Customer satisfaction in HCC maintained at 98%
- Total Group customer numbers: 196,000 (H1 FY21: 205,000)
- Continued progress in the plan to restructure the Group

Financial Highlights:

- Revenue increased by 4.4% to £52.4m (H1 FY21: £50.2m)
- Total credit issued to all customers increased by 29.2% to £77.8m (H1 FY21: £60.2m)
- Total credit issued to HCC customers 3.9% higher at £53.1m (H1 FY21: £51.1m)
- Total credit issued to Digital customers 172.5% higher at £24.8m (H1 FY21: £9.1m)
- Net loan book of £60.3m, increase of 8.5% (H1 FY21: £55.6m)
- Statutory profit before tax of £1.8m (H1 FY21: £0.8m)
- Adjusted profit before tax[1] of £2.6m (H1 FY21: £2.3m)
- Statutory HCC profit before tax of £6.5m, an increase of 16.1% (H1 FY21: £5.6m)
- Adjusted HCC profit before tax[1] of £7.3m, an increase of 7.4% (H1 FY21: £6.8m)
- Statutory loss before tax in Digital division (£4.7m) (H1 FY21: (£4.8m))
- Adjusted loss before tax[1] in Digital division of (£4.7m) (H1 FY21: (£4.5m)) with profits held back by additional IFRS9 provisioning as a result of 188% increase in loan book
- Impairment as a percentage of revenue[1] for the period 31.5% (H1 FY21: 23.5%) as a result of IFRS9 costs on a growing loan book in H1 FY22 in comparison to a declining loan book in H1 FY21
- Statutory return on assets of 2.0% (H1 FY21: 7.0%)
- Adjusted return on assets[1] of 9.3% (H1 FY21: 9.9%)
- Statutory EPS of 1.1p (H1 FY21: 0.5p)
- Adjusted EPS[1] of 1.6p (H1 FY21: 1.3p)
- Proposed interim dividend of 1.0p per share (H1 FY21: 1.0p)

1. Definitions are set out in the Glossary of Alternative Performance Measures on page 37

Alternative Performance Measures & Key Performance Indicators

Key performance indicators	**26-week period ended 28 August 2021**	**26-week period ended 29 August 2020**	% +/-
Revenue	£52.4m	£50.2m	4.4%
Net Loan Book	£60.3m	£55.6m	8.5%
Adjusted Profit Before Tax[1]	£2.6m	£2.3m	13.0%
Statutory Profit Before Tax	£1.8m	£0.8m	125.0%
Adjusted Earnings per share[1]	1.6p	1.3p	23.1%
Statutory Earnings per Share	1.1p	0.5p	120%
Cost / Income ratio	61.6%	67.5%	8.7%
Return on Assets	2.0%	7.0%	(71.4%)
Adjusted Return on Assets[1]	9.3%	9.9%	(6.1%)
Return on Equity	2.2%	9.5%	(76.8%)
Adjusted Return on Equity[1]	10.6%	13.4%	(20.9%)
Tangible Equity / average receivables[1]	87.8%	74.2%	18.3%
No of customers (000's)	196	205	(4.4%)
Number of agents	1,163	1,584	(26.6%)
Credit Issued	£77.8m	£60.2m	29.2%
Impairment as % of Revenue[1]	31.5%	23.5%	(34.0%)

1. Definitions are set out in the Glossary of Alternative Performance Measures on page 37

Paul Smith, Chief Executive Officer of Morses Club, commented:

"Our resilience as a business underpins continued growth in our digital division which has experienced a 172.5% increase in credit issued and a significant increase in customer numbers in the period. The HCC division has performed well, despite the challenges brought about by the pandemic, and this has given us a strong foundation to address market demand, particularly in our lending products. We continue to maintain our position as one of the market leaders for customers who face financial challenges in accessing lending products. Our levels of customer satisfaction, allied with the engagement levels from our teams, are testament to our strategy of putting customers at the very heart of our day-to-day operations."

Sell-side Analyst Presentation

The Company will be holding a virtual sell-side analyst presentation at 9:30am on Thursday 7th October. Please contact morses@camarco.co.uk if you would like to attend.

Forward looking statements

This announcement includes statements that are, or may be deemed to be, “forward-looking statements”. By their nature, forward-looking statements involve known and unknown risks and uncertainties since they relate to future events and circumstances. Actual results may, and often do, differ materially from any forward-looking statements.

Any forward-looking statements in this announcement reflect Morses Club’s view with respect to future events as at the date of this announcement. Save as required by law or by the AIM Rules for Companies, Morses Club undertakes no obligation to publicly revise any forward-looking statements in this announcement following any change in its expectations or to reflect events or circumstances after the date of this announcement.

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Notes to Editors

About Morses Club

Morses Club is an established provider of non-standard financial services in the UK. The Group consists of Morses Club, the UK's largest home collected credit ("HCC") provider[1], and Shelby Finance Limited, Morses Club's Digital division, which operates under two online brands, Dot Dot Loans, an online lending provider, and U Account, which offers online e-money current accounts. The Group's growing Digital capabilities and scalable, highly invested IT platform has enabled Morses Club to deliver an increasingly broad range of financial products and services to the non-standard credit market.

UK HCC is considered to be a specialised segment of the broader UK non-standard credit market. UK HCC loans are typically small, unsecured cash loans delivered directly to customers' homes. Repayments are collected in person during weekly follow-up visits to customers' homes.

Morses Club's HCC division is the largest UK Home Collected Credit (HCC) lender[1] with 144,000 customers throughout the UK. The HCC division enjoys consistently high customer satisfaction scores of 98%[2]. In 2016, the Morses Club Card, a cashless lending product, was introduced and in 2019 the Company introduced an online customer portal for its HCC customers, which now has over 108,000 registered customers.

The Group's growing Digital division, Shelby Finance, operates under two online brands. Dot Dot Loans provides online instalment loans of up to 48 months to c. 47,000 active customers. U Account is a leading digital current account provider offering an alternative to traditional banking by providing a fully functional agency banking service. U Account currently has c. 5,000 customers.

Morses Club listed on AIM in May 2016.

About the UK non-standard credit market

The UK non-standard credit market, of which UK HCC is a subset, consists of both secured and unsecured lending and is estimated to comprise around 10 million consumers[3] and total loan receivables of £9.6bn[4].

Non-standard credit is the provision of secured and unsecured credit to consumers other than through mainstream lenders. Lenders providing non-standard credit principally lend on an unsecured basis and the market is characterised by high frequency borrowing. Approximately 2 million people move annually between standard and non-standard markets[4].

Since February 2014, unsecured personal lending has grown from £161 billion to £225 billion in February 2020. It has since contracted to £197 billion in August 2021[5].

1 Based on Net Loan Book of £45.3m as at 28 August 2021

2 Independent Customer Satisfaction Survey conducted by Mustard

3 FCA High Cost Credit Review Technical Annex 1: CRA data analysis of UK personal debt - July 2017

4 Apex Insight - Non-Prime Consumer Credit: UK Market Insight Report – December 2020

5 Table A5.2, Bank of England Money and Credit Bank stats August 2021

Chief Executive Officer's Statement

Overview

The first half of FY22 has been a period of steady and sustained growth which has accompanied innovation across a number of our products. The Group continues to build on the accelerated move towards digital lending that resulted from addressing the challenges presented by the Covid-19 pandemic.

We are particularly pleased by the uptake of our lending products in the Digital division during the period. Customer numbers in the Digital division for both short-term and long-term lending have increased 100% since the end of the last financial year following a period of business transformation, including developments to our technology platform. Processes around our digital loan products are now well established and the roll out of our new products and loan management platform, along with increased marketing and strong broker relationships, mean that Digital customers stood at over 52,000 at the end of the period for both lending and e-money current accounts. In addition to growth, we have maintained a focus on high quality lending in the Digital division and as a result, collections have continued to perform well.

Despite a lifting of Government restrictions, many of our HCC customers have displayed a preference for our cashless lending and remote collections model and our customer portal had over 108,000 customers as at 28 August 2021. Whilst we have recommenced face-to-face lending and collection activity in customer homes, remote lending now represents 65% of HCC loans issued in the first half of the financial year as an increasing number of customers are choosing to utilise Morses Club's remote lending product.

Total credit issued across all products increased by 29.3% to £77.8m (H1 FY21: £60.2m) and revenue increased by 4.4% to £52.4m (H1 FY21: £50.2m).

The Group has implemented a flexible working policy among employees and employee support for continued home working remains very high. We place great emphasis on delivering exceptional service and I am delighted that customer satisfaction in our HCC division remains at the increased level of 98% for the period.

Digital

The Digital division made good progress in the first half as customer numbers for both short-term and long-term lending rose to 47,000 at the end of the period, an increase of 100% since the end of FY21.

Increased marketing spend and a new loan management platform have driven growth in the Digital division. Furthermore, our relationship with brokers and lead generators has enabled the division to increase customer numbers significantly. We expect customer numbers to continue to increase at a steady rate in H2 FY22, albeit at a lower rate than in H1 FY22.

Credit issued has increased by 173%, from £9.1m (H1 FY21) to £24.8m (H1 FY22). The net loan book was £15.0m as at 28 August 2021, an increase of 188% against the H1 FY21.

The quality of lending in the Digital division remains high, with collection to terms being 11.9% higher than H1 FY21. The product mix in Dot Dot Loans continues to move towards longer-term products of 6-months or more. Longer-term loans of 18 to 48 months have seen significantly increased demand.

The rapid growth in lending in the period, particularly in relation to long-term lending, means that the impact of IFRS9 in recognising impairment provisions upfront for longer term lending products has had the effect of increasing impairment to 72%. However, as growth normalises in future periods, we would expect this to trend back to our guidance range of 45% - 55% and this is not a reflection on product profitability.

The e-money current account product continues to undergo an ongoing period of testing, with customer numbers currently at c. 5,000 (H2 FY21: c. 6,000).

We remain committed to delivering run rate profitability for Dot Dot Loans in the coming months, despite the backdrop of the potential impact of a more challenging period for collections in the second half of the year due to changes to lockdown restrictions and Universal Credit. This is in addition to the requirement to recognise additional impairment provision for longer-term products. As a consequence, it is anticipated that run rate profitability may take until H1 FY23 to be achieved.

HCC

With the lifting of government restrictions, face-to-face lending and collections have recommenced in customers' homes where requested. However, as anticipated, a significant proportion of customers have chosen to continue to interact digitally; 65% of all lending is now cashless, while 86% of payments are cashless. Over 75% of customers are signed up for the customer portal.

The HCC division performed in line with management expectations, with customer numbers at over 144,000 (H1 FY21: 170,000) at the end of the period. Morses Club continues to focus on the quality of its lending with conservative lending processes in place. Total credit issued during H1 FY22 was £53.1m, 4% higher than the equivalent period in H1 FY21 (£51.1m), despite tightening the credit policy to further enhance the quality of our lending. The gross loan book was £95.8m (FY21: £80.5m).

Customer loan repayments for the period were £89.9m (H1 FY21: £104.5m). Remote collections for H1 FY22 make up 86% of all collections (H1 FY21: 78%), with remote debit card payments making up 51% (H1 FY21: 57%) and portal payments 31% (H1 FY21: 18%).

Impairments were lower than our expected range for the HCC division, partly due to strong collections during the period. We anticipate that the economic recovery and changes such as the end of furlough and the removal of enhanced Universal Credit may impact some individuals' ability to repay on time, and as a result, we expect impairment levels to return to within our expected guidance range during H2 FY22.

We have seen a continued increase in complaints in H1 FY22, which has led to us increasing the complaints provision from £2.0m (FY21) to £2.4m. Nevertheless, profits in the HCC division have increased from £6.8m (H1 FY21) to £7.3m, with net margin increasing from 15.5% to 18.9%.

External market

We are confident that, despite the ongoing impact of the pandemic, there is substantial demand for our digital loan products and significant further growth can be achieved as we seek to take advantage of the fragmented and fluid digital market as providers enter and exit more regularly. The product set for Shelby Finance is stable and offers a competitive product for customers.

In May, the UK's largest HCC provider announced that it was leaving the market. Several smaller providers, who have struggled in recent years with increasing regulation, and compounded by the pressures of the pandemic, have also exited the market. Overall, 150 providers left the sector in the 12 months to May 2021, leaving 262 providers. We see the decreasing competition in the HCC sector as an opportunity to gain market share, whilst we continue to innovate to introduce digital products that meet customer demand.

CMC activity continues to impact the number of complaints received, which has increased during the period. However, these are within proportionate levels against customer numbers, and all complaints are dealt with compliantly in accordance with the FCA's Dispute Resolution Complaints sourcebook (DISP) rules with regard to investigating each complaint. A provision of £2.4m has been included to cover the cost of complaints still unresolved at the balance sheet date (H2 FY21: £2.0m).

Board changes

We were delighted to welcome Gary Marshall, Sheryl Lawrence and Michael Yeates to their roles on the Board of Directors. Gary Marshall joined Morses Club in 2019, as the Chief Operating Officer for Shelby Finance as well as having overall responsibility for the Group's IT and Change functions, and joins the Board as an Executive Director. Sheryl and Michael both join as Independent Non-Executive Directors and have substantial experience in the Financial Services industry. Sheryl is a chartered accountant and has held senior executive roles at Barclays, Lloyds Bank, Santander, Coventry Building Society, Nationwide Building Society and Provident Financial Group. Michael has over 40 years' experience in the financial services industry, serving in the building society, retail bank and investment bank sectors.

In March we announced the retirement of Les Easson, who served on the Board from 2019 until 2021 and, once again, we would like to thank Les for his significant contribution to Morses Club and wish him well in his retirement.

Dividend

The Board is pleased to declare an interim dividend of 1.0p per share (H1 FY21: 1.0p), demonstrating its confidence in the Group's prospects.

The dividend of 1.0p per share will be paid on 11 February 2022 to ordinary shareholders on the register on 14 January 2022.

Outlook

We expect demand for our digital products to continue to grow, albeit at a steadier pace than in the first half of the year. There are significant opportunities to broaden our credit offering and attract high quality customers, and we are working towards meeting demand with a broadened digital product set.

As markets have reopened and the economic recovery continues, we have seen strong demand for our HCC product and we expect this demand to be sustained over the longer term, particularly as competitors leave the market. Meanwhile, we see very strong evidence that the digital HCC offering remains extremely popular with customers and expect this trend to continue.

Whilst there remains uncertainty regarding the impacts that the end of furlough and the removal of enhanced Universal Credit may have on our customers' ability to repay, we continue to take a measured approach to growth to manage the quality of our loan book.

We look forward to the future with confidence based upon our continued solid performance over the recent period and favourable market conditions.

Paul Smith
Chief Executive Officer
7th October 2021

Financial Review

	26-week period ended 28 August 2021	26-week period ended 29 August 2020
Customer numbers (‘000’s)	196	205
Period end receivables	£60.3m	£55.6m
Average receivables	£64.4m	£61.9m

Revenue	**£52.4m**	**£50.2m**
Impairment	(£16.5m)	(£11.8m)
Agent Commission	(£7.7m)	(£10.6m)
Gross Profit	**£28.2m**	**£27.8m**
Administration expenses	(£23.6m)	(£23.5m)
Depreciation	(£1.9m)	(£2.0m)
Operating Profit before amortisation of acquisition intangibles	**£2.7m**	**£2.3m**
Amortisation of acquisition intangibles	(£0.1m)	(£0.2m)
Operating profit	**£2.6m**	**£2.1m**
Funding costs	(£0.8m)	(£1.3m)
Statutory Profit Before Tax	**£1.8m**	**£0.8m**
Tax	**(£0.3m)**	**(£0.2m)**
Profit After Tax	**£1.5m**	**£0.6m**
Basic EPS	**1.1p**	**0.5p**

Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

£’m (unless otherwise stated)	26-week period ended 28 August 2021	26-week period ended 29 August 2020	Change
Statutory Profit Before Tax	**1.8**	**0.8**	**125.0%**
Amortisation of acquired intangibles[2]	0.1	0.2	**(50.0%)**
Non-recurring costs[3]	0.7	1.3	**n/a**
Adjusted Profit Before Tax[1]	**2.6**	**2.3**	**13.0%**
Tax on Adjusted Profit Before Tax	(0.5)	(0.4)	**(25.0%)**
Adjusted Profit After Tax[1]	**2.1**	**1.8**	**(16.7%)**
Adjusted EPS[1]	**1.6**	**1.3**	**23.1%**
Adjusted Return on Assets[1]	9.3%	9.9%	**(6.1%)**
Adjusted Return on Equity[1]	10.6%	13.4%	**(20.9%)**

1 Definitions are set out in the Glossary of Alternative Performance Measures on page 37
2 Amortisation of acquired customer lists and agent networks
3 Includes restructuring and redundancy expenses

Group Highlights

Group statutory profit before tax for the 26 weeks ended 28 August 2021 increased by 125.0% to £1.8m (H1 FY21: £0.8m). The adjusted profit before tax for the 26 weeks ended 28 August 2021 increased by 13.0% to £2.6m (H1 FY21: £2.3m).

Total Group revenue for the 26 weeks ended 28 August 2021 increased by 4.4% to £52.4m (H1 FY21: £50.2m), primarily being the effect of planned growth in Digital lending.

In H1 FY22 impairment increased to 31.5% of revenue (H1 FY21: 23.5%). The rise to impairment in H1 FY22 is due to an increase to credit issued in Digital and a shift in product mix from primarily under 6 months to mainly over 6 months.

Administration expenses and depreciation as a percentage of revenue decreased to 48.9% (H1 FY21: 50.8%), and after excluding acquisition, restructuring and non-recurring costs of £0.7m (H1 FY21: £1.3m) decreased to 47.5% of revenue from 48.8% in the comparative period. The £0.7m non-recurring costs relate to the cost of the corporate restructure which is expected to be completed in the next six months.

Funding costs of £0.8m were lower than last year (H1 FY21: £1.5m) reflecting the lower average indebtedness in the period.

Total customer numbers were 196,000 as at the end of August 2021, a reduction of 4.4% compared with the prior year (August 2020: 205,000) due to the transition in the mix of customers from HCC, which decreased by 26,000, to Digital which increased by 17,000.

Home Collected Credit

Key performance indicators[1]	**Aug-21**	**Aug-20**	% +/-
£'m unless otherwise stated			
Customer numbers ('000's)	144	170	(15.3%)
Period end receivables	45.3	50.4	(10.1%)
Average receivables	48.0	61.5	(22.0%)
Revenue	38.6	44.2	(12.7%)
Impairment	(6.5)	(8.3)	(21.7%)
Agent commission & other cost of sales	(7.5)	(10.3)	(27.2%)
Gross profit	24.6	25.6	(3.9%)
Admin expenses	(15.4)	(16.2)	(4.9%)
Depreciation	(1.4)	(1.9)	(26.3%)
Normalised operating profit	7.8	7.5	4.0%
Financing costs	(0.5)	(0.7)	(28.6%)
Adjusted PBT	**7.3**	**6.8**	7.4%
Covid impact identified as part of prior period PBSE	-	4.3	
Normalised adjusted PBT	**7.3**	**11.1**	(34.2%)
Covid impact identified as part of prior period PBSE	-	(4.3)	
Acquisition, restructuring and non-recurring costs	(0.7)	(1.0)	(30.0%)
Amortisation of acquisition intangibles	(0.1)	(0.2)	(50.0%)
Statutory PBT	**6.5**	**5.6**	16.1%
Impairment/revenue %	16.8%	18.8%	(10.6%)
Agent commission/revenue %	19.4%	23.3%	(16.7%)
Admin (inc Depreciation)/revenue %	43.5%	41.0%	6.1%

1. Definitions are set out in the Glossary of Alternative Performance Measures on page 37

Credit issued for the 26 weeks to 28 August 2021 was £53.1m compared to £51.1m in the 26-week equivalent period in H1 FY21, an increase of 3.9%. Following a financial year impacted by lockdowns and a period where lending was only available to existing customers, credit issued continues to recover.

Customer loan repayments for the 26 weeks to 28 August 2021 were £89.9m, compared to £104.5m in the 26-week equivalent period the previous year, a reduction of 14.0% as a result of the brought forward loan book decreasing 29.3% year on year.

The reduction in loan repayments and size of the loan book was the result of the relatively high cash collections in the prior year continuing into H1 FY22. Customer numbers therefore reduced to 144,000 at the end of August 2021 compared to 170,000 as at August 2020 and 151,000 as at February 2021. Although the decline in customer numbers has slowed, and credit issued has increased, the reduction in overall customer numbers does have an impact on income.

The reduction in average receivables of 22.0% is reflected in income which fell by 12.7% to £38.6m (H1 FY21: £44.2m). Agent commission represented 8.3% of customer loan repayments, down from 9.9% for the same period last year so reducing the direct cost base by £2.8m to £7.5m (H1 FY21: £10.3m). Administration expenses and depreciation reduced by £1.3m in total to £16.8m (H1 FY21: £18.1m).

Impairment of (£6.5m) was 16.8% of revenue, a reduction from 18.8% in H1 FY21, and below our guidance range of 21% to 26%. This is due in part to a high proportion of lending being to existing good performing customers. It is also affected by the relatively high levels of average repayment percentages in H1 FY22 as outlined above. As the pressures on our customers' cash flow returns to pre-pandemic levels, through lifting of lockdown and removal of enhanced Universal Credit, we expect this temporary performance uplift to reverse. Our long-term guidance therefore remains unchanged.

The statutory profit before tax of £6.5m was up 16.1% (H1 FY21: £5.6m) whilst the adjusted profit before tax of £7.3m was 7.4% higher (H1 FY21: £6.8m). The comparative period included the impact of Covid-19 as identified as a post balance sheet event. The normalised adjusted profit excluding this was down 34.2% to £7.3m (H1 FY21: £11.1m).

As at August 2021, the net loan balances of customers had reduced by 10.1% compared to August 2020.

Digital Lending

Key performance indicators[1]	Aug-21	Aug-20	% +/-
£'m unless otherwise stated			
Customer numbers ('000's)	52	35	48.6%
Period end receivables	15.0	5.2	188.5%
Average receivables	8.2	5.4	51.9%
Revenue	13.8	6.0	130.0%
Impairment	(10.0)	(3.5)	185.7%
Other cost of sales	(0.2)	(0.3)	(33.3%)
Gross profit	3.6	2.2	63.6%
Admin expenses	(7.5)	(5.9)	27.1%
Depreciation	(0.5)	(0.2)	150.0%
Normalised operating profit	(4.4)	(3.9)	12.8%
Financing costs	(0.3)	(0.6)	(50.0%)
Adjusted PBT	**(4.7)**	**(4.5)**	4.4%
Covid impact identified as part of prior period PBSE	-	0.9	
Normalised adjusted PBT	**(4.7)**	**(3.6)**	30.60%
Covid impact identified as part of prior period PBSE	-	(0.9)	
Acquisition, restructuring and non-recurring costs	-	(0.3)	(100.0%)
Statutory PBT	**(4.7)**	**(4.8)**	(2.1%)
Impairment/revenue %	72.5%	58.3%	24.4%
Admin (inc. Depreciation)/revenue %	58.0%	101.7%	(43.0%)

1 Definitions are set out in the Glossary of Alternative Performance Measures on page 37

Credit issued for the 26 weeks to 28 August 2021 was £24.8m compared to £9.1m in the 26-week period in H1 FY21, an increase of 172.5%. This planned increase in lending arose on high levels of short-term and long-term lending in H1 with high demand seen for all products.

Revenue increased by 129.3% to £13.8m (FY21 H1: £6.0m) as a result of increases to credit issued in the last 12 months.

Impairment is 72.5% of revenue (FY21 H1: 58.3%). This has arisen due to changes in product mix and faster acceleration of growth. In H1 FY21, the volume of credit issued for products of 6 months or more was 40%. This has increased to 66% in H1 FY22. As these longer-term products have a higher impairment rate, this has therefore, increased the impairment provision proportionate to credit issued and to revenue. Levels of credit issued were very high in H1 FY22, with the increase relating to these longer-term products. As impairment is provided when credit is issued, whilst revenue is spread over the term of the product, this has led to a relatively high impairment to revenue percentage above our guidance range from last year of 45%-55% for Digital. We consider this high impairment as a percentage of revenue to be a function of accelerated growth within the period and anticipate that as the business matures this percentage will decrease back to within the guidance range.

Administration expenses and depreciation increased by 31.1%% to £8.0m (H1 FY21: £6.1m) and as a percentage of revenue, fell to 58% from 102% in H1 FY20. Included within administration expenses are costs of marketing to generate leads and these represent £1.3m of the year-on-year increase.

As at August 2021, the net loan balances of customers had increased by 188.5% to £15.0m (August 2020: £5.2m).

The adjusted loss before tax of (£4.7m) is 4.4% adverse to the comparative (£4.5m) from last year. In H1 FY21 this loss included the Covid-19 impact reported as a post balance sheet event in the FY20 accounts. The normalised loss excluding this impact has increased 30.6% from (£3.6m) in H1 FY21 to (£4.7m) this year. This increase arises on the upfront recognition of impairment on a fast-growing loan book.

Funding

In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility continues funding for our existing HCC products and, crucially, it unlocks funding for our Dot Dot loan products and helps the business achieve its immediate strategic objectives. By the year end, management will ensure funding is available for at least 12 months beyond the date of signing of the FY22 annual report and accounts.

It is testament to the resilience of the Group that the business was able to secure funding in this challenging time with a high-quality syndicate who have continued to support the business.

The Group has increased its debt position through the period with borrowings at £18.0m at the period end. This is higher than the level of borrowings at August 2020 of £14.0m and February 2020 of £8.5m as the facility supports the growing Digital business. Management has produced forecasts that demonstrate that the Group has sufficient headroom through its peak lending period in the month of December.

Principal Risks and Uncertainties

There are a number of potential risks and uncertainties which could have a material impact on the Group's performance over the remaining 26 weeks of the financial year and could cause results to differ materially from expected and historical results. The Directors do not consider that the principal risks and uncertainties have changed since the publication of the annual report for the 52 weeks ended 27 February 2021. These should be read in the context of the cautionary statement regarding forward looking statements at the beginning of these Interim Results. A detailed explanation of the risks summarised below, and how the Group seeks to mitigate the risks, can be found on page 27 of the annual report which can be found at www.morsesclubplc.com/investors/.

Conduct Risk

Treating Customers Fairly is a fundamental part of the Group’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.

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

Regulatory Risk

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 continues 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 market.

Credit Risk

Group policy prescribes business oversight and control. Weekly management information allows the Group to monitor the effects of lending decisions. Regular reviews of policies, outcomes and the impact of macroeconomic factors are undertaken by the Credit Risk Committee of the HCC and Digital Divisions. Covid-19 had an initial impact on repayment rates, but these have improved and are now back to pre-Covid-19 levels. To mitigate any risk arising from rapid growth our lending policy ensures we only lend to customers that fit our lending criteria.

Reputational Risk

Effective corporate governance provides business oversight and control. We undertake independent monitoring, for example market surveys and mystery shopping. In 2021, we have continued to undertake a variety of surveys covering customer satisfaction and customer outcomes, in addition to monitoring customer reviews posted on Trustpilot. We have widened customer access to online documentation through a customer portal and provided customers with a more robust and customer-centric experience.

Strategic and Business Risk

A full Committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual 2-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. We are involved in lobbying through our trade associations. During 2020, the Group put into place contingency plans to minimise the risks to the health and safety of our customers, employees and agents. All staff were able to operate from home effectively and the HCC business is able to lend and collect both remotely and through doorstep activities.

Wider Industry Risk

During the past year, the Group has seen a noticeable increase in the level of complaints received from Claims Management Companies (CMCs). In many cases, these have been spurious or allegedly sent by individuals who have never been customers or have been sent without the customer's knowledge or consent. CMCs are now regulated by the FCA and it is hoped that they will act more responsibly in the future. The Group is actively engaging with FOS and the FCA through the sector trade associations.

Operational Risk

The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision. All agents and staff participate annually in a personal safety review and follow our home/remote working policy. A comprehensive business continuity policy and procedure is in place and a third-party disaster recovery site is now available should it be required. Disaster recovery tests are performed periodically on critical systems. The Group's business interruption insurance cover has been increased substantially, in line with the impact of Covid-19. We responded rapidly to the outbreak of Covid-19, successfully adapting our operating model to enable all our agents to work from home and replacing face-to-face customer visits with a remote customer communication strategy. We made use of our existing technology platform and payment methods to maintain customer contact and collection activity. We launched a new cashless remote lending product, which is available to all existing Morses Club HCC customers and is compliant with all regulatory requirements. All necessary checks and agreements are transacted via our online Customer Portal, leveraging our existing technology platform. Customers using the new remote lending product can choose to have funds deposited directly into their bank account or loaded onto a Morses Club Card, ensuring that existing customers can continue to access our products and services during this time. The Digital division reviewed operating practices so all employees are working from home. Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained.

Liquidity Risk

The Group currently has a revolving debt facility of £35m, secured by a debenture on the assets of the business. The revolving credit facility expires at the end of December 2022. It is the Group's policy to renew its facilities well in advance of the dates of these facilities expiring. This is sufficient to fund planned business growth. The Group actively monitors its compliance with the covenants set out in the facilities, in order to avoid the debt being recalled.

IT and Cyber Risk

The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. The Group recognises the increased relevance of this risk as the move to digitise the business continues and has plans to increase the frequency and scope of its testing. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. Failover tests of our IT facilities have also been carried out successfully. Since the outbreak of Covid-19 we have engaged with suppliers to ensure increased resilience for all key IT services. During the past year, we have undertaken phishing exercises in order to educate our staff. Most of our data is now encrypted at rest. The Group's cyber insurance cover has been increased once more in consultation with the Group's insurers. The business change team closely monitors demand and resource plans.

Agents' self-employed status

The Company carefully monitors the position with its advisers and conducts an ongoing review of business processes, systems and contracts in order to maintain self-employed status for its agents.

Covid-19 pandemic

The Group has rapidly developed systems whereby customers can apply for loans and repay them remotely – by telephone or through the customer portal; at the time of writing, all staff have the ability to work from home effectively, including the customer call centres.

<u>Emerging risks:</u>

Brexit

As a Company operating solely in the UK, with no foreign currency exposure, EU supply chain, or key dependency on overseas staff, the Company has not identified any adverse direct consequences of Brexit, in whatever form it may take. We therefore do not foresee any issues or changes being made to the business model or any impact on our accounting policies of critical judgements.

Climate change

Climate change is not currently seen as a principal risk to the business, but this is kept under review, with all our main strategic initiatives resulting in reducing our impact on the environment. Customers can request loans and make payments under the new customer portal. Technology has been introduced which allows for more meetings to be conducted remotely. Both of these initiatives have significantly reduced the need to travel unnecessarily. The Group's environmental policy is reviewed annually.

As part of our procurement procedures, we undertake a due diligence review of major suppliers, which includes standard aspects around modern slavery, any environmental policies, as part of ensuring that any outsourcing arrangements are based on working with suppliers who adhere to our operating standards.

Graeme Campbell
Chief Financial Officer
7th October 2021

INDEPENDENT REVIEW REPORT TO MORSES CLUB PLC

We have been engaged by the company to review the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2021 which comprises the income statement, the balance sheet, the statement of changes in equity, the cash flow statement and related notes 1 to 15. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half-yearly financial report in accordance with the AIM Rules of the London Stock Exchange.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with United Kingdom adopted International Financial Reporting Standards (IFRS). The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with United Kingdom adopted International Accounting Standard 34, "Interim Financial Reporting".

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 31 August 2021 is not prepared, in all material respects, in accordance with United Kingdom adopted International Accounting Standard 34 and the AIM Rules of the London Stock Exchange.

Use of our report

This report is made solely to the company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Financial Reporting Council. Our work has been undertaken so that we might state to the company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Deloitte LLP
Statutory Auditor
Birmingham, United Kingdom
7 October 2021

CONSOLIDATED INCOME STATEMENT FOR THE 26 WEEK PERIOD ENDED 28 AUGUST 2021

	Notes	26 weeks ended 28.8.21 £,000 (Unaudited)	26 weeks ended 29.8.20 £,000 (Unaudited)	52 weeks ended 27.2.21 £,000 (Audited)
Revenue		52,384	50,221	100,234
Impairment of financial assets		(16,455)	(11,789)	(20,794)
Cost of sales		(7,709)	(10,627)	(20,657)
GROSS PROFIT		**28,220**	**27,805**	**58,783**
Administration expenses		(25,577)	(25,692)	(55,967)
OPERATING PROFIT BEFORE AMORTISATION OF INTANGIBLES		2,738	2,288	3,161
Amortisation of acquisition intangibles	7,8	(95)	(175)	(345)
Operating profit		2,643	2,113	2,816
Finance costs		(836)	(1,355)	(2,360)
PROFIT BEFORE TAXATION	2	1,807	758	456
Tax on profit on ordinary activities	4	(296)	(155)	(239)
PROFIT AFTER TAXATION		1,511	603	217

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

EARNINGS PER SHARE		26 weeks ended 28.8.21 Pence	26 weeks ended 29.8.20 Pence	52 weeks ended 27.2.21 Pence
Basic	6	1.14	0.46	0.17
Diluted	6	1.13	0.46	0.17

CONSOLIDATED BALANCE SHEET
FOR THE 26 WEEK PERIOD ENDED 28 AUGUST 2021

ASSETS	Notes	26 weeks ended 28.8.21 (Unaudited) £'000	26 weeks ended 29.8.20 (Unaudited) £'000	52 weeks ended 27.2.21 (Audited) £'000
Non-current assets				
Goodwill	7	12,854	12,981	12,854
Other intangible assets	8	9,571	8,919	8,863
Property, plant and equipment		717	791	734
Right of Use Assets	9	1,095	2,089	1,696
Deferred Tax		592	677	581
Amounts receivable from customers	10	3,321	687	82
		28,150	26,144	24,810
Current Assets				
Amounts receivable from customers	10	57,002	54,864	53,408
Taxation receivable		1,080	1,519	1,387
Other receivables	10	4,085	6,318	4,927
Cash and cash equivalents		6,903	6,524	8,258
		69,070	69,225	67,980
Total assets		97,220	95,369	92,790
LIABILITIES				
Current Liabilities				
Trade and other payables		(7,397)	(7,752)	(10,039)
Complaints provision	14	(2,415)	-	(2,012)
Lease liabilities		(421)	(1,027)	(790)
		(10,233)	(8,779)	(12,841)
Non-current liabilities				
Bank and other borrowings	11	(17,698)	(13,690)	(8,302)
Lease Liabilities		(822)	(1,139)	(994)
		(18,520)	(14,829)	(9,296)
Total liabilities		(28,753)	(23,608)	(22,137)
NET ASSETS		68,467	71,761	70,653
Equity				
Called up share capital		1,336	1,312	1,325
Retained Earnings		67,131	70,449	69,328
TOTAL EQUITY		68,467	71,761	70,653

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 26 WEEK PERIOD ENDED 28 AUGUST 2021

	Called up share capital £'000	Retained Earnings £'000	Total Equity £'000
As at 29 February 2020 (Audited)	**1,312**	**69,344**	**70,656**
Total comprehensive income for the period	-	603	603
Share based payment charge	-	502	502
As at 29 August 2020 (Unaudited)	**1,312**	**70,449**	**71,761**
Total comprehensive income for the period	-	(386)	(386)
Share Issue	13	-	13
Share based payment charge adjustment	-	577	577
Dividends paid	-	(1,312)	(1,312)
As at 27 February 2021 (Audited)	**1,325**	**69,328**	**70,653**
Total comprehensive income for the period	-	1,511	1,511
Share Issue	11	-	11
Share based payment charge	-	265	265
Dividends paid	-	(3,973)	(3,973)
As at 28 August 2021 (Unaudited)	**1,336**	**67,131**	**68,467**

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE 26 WEEK PERIOD ENDED 28 AUGUST 2021

	Notes	26 weeks ended 28.8.21 (Unaudited) £'000	26 weeks ended 29.8.20 (Unaudited) £'000	52 weeks ended 27.2.21 (Audited) £'000
Net cash (outflow)/inflow from operating activities	1	**(3,357)**	**20,206**	**33,054**
Dividends Paid	5	(3,973)	-	(1,312)
Proceeds from additional long-term debt		13,000	2,000	11,500
Arrangement costs associated with additional funding		(290)	(351)	-
Repayment of long-term debt		(3,500)	(22,000)	(37,000)
Principal paid under lease liabilities		(448)	(758)	(1,499)
Interest Paid		(503)	(1,023)	(1,622)
Interest paid (lease liabilities)		(123)	(182)	(353)
Net cash inflow/(outflow) from financing activities		**4,163**	**(22,314)**	**(30,286)**
Purchase of intangibles		(2,042)	(2,889)	(5,282)
Purchase of property, plant and equipment		(119)	(347)	(1,096)
Net cash (outflow) from investing activities		**(2,161)**	**(3,236)**	**(6,378)**
(Decrease)/Increase in cash and cash equivalents		**(1,355)**	**(5,344)**	**(3,610)**

Reconciliation of increase in cash and cash equivalents to movement in cash equivalents			
Movement in cash and cash equivalents in the period	(1,355)	(5,344)	(3,610)
Movement in cash and cash equivalents in the period	**(1,355)**	**(5,344)**	**(3,610)**
Cash and cash equivalents, beginning of year	8,258	11,868	11,868
Cash and cash equivalents, end of year	**6,903**	**6,524**	**8,258**

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

	Group		
	28.8.21	**29.8.20**	**27.2.21**
	£'000	**£'000**	**£'000**
Profit before taxation	1,807	758	456
Interest paid included in financing activities	503	1,023	2,006
Interest paid (leases liabilities)	123	182	-
Share issue	11	-	13
Depreciation charges	643	990	1,915
Loss on disposal of tangible fixed assets	-	78	92
Loss on disposal of intangible assets	-	-	969
Share based payments charge	265	502	1,079
Impairment of goodwill	-	-	126
Impairment of intangibles	2	-	-
Amortisation of intangibles	1,333	1,332	2,811
Write off of Right-of-Use Asset	94	-	261
(Increase)/decrease in debtors	(5,992)	15,417	18,667
(Decrease)/increase in creditors	(2,146)	1,114	5,849
	(5,164)	20,638	33,788
Taxation paid	-	(1,190)	(1,190)
Net cash (outflow)/inflow from operating activities	(3,357)	20,206	33,054

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**	**10,086**
Non-cash changes			
- Amortised fees	186	-	186
- Interest	503	123	626
Cash flows:			
- Repayments	(3,500)	(448)	(3,948)
- Drawdown	13,000	-	13,000
- Lease additions & disposals	-	(93)	(93)
- Interest	(503)	(123)	(626)
- Arrangement costs associated with additional funding	(290)	-	(290)
At 28 August 2021	**17,698**	**1,243**	**18,941**

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.

The information for the year ended 27 February 2021 does not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for that year has been delivered to the Registrar of Companies. The report of the auditor on those financial statements was unqualified, did not draw attention to any matters by way of emphasis and did not contain a statement under section 498(2) or (3) of the Companies Act 2006.

The unaudited condensed interim financial statements for the 26 weeks ended 28 August 2021 have been reviewed, not audited, and were approved by the Board of Directors on 7 October 2021.

Going concern

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

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

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

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

For the year to August 2021, management has adopted a base case and then run upside and reasonable worst case downside cases.

Management considers the reasonable worst case to be a prudent plan against which to assess the going concern and viability of the Group. This plan reflects both the impact on operational challenges and future prospects. Within the worst case the Group has assessed the impact of a reduction in sales activity, which identified no concerns regarding the going concern status of the Group.

The resilience of the business model demonstrated during the Covid-19 pandemic is evidence of the ability of the business to adapt and react to significant events. Management considers this to be a prudent foreseeable plan against which to assess the going concern of the Group.

During the period the Group agreed a new loan facility with a new two lender consortium to December 2022. This included a reduction in the size of the facility from £40 million to £35 million to better reflect the requirements of the business.

Accounting convention

The statutory annual financial statements of Morses Club PLC are prepared under International Financial Reporting Standards (IFRS) in conformity with the requirements of the Companies Act 2006. The condensed set of financial statements included in this half yearly financial report has been prepared in accordance with International Accounting Standard 34 'Interim Financial Reporting', in conformity with the requirements of the Companies Act 2006.

Accounting policies

There are no other new IFRSs or International Financial Reporting Interpretations (IFRIC) that are effective for the first time for the 26 weeks ended 28 August 2021 which have a material impact on the Group. As such the accounting policies applied in preparing the unaudited condensed interim financial statements are consistent with those used in preparing the statutory financial statements for the year ended 27 February 2021.

Key sources of estimation uncertainty

Impairment and EIR have previously been calculated using a flat five-year average of historical payment performance. The cash curves and expected lives are based on view of the loan book at the end of December each year, with an average of the previous five years used in the calculation. Management has considered the best way to deal with the Covid-19 impact on the impairment provision and income recognition. In lieu of a management overlay we decided to use a weighting to give more prominence to the most recent data cohort, an approach taken since August 2020. Recent cash collections have outperformed these curves though we expect a tougher H2 FY22. Continuing to use a flat five-year average calculation would materially understate the provision.

The Impairment and EIR weighting options considered were (please note option 1 is the methodology used in previous years):

	Dec 15	Dec 16	Dec 17	Dec 18	Dec 19	Impairment	Deferred income
Option 1	20%	20%	20%	20%	20%	£27.8m	£22.4m
Option 2	15%	15%	15%	15%	40%	£28.0m	£22.5m
Option 3	10%	10%	10%	10%	60%	£28.3m	£22.6m
Option 4	0%	0%	0%	0%	100%	£28.8m	£22.7m

The range of impairment is from £27.8m to £28.8m and deferred income range is from £22.4m to £22.7m. Management believes continuing to adopt the weighting in option 3 is the most appropriate approach to revenue recognition and impairment.

The remote lending and collection model of our Digital lending business 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.

Impairment of non-financial assets and goodwill

In assessing impairment, management estimates the recoverable amount of each asset or cash generating unit based on expected future cash flows and uses a Weighted Average Cost of Capital (WACC) of 13% to discount them. The absolute headroom of Shelby Finance Limited is £89.6m with annual growth rate in year one of -71%, year two -425%, year three 123% and every +/- 1% change in the annual growth rate results in a +/- £0.1m change in the cumulative discounted cash flow over the same period. For Group, every +/- 1% change in the discount rate results in a +/- £9.7m change in the estimated recoverable amount. The terminal growth rate used in the calculation is 2% and every +/- 0.5% change in the terminal value results in a +/- £0.6m change in the recoverable amount. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate and future growth rates.

2. SEGMENTAL REPORTING

	Revenue			Profit/(loss) before taxation		
	26 weeks ended 28.8.21 £'000	26 weeks ended 29.08.20 £'000	52 weeks Ended 27.02.21 £'000	26 weeks ended 28.08.21 £'000	26 weeks ended 29.08.20 £'000	52 weeks Ended 27.02.21 £'000
Group						
Home Collect Credit	38,551	44,189	86,430	7,118	6,837	14,050
Digital	13,833	6,032	13,804	(4,307)	(4,748)	(10,512)
Total Group before amortisation of acquisition intangibles and exceptional items	52,384	50,221	100,234	2,811	2,089	3,538
Intra-group elimination	-	-	-	329	-	36
Amortisation of intangibles	-	-	-	(1,333)	(1,331)	(3,118)
Total Group	52,384	50,221	100,234	1,807	758	456

	Segment assets			Segment liabilities		
Group	28.8.21 £'000	29.8.20 £'000	27.2.21 £'000	28.8.21 £'000	29.8.20 £'000	27.2.21 £'000
Home Collect Credit	119,836	108,399	114,485	(26,650)	(21,361)	(21,155)
Digital	32,954	24,542	23,260	(31,916)	(23,014)	(23,976)
Total before intra-group elimination	152,790	132,941	137,745	(58,566)	(44,375)	(45,231)
Eliminations*	(28,061)	(17,656)	(25,290)	2,304	851	3,429
Intra-group elimination	(27,509)	(19,916)	(19,665)	27,509	19,916	19,665
Total Group	97,220	95,369	92,790	(28,753)	(23,608)	(22,137)

	Net assets/(liabilities)		
Group	28.8.21 £'000	29.8.20 £'000	27.2.21 £'000
Home Collect Credit	93,186	87,038	93,230
Digital	1,038	1,528	(716)
Total before intra-group elimination	94,224	88,566	92,514
Eliminations*	(25,757)	(16,805)	(21,861)
Total Group	68,467	71,761	70,653

* Group assets includes fixed asset investment of £28,511,416 (FY21: £23,011,415), a tax asset of £Nil (FY21: £40,000) which are offset by an inter-company provision £1,115,000 (FY21: £786,000) which are not attributable to a specific segment.

3. SEASONALITY

The Group's peak period of lending to customers is in the run-up to Christmas in the second half of the financial year. Typically, approximately 53% of the loans issued are made in the second half of the financial year and the peak lending and collections period leads the Group to operate with a materially higher draw down on debt facilities in December. In addition, the Group's accounting policies relating to revenue and impairment are an important influence on the recognition of the Group's profit between the first and second halves of the financial year.

4. TAXATION

The tax charge for the period has been calculated by applying the directors' best estimate of the effective tax rate for the financial year of 20% (H1 FY21 – 20%) (H1 FY20 – 20%), to the profit before tax for the period.

5. DIVIDENDS

	26 weeks Ended 28.8.21 £'000	26 weeks Ended 29.8.20 £'000	52 weeks ended 27.2.21 £'000
Amounts recognised as distributions to equity holders in the period:			
Final dividend for the 52 weeks ended 27 February 2021	3,973	-	1,312
	3,973	-	1,312

The directors have declared an interim dividend in respect of the 26 weeks ended 28 August 2021 of 1.0p per share (H1 FY21: 1.0p) (FY21: 3.0p) to be paid on 11 February 2022 to ordinary shareholders on the register at close of business on 14 January 2022. This dividend is not reflected in the balance sheet as it was declared after the balance sheet date. It will result in a total half year dividend pay-out of approximately £1.3m (H1 FY21: £1.3m) (FY21: £4.0m). Dividends paid during the period were £4.0m (H1 FY21: £Nil) (FY21: £1.3m).

6. EARNINGS PER SHARE

	26 weeks Ended 28.8.21	26 weeks Ended 29.8.20	52 weeks ended 27.2.21
Earnings (£'000)	1,511	603	218
Number of shares			
Weighted average number of shares for the purposes of basic earnings per share ('000s)	133,111	131,244	131,283
Effect of dilutive potential ordinary shares through share options ('000s)	126	631	200
Weighted average number of shares for the purposes of diluted earnings per share ('000s)	133,236	131,876	131,583
Basic per share amount (pence)	1.14	0.46	0.17
Diluted per share amount (pence)	1.13	0.46	0.17

Diluted earnings per share calculated 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 Plan. 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.

7. GOODWILL

COST	**£'000**
At 29 February 2020	13,330
At 29 August 2020	13,330
At 27 February 2021	13,330
At 28 August 2021	**13,330**
Impairment	
At 29 February 2020	(349)
At 29 August 2020	(349)
Impairment loss for the period	(127)
At 27 February 2021	(476)
At 28 August 2021	**(476)**
NET BOOK VALUE	
At 28 August 2021	**12,854**
At 27 February 2021	12,854
At 29 August 2020	12,981
At 29 February 2020	12,981

8. OTHER INTANGIBLE ASSETS

	Software, Servers & Licences £'000	Acquired Customer Lists £'000	Acquired Agent Networks £'000	Totals £'000
COST				
At 29 February 2020	12,761	21,621	874	35,256
Additions	2,889	-	-	2,889
At 29 August 2020	15,650	21,621	874	38,145
Additions	2,393	-	-	2,393
Disposals	(3,085)	-	-	(3,085)
At 27 February 2021	14,958	21,621	874	37,453
Additions	2,043	-	-	2,043
At 28 August 2021	17,001	21,621	874	39,496
ACCUMULATED AMORTISATION				
At 29 February 2020	6,140	20,915	839	27,894
Charge for period	1,156	167	9	1,332
At 29 August 2020	7,296	21,082	848	29,226
Charge for the period	1,272	162	7	1,441
Impairment losses	-	38	-	38
Eliminated on disposals	(2,115)	-	-	(2,115)
At 27 February 2021	6,453	21,282	855	28,590
Charge for period	1,240	89	4	1,333
Impairment losses	-	-	2	2
At 28 August 2021	7,693	21,371	861	29,925
NET BOOK VALUE				
At 28 August 2021	9,308	250	13	9,571
At 27 February 2021	8,505	339	19	8,863
At 29 August 2020	8,354	539	26	8,919

9. RIGHT OF USE ASSETS

	Building £'000	Equipment £'000	Vehicles £'000	Totals £'000
Cost				
At 29 February 2020	1,888	970	1,537	4,395
Additions	14	-	170	184
Disposals	(155)	-	(29)	(184)
At 29 August 2020	1,747	970	1,678	4,395
Additions	84	427	65	576
Disposals	(457)	(25)	(285)	(767)
At 27 February 2021	1,374	1,372	1,458	4,204
Additions	15	-	-	15
Disposals	(582)	-	(364)	(946)
At 28 August 2021	807	1,372	1,094	3,273
Depreciation				
At 29 February 2020	515	328	769	1,612
Charged to the income statement	272	169	359	800
Disposals	(89)	-	(17)	(106)
At 29 August 2020	698	497	1,111	2,306
Charged to the income statement	202	282	302	786
Disposals	(304)	(16)	(264)	(584)
At 27 February 2021	596	763	1,149	2,508
Charged to the income statement	138	236	148	522
Disposals	(507)	-	(344)	(851)
At 28 August 2021	227	999	953	2,179
Net Book Value				
At 28 August 2021	580	373	141	1,094

10. TRADE AND OTHER RECEIVABLES

Amounts receivable from customers

	28.8.21 £'000	29.8.20 £'000	27.2.21 £'000
Amounts falling due within one year:			
Net receivable from advances to customers	57,002	54,864	53,408
Amounts falling due after one year:			
Net receivable from advances to customers	3,321	687	82
Net loan book	**60,323**	**55,551**	**53,490**
Other debtors	912	2,962	2,880
Prepayments	3,161	3,356	3,434
Trade and other receivables	**64,396**	**61,869**	**59,804**

The fair value of the loan book not presented at fair value in the balance sheet is £81,049k (H1 FY21 – £75,787k) (YE FY21 – £72,764k).

An analysis of receivables by IFRS 9 stages is set out below:

	28 August 2021			
	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross carrying value	56,711	21,115	19,429	97,255
Loan Loss Provision	(9,524)	(11,521)	(15,887)	(36,932)
Net receivables	47,187	9,594	3,542	60,323

	27 February 2021			
	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross carrying value	48,763	20,565	20,735	90,063
Loan Loss Provision	(8,214)	(10,732)	(17,627)	(36,573)
Net receivables	40,549	9,833	3,108	53,490

	29 August 2020			
	Stage 1 £'000	**Stage 2 £'000**	**Stage 3 £'000**	**Total £'000**
Gross carrying value	48,340	23,234	24,553	96,127
Loan Loss Provision	(7,274)	(12,547)	(20,755)	(40,576)
Net receivables	41,066	10,687	3,798	55,551

11. BANK AND OTHER BORROWINGS

	Group		
	28.8.21	**27.2.21**	**29.8.20**
	£'000	**£'000**	**£'000**
Bank loans	18,000	8,500	14,000
Unamortised arrangement fees	(302)	(198)	(310)
	17,698	8,302	13,690

In December 2020 the Company signed an extension to its existing revolving credit facilities of £40m with the incumbent lender consortium from November 2021 to the end of December 2021 and further extended to the end of December 2022 in May 2021. The facility limit was reduced from £40m committed to £35m to better match the needs of the business post Covid-19. By reducing this unused headroom the non-utilisation charges for any given level of borrowing will be reduced and therefore the overall cost of funding.

12. RESERVES

Details of the movements in reserves are set out in the statement of changes in equity. Share capital as at 28 August 2021 amounted to £1,336,000 (29 August 2020: £1,312,000).

13. RELATED PARTY TRANSACTIONS

Hay Wain Group Limited holds a 35.3% interest in the Company. The Directors consider there to be no ultimate Parent Company. Shelby Finance Limited and Shopacheck Financial Services Limited are subsidiaries of Morses Club PLC. U Holdings Limited is a subsidiary of Shelby Finance Limited.

The Company undertook the following transactions with Hay Wain Group Limited and Shelby Finance Limited during the period:

	Dividends Received / (Paid) £'000	Interest Recharged £'000	Professional Fees Recharged £'000
26 Weeks ended 28 August 2021			
Hay Wain Holdings Limited	-	-	-
Hay Wain Group Limited	(1,412)	-	-
Shopacheck Financial Services Limited	-	-	-
Shelby Finance Limited	-	281	-
	(1,412)	281	-
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

	28-Aug-21 £'000	29-Aug-20 £'000	27-Feb-21 £'000
Hay Wain Holdings Limited	-	-	-
Hay Wain Group Limited	-	-	-
Shopacheck Financial Services Limited	(1,321)	(1,321)	(1,321)
Shelby Finance Limited	29,945	19,916	21,773
Amounts owed from / (to) Related Parties	28,623	18,595	20,452

14. PROVISIONS

At the period-end the following balances were outstanding

	Customer Complaints £'000	Other £'000	Total £'000
At 29 February 2020	-	-	-
Additional Provisions in the year	2,012	-	2,012
At 27 February 2021	2,012	-	2,012
Additional Provisions in the year	403	-	403
At 28 August 2021	2,415	-	2,415

Complaints provision

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

15. CONTINGENT LIABILITIES

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

Alternative performance measures

This Interim 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.
Normalised adjusted impairment as % of Revenue (%)	None	Impairment as a % of revenue adjusted for the impact of Covid-19 which was reported as a post balance sheet event in the FY20 annual accounts
Agent Commission as % of Revenue (%)	None	Agent commission, which is included in cost of sales, divided by reported revenue. This calculation is used to measure operational efficiency and the proportion of income generated which is paid to agents
Cost / Income Ratio or Operating Cost ratio (%)	None	The cost-income ratio is cost of sales and administration expenses, excluding exceptional items, finance costs and amortisation divided by reported revenue. This is used as another efficiency measure of the company's cost base.
Credit Issued (£m)	None	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business.
Sales Growth (%)	None	Sales growth is the period-on-period change in Credit Issued
Normalised operating profit	Operating Profit	Operating profit per the Income Statement adjusted for the impact of Covid-19 which was reported as a post balance sheet event in the FY20 annual accounts
Adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional costs, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Normalised adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for; exceptional costs, non-recurring costs, amortisation of goodwill and acquisition intangibles and the PBSE reported in the FY20 accounts. This is used to measure ongoing business performance.
Adjusted Earnings Per Share	Earnings Per Share	Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders

Reconciliation of Statutory Profit Before Tax to Adjusted profit before tax and explanation of Adjusted EPS

£'m (unless otherwise stated)	26-week period ended 28 August 2021	26-week period ended 29 August 2020	change
Statutory Profit Before Tax	**1.8**	**0.8**	**125.0%**
Amortisation of acquired intangibles[2]	0.1	0.2	**(50.0%)**
Non-recurring costs[3]	0.7	1.3	**n/a**
Adjusted Profit Before Tax[1]	**2.6**	**2.3**	**13.0%**
Tax on Adjusted Profit Before Tax	(0.5)	(0.4)	**25.0%**
Adjusted Profit After Tax[1]	**2.1**	**1.8**	**16.7%**
Adjusted EPS[1]	**1.6**	**1.3**	**23.1%**
Adjusted Return on Assets[1]	9.3%	9.9%	**(6.1%)**
Adjusted Return on Equity[1]	10.6%	13.4%	**(20.9%)**

1 Definitions are set out in the Glossary of Alternative Performance Measures
2 Amortisation of acquired customer lists and agent networks
3 Includes restructuring and redundancy expenses

	26 weeks ended 28.8.21	26 weeks ended 29.8.20	52 weeks ended 27.2.21
	£'000	**£'000**	**£'000**
Adjusted basic earnings per share			
Basic earnings	1,511	603	217
Amortisation of acquisition intangibles	95	175	345
Non-recurring (income)/costs	673	1,378	5,339
Tax effect of the above	(160)	(431)	(799)
Adjusted earnings after tax	**2,119**	**1,725**	**5,102**
Weighted average number of shares for the purposes of	133,111	131,244	131,383
Basic earnings per share ('000s)	**2,119**	**1,725**	**5,102**
Adjusted earnings per share amount (pence)	**1.6p**	**1.3p**	**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 interim report as the directors believe they are more representative of the underlying operations of the business
Adjusted Return on Assets (%)	None	Calculated as adjusted profit after tax divided by 12 month average Net Loan Book. This calculation has been adjusted to an IFRS 9 basis. It is used as a measure of profitability generated from the loan book. Net Loan Book is Amounts owing from customers less provisions for deferred income and impairments. This is presented within the interim report as the directors believe they are more representative of the underlying operations of the business
Tangible Equity / Average Receivables Ratio (%)	None	Net Assets less intangible assets less acquisition intangibles divided by 12 months average receivables. This calculation has been adjusted to an IFRS 9 basis.

Adjusted Return on Assets and Adjusted Return on Equity £m	**to Aug 21**	**to Aug 20**
Adjusted Profit After Tax (Rolling 12 months)	5.2	6.6
12 month average Net Loan Book	56.3	67.3
Adjusted Return on Assets	9.3%	9.9%
12 month average Equity	49.40	49.5
Adjusted Return on Equity	10.6%	13.4%

Other measures		
Customers	None	Customers who have an active loan and from whom we have received a payment of at least £3 in the last 17 weeks.
Agents	None	Agents are self-employed individuals who represent the Group’s subsidiaries and are engaged under an agency agreement.
Cash from Operations (excluding investment in loan book) (£m)	Cash from Operations	Cash from Operations (excluding investment in the loan book) is Cash from Operations excluding the growth in the loan book due to either acquisition or movement in the net receivable otherwise (see reconciliation below).
Adjusted Net Margin	None	Adjusted Profit before tax (which excludes amortisation of intangibles on acquisitions, the one-off costs of the IPO and other non-operating costs) divided by reported revenue. This is used to measure overall efficiency and profitability.
Cash from funding (£m)	None	Cash from Funding is the increase / (decrease) in the Bank Loan balance.