Independent Auditor's Report

To the Members of Morses Club PLC

Report on the audit of the financial statements

Opinion
In our opinion:

- the financial statements of Morses Club PLC (the 'Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 23 February 2019 and of the Group's profit for the 52 weeks ended 23 February 2019;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Consolidated income statement;
- the Group and Company balance sheets;
- the Group and Company statements of changes in equity;
- the Group and Company cash flow statements; and
- the related notes 1 to 27.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

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

We are independent of the Group and the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters	The key audit matters that we identified in the current year were: • Loan loss provisioning • Revenue recognition Within this report, any new key audit matters are identified with and any key audit matters which are the same as the prior year are identified with .
Materiality	The materiality that we used for the Group financial statements was £1.03 million which was determined on the basis of 5% of pre-tax profit.
Scoping	The Group is made up of Morses Club PLC which is the main trading entity and its two subsidiaries being Shopacheck Financial Services Limited and Shelby Finance Limited. All entities in the Group are within our audit scope and the audit procedures for these entities are performed directly by the Group audit team. Separate statutory audits are not required for Shopacheck Financial Services Limited and Shelby Finance Limited due to audit exemptions taken by these entities, as such our audit work was focussed principally on the trading entity.
Significant changes in our approach	No significant changes have been made to our audit approach.

Independent Auditor's Report continued

To the Members of Morses Club PLC

Conclusions relating to going concern

We are required by ISAs (UK) to report in respect of the following matters where: • the Directors' use of the going concern basis of accounting in preparation of the financial statements is not appropriate; or • the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's or the Parent Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue. We considered as part of our risk assessment the nature of the Group, its business model and related risks including where relevant the impact of Brexit, the requirements of the applicable financial reporting framework and the system of internal control. We evaluated the Directors' assessment of the Group's ability to continue as a going concern, including challenging the underlying data and key assumptions used to make the assessment, and evaluated the Directors' plans for future actions in relation to their going concern assessment.	We have nothing to report in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Loan loss provisioning

Key audit matter description

The Group has implemented IFRS 9: Financial Instruments, which was effective from 1 January 2018. This is a new and complex accounting standard which has required considerable judgement and interpretation in its implementation.

The Group held loan loss provisions of £42.5 million (2018: £33.9 million in accordance with IAS 39) against amounts receivable from customers of £73.0 million (2018: £68.9 million). The impairment transition adjustment on adoption of IFRS 9 at 1 January 2018 was an increase of £6.5 million, resulting in a total allowance for impairment of £40.4 million at 25 February 2018.

Amounts receivable from customers are valued using collections curves to estimate the 12-month and lifetime expected future losses on cohorts of loans exhibiting similar risk characteristics, including the number of missed payments in the previous 13 weeks. These collections curves are based on collections levels from outstanding amounts receivable from customers over 2013-2017.

We have determined our key audit matter to be the estimation of future cash flows used to determine the provision, given the impairment provision is highly sensitive to this assumption and it requires the highest degree of judgement.

Given the degree of judgement involved in determining key assumptions, we also identified that there is a potential for fraud through possible manipulation of this balance.

Management's associated accounting policies are detailed on pages 79 to 80 with detail about judgements in applying accounting policies and critical accounting estimates on page 85 and within the Audit Committee report on page 49.

How the scope of our audit responded to the key audit matter	We first understood management's process and key controls around impairment provisioning by undertaking a walkthrough. Following identification of the key controls we evaluated the associated design and implementation of such controls. Specifically, we assessed the design and implementation of the review control over the estimation of future cash flows, as part of management's judgement paper. The modelling approach taken by management is partly automated, in relation to the extraction of loan data from the lending system and the application of provisioning rates to loan balances. We used internal IT specialists to review the methods used by management to extract loan data from the lending system. Additionally we assessed the application of the provisioning rates to the loan balances within the loan loss provisioning model. We specifically challenged the appropriateness of the cash collection curves used to determine the impairment provision, which included a review of the methodology used to construct the curves, engaging our IT specialists to independently reconstruct the curves and performing an assessment of whether the historic collections data being used by management is an appropriate basis upon which to predict future recoveries, in the current economic environment. This included an assessment of the completeness of macroeconomic overlays. As part of our wider assessment of loan loss provisions we used our IT specialists to test the mechanical accuracy and completeness of the models on which impairment provisions are calculated by recalculating the provision in accordance with the approved provisioning policy. We challenged the appropriateness of the other key assumptions used in the impairment calculations such as the definitions of staging triggers. This involved analysis of the Group's historical cash collection experience and benchmarking the key assumptions to external economic and industry data. We reconciled the loan loss provision to the general ledger, assessed compliance of the modelling approach and provisioning policy with the requirements of the Standard and substantively tested a sample of loans back to signed source documentation to assess whether the data used in the provision calculation were complete and accurate.
Key observations	We concluded that the partly automated impairment models were working as intended. We concluded that the estimation of future cash flows within the models was reasonable and thus the impairment provision recorded was appropriate.

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

Revenue recognition

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

Independent Auditor's Report continued

To the Members of Morses Club PLC

Revenue recognition

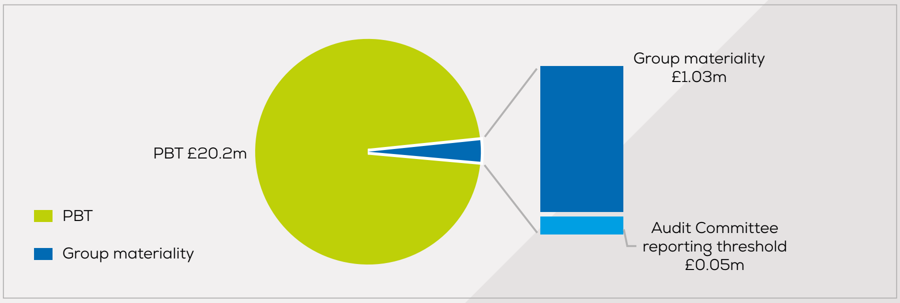
Key audit matter description	The Group recognised revenue of £117.0 million (2018: £116.6 million in accordance with IAS 39) against amounts receivable from customers during the 52 weeks ended 23 February 2019. The recognition of revenue on amounts receivable from customers under IFRS 9 requires the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

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent Company financial statements
Materiality	£1.03 million (2018: £0.97 million)	£1.02 million (2018: £0.96 million)
Basis for determining materiality	5% (2018: 6%) of pre-tax profit. This equates to 1.4% of net assets and 0.9% of revenue.	
Rationale for the benchmark applied	Pre-tax profit is used as the basis for materiality because we consider it to be the most appropriate benchmark to assess the performance of the Group. The decrease in basis of pre-tax profit from 6% to 5% is consistent with the approach being taken by peers and this change was formally communicated to the Audit Committee.	



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £51,100 (2018: £48,400), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

An overview of the scope of our audit
Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level.

The Group is made up of the main trading and parent entity of Morses Club PLC and two subsidiaries being Shopacheck Financial Services Limited and Shelby Finance Limited. These companies account for 100% of the Group's net assets, 100% of the Group's revenue and 100% of the Group's pre-tax profit. We performed testing over the consolidation which is prepared at the parent entity level only.

All entities in the Group are within our audit scope and the audit procedures for these entities are performed directly by the Group audit team. Separate statutory audits are not required for Shopacheck Financial Services Limited and Shelby Finance Limited due to audit exemptions taken by these entities, as such our audit work was focussed principally on the trading entity.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Annual Report including the Strategic Report and Governance Reports, other than the financial statements and our auditor's report thereon.

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

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

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

We have nothing to report in respect of these matters.

Responsibilities of Directors
As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006
In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic Report or the Directors' Report.

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

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records Under the Companies Act 2006 we are required to report to you if, in our opinion: • we have not received all the information and explanations we require for our audit; or • adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or • the Company financial statements are not in agreement with the accounting records and returns.	We have nothing to report in respect of these matters.
Directors' remuneration Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made.	We have nothing to report in respect of this matter.

Use of our report
This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

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

2 May 2019