

Corporate Governance Report

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

The five main principles of the Code are as follows:

- A. A successful company is led by an effective and entrepreneurial board, whose role is to promote the long-term sustainable success of the company, generating value for shareholders and contributing to wider society.
- B. The board should establish the company's purpose, values, and strategy, and satisfy itself that these and its culture are aligned. All directors must act with integrity, lead by example, and promote the desired culture.
- C. The board should ensure that the necessary resources are in place for the company to meet its objectives and measure performance against them. The board should also establish a framework of prudent and effective controls, which enable risk to be assessed and managed.
- D. In order for the company to meet its responsibilities to shareholders and stakeholders, the board should ensure effective engagement with, and encourage participation from, these parties.
- E. The board should ensure that workforce policies and practices are consistent with the company's values and support its long-term sustainable success. The workforce should be able to raise any matters of concern.

Application of the UK Corporate Governance Code

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

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

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

As required by AIM Rule 26, details of the Company's adherence to the Code is shown on its website. The Directors have been fully briefed about the requirements of the Code, and the Company Secretary continually monitors the Company's adherence to it.

Principle A – Effective Board

Role of the Board

The Company is headed by an effective Board that is collectively responsible for the long-term success of the Company.

The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls that enables risk to be assessed and managed.

The Board sets the Group's strategic aims, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance.

The Board has established a sub-committee structure comprising Audit, Risk & Compliance, Remuneration & Corporate Social Responsibility, Nominations & Succession, and Disclosure Committees, and has appointed a Senior Independent Director, Sir Nigel Knowles.

Opportunities and risks to the future success of the business are considered and addressed at each Board meeting, with the CEO highlighting the challenges and successes in each report to the Board. In the past, when specific risks are highlighted, for example relating to a potential acquisition, the Risk & Compliance Committee has held special meeting(s) to consider the matter before the Board has made a final decision. During 2020, the challenges posed by the Covid-19 pandemic were addressed by the Board as a whole.

In Q1 2021, the Board's Risk & Compliance Committee reviewed and reassessed the Group's risk appetite statements and target residual ratings for each of the principal risks, all of which are included within the risk management system. Details of the Company's principal risks are included on pages 27 to 30.

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

Division of responsibilities

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

The Board has a formal schedule of matters reserved to it and is usually scheduled to hold eight formal meetings each year, including one that concentrates solely on strategy. In addition, two calls are convened each year in order to agree the final and interim results and dividend. Further teleconferences are arranged, when required. During FY21, the Board held six scheduled meetings, but supplemented these with 12 additional Board calls, many

relating to the Company’s response to the Covid-19 pandemic and the restructuring of the business that resulted from this. Some members of the Executive Team have been invited to the formal meetings as attendees. The Board is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters.

It monitors the exposure to key business risks and reviews the strategic direction of the business. This includes its code of conduct, annual budgets, progress towards achievement of those budgets and capital expenditure programmes.

The Board meeting agenda normally comprises a review of management financial statements and operational performance, a CEO review of activity, reports from the Executive Team, a review of potential acquisitions and other growth opportunities, a review of relevant Board sub-committee minutes and reports, together with an update on the progress of the Company’s other strategic objectives.

The Chairman

The Chairman is mainly responsible for the leadership of the Board and ensuring its effectiveness concerning all aspects of its role. His duties include ensuring that all Directors receive sufficient relevant information on financial, business, and corporate issues prior to meetings. The Chairman regularly reviews the contents of the information pack sent out prior to Board meetings in order

to ensure that important issues are prioritised and each pack is kept to a manageable size. The Chairman encourages and promotes critical discussion and appropriate challenge. He ensures that Board decisions are taken on a sound and well-informed basis.

Chief Executive Officer

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

Non-Executive Directors

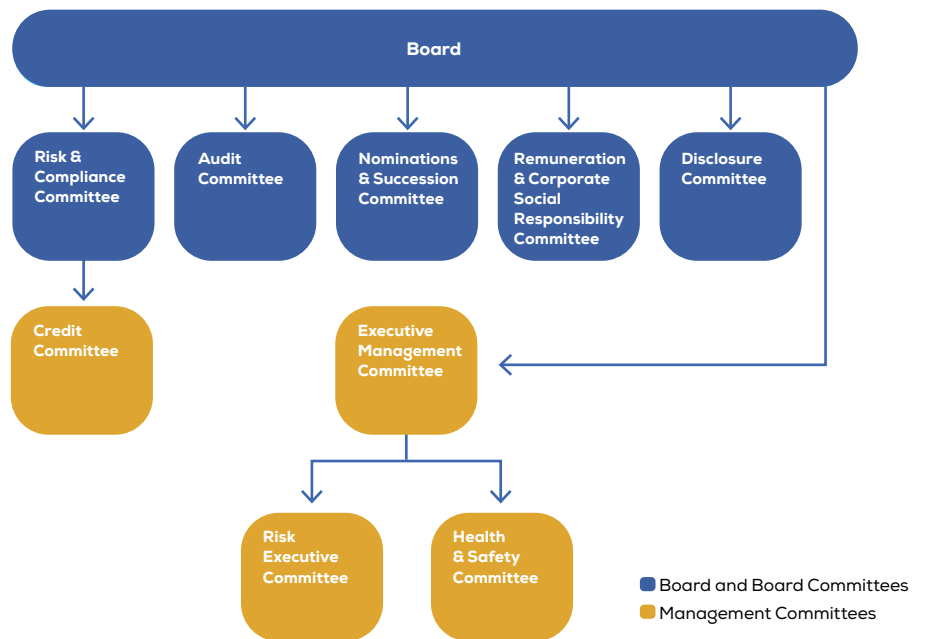
As part of their role as members of a unitary Board, Non-Executive Directors are active at providing constructive challenge and helping develop proposals on strategy. They have also used their experience from other organisations, including public companies, to provide advice to many areas of the business.

Sir Nigel Knowles has been appointed the Senior Independent Director to provide a sounding board for the Chairman and serve as an intermediary for the other Directors and shareholders.

Board structure

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

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



Corporate Governance Report continued

Principle B – Values and culture

Pages 18 and 19 of the Strategic Report deal with the subject of purpose, strategy, and culture.

The Board has been active in promoting the development of purpose, strategy, and culture within the business.

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

The Company has an excellent, customer-centric culture:

- The customer satisfaction surveys undertaken by independent market research during the year showed:
 - Overall customer satisfaction with Morses Club – 98%.
 - Likelihood of the customer recommending Morses Club – 94%.
- The Company's complaints handling process has been independently certified to the ISO 10002:2014 standard.

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

Across the organisation, the four words which were strongly used to encapsulate the Company culture were:

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

As part of its comprehensive response to the Covid-19 pandemic, the Company undertook surveys of all of its staff in both May and October 2020, in order to ensure that they were able to work effectively and safely at home. After the initial survey in May, the Company supplied additional equipment to employees based on their responses. In October, the survey was designed to assess:

- Each employee's wellbeing
- Their work-life balance
- Contact with their colleagues and teams
- Their work area and equipment they use
- The technology and IT equipment they use

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

In July 2020, the Board agreed the creation of a Cultural Barometer in order to regularly measure key indicators of the Group's culture. This showed:

- **Employee-related measures**, including employee engagement, conduct, compliance with the SMCR regime, diversity, and reward
- **Agent-related measures**, including engagement and turnover of individuals;
- **Customer-related measures**, including customer satisfaction and Good Customer Outcome surveys;
- **Vision and values** – these are reviewed during the Board's annual strategy meeting

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

Principle C – Effectiveness

Composition of the Board

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

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

The Chairman was originally considered to be independent upon his appointment as Chairman in 2015. The Board as a whole considers the Non-Executive Directors' existing shareholdings in the Company to be advantageous to shareholders, since in addition to meeting their fiduciary duties, their interests are aligned with shareholders in general. Non-Executive Directors are not entitled to share options as part of their package and there are no cross-directorships between Executive and Non-Executive Directors.

Peter Ward has been appointed by the Group's major shareholder, Hay Wain Group Limited, and so is not considered to be independent. Andy Thomson and Les Easson were previously part of the Company's Executive Team and are also not considered to be independent.

Changes to the Board

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

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

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

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

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

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

Commitment

The Group appreciates the benefits that are brought by a Board with a range of business backgrounds. The Board is satisfied that each Non-Executive Director has sufficient capacity to discharge their responsibilities effectively. This is demonstrated by the 100% attendance at Board meetings during the year, and also 100% attendance during the previous year. Their record of attendance at meetings is shown on page 52, and they have also demonstrated their commitment by the work and advice provided throughout the year.

Following guidance contained in the 2018 Code, members of the Board are now required to give prior approval to the Directors for any new appointments.

Diversity

The Board and its Committees are considered to have an appropriate balance of skills, experience, independence, and knowledge to enable them to discharge their respective duties and responsibilities effectively. The Directors have a wide range of backgrounds and extensive knowledge of a variety of areas of expertise.

The Company does not have a formal diversity policy at present but is committed to promoting equal opportunities in employment. Following the appointment of Sheryl Lawrence on 1 May 2021, there were two women on the Board once more, after the resignation of Baroness Simone Finn.

Development

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

During the last 15 months, Directors have received briefings from the Company's Nomad, Peel Hunt; a detailed review of its HCC division from the Operations Director; a detailed review of the Digital division from the Chief Operating Officer; a demonstration of the customer portal from the Group Marketing Manager; and a detailed review of the customer service function, especially in the light of the operational changes required by Covid-19.

Information and support

The Board considers that it is supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties.

Our Non-Executive Directors receive full updates on Company progress and relevant issues and bring their experience and sound judgement to bear on matters arising.

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

The Company Secretary is available to provide advice and services to all Board members and is responsible for ensuring Board procedures are followed. All Directors are also able to take independent advice to enable them to fulfil their duties if necessary.

Board evaluation

Our CEO has been regularly appraised by the Chairman. One discussion centred on the circumstances, and the lessons learned, following the profit warning in March 2020. During the year, the Chairman has undertaken a formal internal Board evaluation, looking especially at Board chemistry, and undertaken individual Director appraisals and consultations in line with Senior Manager & Certification Regime (SM&CR) requirements. Nigel Knowles, the Senior Independent Director, has appraised the Chairman after consultation with the other Directors.

This evaluation concluded that the whole Board is consistently engaged, bringing a wide range of perspectives and experiences to discussions. The Non-Executive Directors are able to reflect on insights gained from their other activities and bring valuable input to meetings.

Following the evaluation, it was agreed to provide additional training for the Directors about matters specific to the business. Details of the training provided are shown in the **Development** section above.

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

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

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

Corporate Governance Report continued

Re-election of Directors

Following the recommendation of the July 2018 edition of the Code, at the Company's AGM in September 2020, all of the continuing Directors submitted themselves for re-election, and will continue to do so at each subsequent AGM.

Accountability

Financial and business reporting

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

Reviews of the performance and financial position of the Group are included in the Strategic Report within pages 1 to 39 and present a balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities in respect of the financial statements are described on page 80 and those of the auditor on page 90.

Risk management and internal control

The Board acknowledges that it is responsible for determining the nature and extent of the significant risks it is willing to take in achieving its strategic objectives. The Group maintains sound risk management and internal control systems, and these are described in the Risk Management section on pages 26 to 31. Such systems are designed to manage rather than eliminate the risk of failure to achieve the Group's overall business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss.

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

The Board discharges its duties in this area through:

- the review of financial performance including budgets, key performance indicators, and forecasts on a monthly basis;
- the receipt of regular reports that provide an assessment of key risks and controls and how effectively they are working;
- scheduling annual Board reviews of strategy including reviews of the material risks and uncertainties facing the business;
- the receipt of reports from senior management on the risk and control culture within the Group;
- the presence of a clear organisational structure with defined hierarchy and clear delegation of authority; and
- ensuring that there are documented policies and procedures in place.

Through the Risk & Compliance Committee, the Board reviews the risk management framework and the key risks facing the business. The Finance Department is responsible for preparing the Group financial statements and ensuring that accounting policies are in accordance with International Financial Reporting Standards.

All financial information published by the Group is subject to the approval of the Audit Committee.

The Board, with advice from both of the Audit and the Risk & Compliance Committees, is satisfied that a system of internal controls and risk management is in place that enables the Company to identify, manage and evaluate risks, including emerging risks. The report of the Audit Committee on pages 58 to 63 demonstrates how the Board has established formal and transparent arrangements for considering how it should apply the corporate reporting and risk management and internal control principles, and for maintaining an appropriate relationship with the Company's auditor. The Audit Committee is also responsible for the Company's Internal Audit function.

These processes have been in place for the year under review and up to the date of approval of the report and financial statements. They are regularly reviewed by the Board and accord with the guidance in the 2018 Code.

The Board intends to keep its risk control procedures under constant review, particularly as regards the need to embed internal control and risk management procedures further into the operations of the business and to deal with areas of improvement that come to the attention of management and the Board.

Audit Committee and its auditors

The Board is required to establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles, and for maintaining an appropriate relationship with the Company's auditor. The Audit Committee is also responsible for looking after the Group's Internal Audit function.

Principle D – Stakeholder engagement

The s172 statement in the Strategic Report on page 33 provides a summary of the Group's engagement with its various stakeholders.

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

Dialogue with shareholders

The Board is responsible for ensuring that there is a dialogue with shareholders based on the mutual understanding of objectives. The Board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place.

The Group communicates with institutional and private investors and responds promptly to all queries received verbally or in writing. All shareholders have at least 20 working days' notice of the AGM at which all Directors, including Committee Chairs, are usually present and available to answer questions. In 2020, the AGM was held virtually, with shareholders encouraged to ask questions prior to the meeting. The Board is aware of the importance of maintaining close relations with investors and analysts. Twice-yearly roadshows are usually conducted by the CEO and CFO when the performance and future strategy of the Group are discussed with larger shareholders. During FY21, updates were provided in a virtual environment to analysts and shareholders.

These meetings usually cover any matters arising from the analyst presentations, the market in which the Group is operating, its dealings with the Regulator, together with the Group's financial performance and future strategy. Queries from shareholders are dealt with by the CFO. In addition, members of the Board receive regular feedback from major shareholders and discuss this at Board meetings. The Chairman and the Senior Independent Director are also named and make themselves available, should an investor wish to express any views to them.

Principle E – Workforce engagement

The Strategic Report on pages 18 and 19 provides a summary of the Company's work on developing its purpose and values, and ensuring that workforce policies and procedures are consistent with these.

In January 2020, the Board appointed Les Eason, formerly the Company's Operations Director, as the Designated Director for employee engagement. This role has been developed during 2020, in association with the Company's continuing work on culture and values. In view of the dramatic changes to the Group's operations, and especially working from home, the Designated Director took a close interest in the revised arrangements, and the Company's efforts to ensure the health and well being of its employees.

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

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

Corporate Governance Report continued

Board Committees and Directors' attendance at meetings

Board Committees

The terms of reference of all of the Board Committees are available on the Group's website at www.morsesclubplc.com.

Copies of the service contracts and letters of agreement of each of the Directors are available at the Group's registered office during business hours and are available for inspection at each AGM at which shareholders can be present for at least 15 minutes prior to and until the conclusion of the AGM.

During the year, the Board has continued its policy that all Non-Executive Directors are invited to attend meetings of the Audit, Risk & Compliance, Nominations & Succession and Disclosure Committees in order to maintain a full appreciation and understanding of the Company.

Details of attendance at Scheduled Board and Committee meetings during the year are shown below:

		Committees					
		Board	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations & Succession Committee	Disclosure Committee
Meetings		6	4	6	4	3	1
Stephen Karle	Non-Executive Chairman	6	-	-	4	3	1
Paul Smith	Chief Executive Officer	6	-	-	-	-	1
Graeme Campbell	Chief Financial Officer from 1/1/2021	1/1	-	-	-	-	0/0
Sir Nigel Knowles	Senior Independent Director	6	4	5	4	3	1
Joanne Lake	Non-Executive Director	6	4	6	4	3	1
Peter Ward	Non-Executive Director	6	-	-	-	3	0
Andy Thomson	Non-Executive Director/ Interim CFO	6	-	-	-	-	1
Simone Finn	Non-Executive Director to 12/2/2021	6	3/3	5/5	-	3	1
Les Easson	Non-Executive Director	6	-	-	-	-	1
Andrew Hayward	Chief Financial Officer to 16/3/2020	0/0	-	-	-	-	0/0

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

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

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

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

Membership of Committees

Membership of the Committees during the year is shown below:

C = Chair M = Member UA = Upon appointment

	Position	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations & Succession Committee	Disclosure Committee	Considered Independent
Stephen Karle	Non-Executive Chairman	-	-	M	C	C	UA
Paul Smith	Chief Executive Officer	-	-	-	-	M	X
Graeme Campbell	Chief Financial Officer (from 1/1/2021)	-	-	-	-	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Independent Non-Executive Director	M	M	C	M	M	Y
Peter Ward	Non-Executive Director	-	-	-	M	M	X
Baroness Simone Finn	Independent Non-Executive Director (to 12/2/2021)	C	C	-	M	M	Y
Andy Thomson	Non-Executive Director to 16/3/2020; Interim CFO 17/3/2020 – 31/12/2020; Non-Executive Director from 1/1/2021	-	-	-	-	M	X
Les Easson	Non-Executive Director (to 17/3/2021)	-	-	-	-	M	X
Andrew Hayward	Chief Financial Officer (to 16/3/2020)	-	-	-	-	M	X

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

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

Membership of the Committees from 14 May 2021, or once regulatory approval is received for the appointment of Sheryl Lawrence as Chair of the Audit Committee, and Michael Yeates as Chair of the Risk & Compliance Committee (if later), is shown below:

C = Chair M = Member UA = Upon appointment

	Position	Risk & Compliance Committee	Audit Committee	Remuneration & Corporate Social Responsibility Committee	Nominations & Succession Committee	Disclosure Committee	Considered Independent
Stephen Karle	Non-Executive Chairman	-	-	M	C	C	UA
Paul Smith	Chief Executive Officer	-	-	-	-	M	X
Graeme Campbell	Chief Financial Officer	-	-	-	-	M	X
Gary Marshall	Chief Operating Officer	-	-	-	-	M	X
Sir Nigel Knowles	Senior Independent Director	M	M	M	M	M	Y
Joanne Lake	Independent Non-Executive Director	M	M	C	M	M	Y
Peter Ward	Non-Executive Director	-	-	-	M	M	X
Andy Thomson	Non-Executive Director	-	-	-	-	M	X
Sheryl Lawrence	Independent Non-Executive Director	M	C	-	-	M	Y
Michael Yeates	Independent Non-Executive Director	C	M	-	-	M	Y

Nominations & Succession Committee



Dear Shareholder,

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

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

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

COMMITTEE MEMBERS

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



WHAT DOES THE COMMITTEE DO?

1. Ensures that the Board has a formal and transparent appointments procedure and that the balance of Directors on the Board remains appropriate as the Group develops in order to ensure that the business can compete effectively in the marketplace.
2. Identifies and nominates candidates to fill Board vacancies as and when they arise.
3. Evaluates the balance of skills, knowledge, experience and diversity of the Board in order to ensure an optimum mix.
4. Considers the succession planning for Directors, Executives and senior managers to ensure that any succession is managed smoothly.

The Committee comprises all of the Group's Independent Non-Executive Directors, the Board Chairman, and Peter Ward. It held four meetings during the year.

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

Diversity

The Group recognises the importance of diversity both at Board level and throughout the whole organisation.

The Board remains committed to increasing diversity. Consequently, diversity is taken into account during each recruitment and appointment process, working to attract outstanding candidates with diverse backgrounds, skills, ideas and culture.

The Company has an established policy of promoting equal opportunities in employment, ensuring that discrimination does not take place, and everyone receives equal treatment regardless of age, disability, gender reassignment, marital or civil partner status, pregnancy or maternity, race, colour, nationality, ethnic or national origin, religion or belief, sex or sexual orientation. As part of this policy, the Company has put in place a number of steps that aim to address the possibility of unconscious bias during the recruitment process. In 2020, the Company introduced a system of anonymised CVs whereby the personal details of the candidates (name, gender) are initially hidden, thereby ensuring that shortlists are selected based solely on skills and experience. The Committee will review the results of this new process during the year.

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

As at 27 February 2021, the Executive Management Team and Company Secretary comprised eight men and one woman. Their direct reports consisted of 23 men and 10 women.

Activities during the year

During the year, the Committee has:

- undertaken an exercise to look at Executive succession planning;
- reviewed the composition of the Board and its sub-Committees;
- undertaken an annual internal evaluation process for both the Chairman and the Board as a whole;
- concluded that the Board works effectively, both as a group and in its individual committees, bringing a wealth of relevant experience to the Company; and
- made a number of recommendations in relation to appointments to the Board, namely the CFO, COO and two Independent Non-Executive Directors.

Internal Board evaluation

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

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

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

Nominations & Succession Committee continued

Following the internal evaluation, the Committee concluded that:

- the Board remains focused on outcomes – for customers, investors, employees, self-employed agents and stakeholders. This can be demonstrated by the management information requested by and produced to the Board at each Board meeting;
- the Board consistently considers the relevance of its capabilities to meet the challenges ahead. This is debated at the Nominations & Succession Committee;
- the culture at the Board table encourages wide, deep and relevant participation;
- the Board is consistently engaged. All Non-Executive Directors add value in maximising the leverage and quality of their third-party relationships;
- Board colleagues bring a wide range of perspectives to the Board table. Non-Executive Directors reflect on insights gained from their other activities and bring valuable input to meetings;
- additional training should be provided to the Directors on topics specifically related to the Group's activities. During the year, the Directors have received comprehensive briefings on the HCC division from its Operations Director; on the Digital division from the Chief Operations Officer; on potential mergers and acquisitions from the Company's Nomad, Peel Hunt; on the highly important customer portal from the Group Marketing Manager; and on the response of the whole business, and in particular the customer service function, since the onset of the Covid-19 pandemic.
- the Board agenda and management information are continually reviewed to ensure that concise and relevant information is made available at an appropriate time.

As a result of the Board evaluation, the Committee has concluded that the Board works effectively as a group in its current form, although this will remain under annual review.

Changes to the Board during the year

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

Andy Thomson

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

Following the appointment of Graeme Campbell as Chief Financial Officer on 1 January 2021, Andy reverted to his earlier role as Non-Executive Director.

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

The Committee was therefore determined to retain the expert knowledge and deep HCC experience of Andy Thomson, having worked in the sector for the last 12 years. He served as a Non-Executive Director of the Company prior to becoming the Executive CFO at the time of its IPO and has been a shareholder throughout the period since the IPO; hence the Committee believed that he was well placed to protect shareholder interests in his role as a Non-Executive Director.

Graeme Campbell

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

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

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

Baroness Simone Finn

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

Changes to the Board after the end of the year

Les Easson

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

Recruitment of new Non-Executive Directors

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

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

Appointment of additional Executive Director

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

Corporate Governance Code

The Committee is aware that following these appointments, the Group does not comply with Provision 11 of the 2018 Corporate Governance Code which relates to the proportion of Non-Executive Directors whom the Board considers to be independent. However, at the date of this Annual Report, the Company has four Independent Non-Executive Directors, which the Board believes is an appropriate number for its current size and stage of development.

Succession planning

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

The plan has been developed to ensure:

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

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

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

Board service is strictly contingent on individual Director performance and annual re-election, founded upon satisfactory evaluations of his or her contribution to the Board.

The position will be kept under close review by the Nominations & Succession Committee alongside the delivery of the Company's strategy.

Approval

On behalf of the Nominations & Succession Committee

Stephen Karle
Chairman
13 May 2021

Audit Committee



Dear Shareholder,

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

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

In essence, we ensure the integrity of the financial reporting, the robustness of internal operational and financial controls and the independence of the external auditor.



WHAT DOES THE COMMITTEE DO?

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

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

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

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

The Committee acknowledges and embraces its role in protecting the interests of shareholders and is committed to monitoring the integrity of the Group's reporting.

The Committee performed reviews of the full-year, interim and trading update announcements, and the Annual Report and Accounts and half-yearly financial statements.

COMMITTEE MEMBERS

• **Joanne Lake (Interim Chair from 13 February 2021)**

• **Sir Nigel Knowles**

• **Baroness Simone Finn (Chair to 12 February 2021)**

Joanne Lake is a Chartered Accountant with extensive experience within the financial services sector, whilst Sir Nigel Knowles is the CEO of global legal business DWF plc, having been a Managing Partner at the global law firm DLA Piper for nearly 20 years.

Composition and governance

As a Chartered Accountant, the Board considers that Joanne Lake has recent and relevant financial experience. All the independent Non-Executive Directors are members of this Committee and have been since the Group's IPO in May 2016. Following the resignation of Baroness Finn, the Nominations Committee agreed to recruit two additional Independent Non-Executive Directors, with the expectation that one will become the new Chair of the Committee. In the meantime, the Board believes that the current members have sufficient skills, qualifications and experience to discharge their duties in accordance with the Committee's terms of reference.

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

The Committee meets with the external auditor without the presence of Executive Management twice each year to discuss matters relating to its remit and any issues relating to the audit. The Committee also meets each of the Risk & Compliance Director and the Head of Internal Audit individually on an annual basis without the presence of other Executive Management.

The Committee has direct and unrestricted access to both internal and external audit functions. As the Interim Chair, I also have regular contact with the external auditor, the Chief Financial Officer, the Risk & Compliance Director, and the Head of Internal Audit outside the formal meetings to ensure that any areas for discussion are dealt with in a timely manner.

How the Committee discharged its responsibilities

The Audit Committee held four scheduled meetings during the year in alignment with its terms of reference and with the Group's financial reporting timetable.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. This was achieved by comparing the Committee's terms of reference with the Committee's actions and considerations during the year.

Following an earlier review, a separate meeting was scheduled in late January with the sole purpose of reviewing the proposed 2021 audit plan. Initial judgement papers were presented to the Committee in February in order that the Committee could review the general

approach being taken by management. The result is that the audit plan and the preliminary judgement papers can be reviewed and agreed at the most appropriate times in the audit process.

Significant areas of judgement

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

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

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

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

1. Loan loss provisioning

IFRS 9 requires management to record impairment provisions based on the stage of credit impairment. The recording of a provision requires management to make complex judgements/estimates. Management has adopted an approach to IFRS 9 impairment modelling, based on discounting expected future cash flows whereby the probability of default and loss given default are assessed as a single combined measure.

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

The Committee regularly challenges the appropriateness of management's judgements, estimates and assumptions underlying the impairment provision calculations and concluded that the provisions held against the loan book are reasonable.

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

Audit Committee continued

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

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

After discussion with management and the external auditor, the Committee considered the 2015-19 cash curves to be appropriate for the purposes of determining the base level of impairment provision required at year end in order to establish the normalised adjusted profit before tax.

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

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

2. Revenue recognition

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

In order to arrive at the average expected life for each product type, management has taken an average of the expected lives of loans within the December 2015-2019 cohorts. These expected lives were adjusted where appropriate to reflect any changes. However, in FY21, the cohorts have been weighted to give prominence to the 2019 cohort using a weighting of 60%, with a 10% weighting for each of the other four cohorts. This approach was used for both the interim and full-year results. This approach is deemed reasonable given the data sets align with those used to construct the cash collection curves for loan loss provisioning purposes (as described above), thereby resulting in consistency across management's IFRS 9 modelling methodology. The Committee has reviewed the expected life assumptions and management's judgement paper.

The management treatment of revenue recognition was reviewed with management and the external auditors at one of the Committee's scheduled meetings. This treatment has remained consistent with the previous year, with the exception of the use of weightings to give prominence to the most recent year, as described above. The Committee has also challenged the expected life of

products by reference to both historical and forecast data and comparability with the contractual life under IFRS 9. As a result of this review, the Committee has concluded that the Group's treatment of this is reasonable.

3. Goodwill impairment

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

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

The Committee has reviewed the forecast cash flows in the goodwill impairment model for U Holdings Limited. In the short-term these are based on the expectations within the current business plan, which are the key assumptions in driving the first three years of projections. Longer terms growth rates, which are at a lower level, reflect a level of anticipated maturity, which together with the discount rate used, are also key factors underpinning the forecast in later years. The Company used a pre-tax weighted average cost of capital (WACC) of 13.36% in order to discount future cash flows. The WACC used to model the discount future cash flows in FY20 was 13.22%. If this rate was applied to the current model the headroom over the discount future cash flows would increase by £1.97m. The Committee was mindful that the price of the acquisition of U Holdings Limited was set in a competitive bid and that the price paid, whether measured in price per customer or multiple of revenue, represented a significant discount to the valuations placed on some of U Holdings Limited's larger mainstream competitors.

In considering the future projected cash flows, the Committee reviewed the current performance of the business and through the use of sensitised scenarios, including a 'Collect Out' scenario as recommended by the Regulator, is satisfied that performance is at a sufficient level and that there was no requirement to impair the goodwill that arose from the acquisition of U Holdings Limited.

4. Going concern

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

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

Strategic Report Corporate Governance Financial Statements

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

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

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

As the Covid-19 pandemic developed during 2020, the business had to quickly react to the new challenges facing it. This was particularly the case in the HCC division where pre-Covid-19 lockdown, 100% of loan sales and c.60% of collections were dependent on human interaction. As it became clearer that offices might be closed, the Company had to redesign parts of its operations.

The Committee was reassured by the operational resilience demonstrated by the Company as customer loan repayments moved to being made remotely, and for FY21 as a whole around 80% were made remotely mainly through remote debit card payments and the portal. The Company also rapidly developed a remote sales application with the ability to deliver funds to customers through direct bank transfers. During the whole of FY21, 62% of all loan sales were arranged remotely, with 67% done this way in February 2021. Remote loan sales used the same stringent affordability checks as loans arranged face to face, with additional ID and bank validation checks when the Company used a system of faster payments to provide the loan directly into the customer's bank account. In addition, our customer support staff were equipped with laptop computers and set up to work from home through remote telephony.

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

This Covid-19 scenario was then used to assess our going concern status and long-term viability of the business. During the negotiations to extend the facility, the Covid-19 scenario was used in order to give the funding syndicate sufficient assurance about the security of the asset as this stressed the cash flows and covenant performance metrics to the full. As a result of this stress test, the funders agreed to make changes to two covenants in the agreement:

The cash collections covenant was reduced for the remainder of the 2020 calendar year to reflect the reduced performance during the early weeks of lockdown. Since early May 2020 our collections performance was already back to a level that exceeded the original covenant and at no point in time was the original covenant breached. The interest cover ratio covenant (EBITDA/interest cost), previously reported x5.0, automatically reduced on expiry of the mezzanine facility to x3.25. We agreed with the funders to carry out this calculation on a rolling 12-month basis rather than a 6-month rolling basis because the impact of Covid-19 on month-to-month impairments performance can be more volatile than is normal. We also agreed, once the magnitude of the Covid-19 adjustment to impairment was understood, to define this as an exceptional item in accordance with the facility agreement and therefore exclude it from the interest cover calculation.

In May 2021, the Group agreed a new loan facility with a consortium of two lenders, which secured funding for our HCC and digital products through to December 2022. This was at a reduced commitment level of £35m, all in the Revolving Credit Facility (RCF), compared to the £40m funding commitment previously in place until December 2021. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives. The Committee believes that to achieve this in such an economic and societal upheaval for which there is no historic comparison, showed great confidence by our lending syndicate in the robustness of our business model.

The Committee is pleased that there are no going concern issues for the Group. We have adequate headroom in our facilities to meet our projected cash flows, have never breached a loan covenant and our forecasts based on current performance metrics do not lead to any forecasted breach. Additional comfort is taken from the debt balance at the end of February 2021 being £8.5m which compares to £19.5m forecast in the Covid-19 business plan provided to the funders and £34m of drawn down debt at the same point last year.

Critical accounting judgements/estimates and key sources of estimation uncertainty

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

Audit Committee continued

Meetings of the Committee

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

Attendance records can be found on page 52.

The work undertaken by the Committee included the following activities:

- A review of the full-year results including the Annual Report and Accounts, preliminary results, and the external auditor's report. Providing advice (where requested by the Board) on whether the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable, and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- In reviewing these documents and determining whether they were fair, balanced, and understandable, the Committee also considered the work and recommendations of management.
- An interim results' review.
- A consideration of the appropriateness of accounting policies and critical accounting estimates and judgements/estimates, including a review of information from the Chief Financial Officer and reports from the external auditor setting out its views on the accounting treatments and judgements/estimates in the financial statements.
- A review of the external auditor's control observations arising from their external audit of the Company's 2020 accounts, and the management's response to the recommendations included within it.
- A consideration of the level of non-audit work carried out for the Group by the external auditor seeking confirmation from the auditor that it maintains suitable policies and processes to ensure independence. The Committee has a non-audit work policy which is reviewed annually.
- Overseeing the activities of the Group's internal audit function, including its resourcing, its planning, and the output of its audit work.
- Approving the budgets for internal and external audit activities.
- Reviewing the adequacy and effectiveness of the Group's internal audit function and the robustness of the Group's internal operational and financial controls.
- Reviewing access controls, and especially the procedure to cover employee joiners, leavers and reassignments.
- A review of the going concern assumptions when considering interim and final results statements and long-term viability in the case of the Annual Report & Accounts, taking into account internal financial projections.

Review of the 2021 Annual Report and Financial Statements

At the request of the Board, the Committee considered whether, in its opinion, the 2021 Annual Report and Financial Statements, taken as a whole, are fair, balanced, and understandable and provide the necessary information for the reader to assess the Group's position and performance, business model and key audit matters.

Process

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

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

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

The report is fair

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

The report is balanced

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

The report is understandable

- Is there a clear and understandable structure to the report?
- Are the important messages highlighted appropriately and consistently throughout the document with clear signposting to where additional information can be found?

- Is the narrative within the Annual Report and Financial Statements straightforward and transparent?

This assessment was also underpinned by the following:

- The papers on critical accounting judgements/ estimates and key sources of estimation uncertainty presented by management to the Audit Committee which documents the approach taken to the critical accounting judgements/estimates and key sources of estimation uncertainty documented in the financial statements on Page 107. The assumptions and the going concern statement were challenged by the Committee as part of the year-end process.
- The consistency between the risks identified and the issues that are of concern to the Committee.
- The comprehensive reviews of the Annual Report and Financial Statements 2021 undertaken at different levels in the Group which aims to ensure consistency and overall balance.
- The external auditor's report on the Annual Report and Financial Statements 2021.

Conclusion

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

External audit

The Group's external auditor is Deloitte LLP.

The Committee is responsible for reviewing the objectivity, independence and cost-effectiveness of the external auditor.

The Committee also reviews the performance of the auditor, taking into account the services and advice provided to the Group and the fees charged for these services. The CFO, Finance Director and other senior executives provide feedback to the Board and Audit Committees, on a regular basis regarding the services received from the external auditor.

During the year, the Committee reviewed its non-audit work policy which is designed to mitigate any risks threatening, or appearing to threaten, the external auditor's independence and objectivity.

As part of the Committee's remit, we monitor the level of non-audit work carried out by the external auditor. During the year to 27 February 2021, the level of audit fees amounted to £312k (FY20: £410k), and non-audit fees amounted to £35k (FY20: £85k). The ratio of non-audit fees to audit fees was 11.2% (FY20: 20.7%). The non-audit work carried out during FY21 related to the review of the interim results.

Deloitte LLP was first appointed as auditor of Morses Club Limited with effect from 1 March 2009 as a result of a competitive audit tender. Being on AIM, the Company is not a Public Interest Entity and therefore is not required to review its external auditor after 10 years.

Following consultation with the management team, and especially the Finance Department, the Committee agreed to retain Deloitte for the FY21 audit. Deloitte has significant experience and expertise within the Home Collected Credit market. On this basis, the Committee has recommended to the Board that Deloitte be proposed for reappointment at the forthcoming Annual General Meeting. Deloitte has indicated its willingness to continue in office. The Committee confirms that there are no contractual obligations that restrict the Committee's choice of external auditor in the future.

Internal Audit function

The Group has an internal audit function headed by an experienced and highly qualified Head of Internal Audit who reports directly to me, as Interim Chair of the Audit Committee. The Internal Audit function objectively reviews the Group's internal control processes using a risk-based internal audit plan and audit charter approved annually by the Committee. The plan is based primarily on output from the risk management process, but it is flexible and may include ad hoc investigations and other assurance work agreed by the Committee. Specialist technical knowledge and resources are sourced externally when required.

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

The Committee closely reviews the reports of the Internal Audit function. Its work is primarily risk-based, utilising the Group's risk registers and consultation with the Executive team to identify key risks which are then prioritised. The Committee has found the reports to be both incisive and timely, and presented in a way that is well articulated.

The Head of Internal Audit is invited to attend all of the Committee's meetings and meets the Committee members on an annual basis without management present. As Interim Chair of the Committee, I hold one-to-one meetings every month with the Head of Internal Audit.

The Committee annually assesses the effectiveness of the Internal Audit function and has satisfied itself that the quality, independence, experience and expertise of the function is appropriate for the business.

FRC Corporate Reporting Review team

There was no interaction with the FRC's Corporate Reporting Review team during the year.

Approval

On behalf of the Audit Committee

Joanne Lake
Interim Chair
13 May 2021

Risk & Compliance Committee



Dear Shareholder,

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

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

- **the Group remains compliant with the FCA's prevailing rules, regulations and guidance;**
- **the Group's risk management policies and procedures are fit for purpose; and**
- **the Group's risk management framework is operating effectively.**

COMMITTEE MEMBERS

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

WHAT DOES THE COMMITTEE DO?

The principal purpose of the Risk & Compliance Committee is to assist the Board in its oversight of risk and regulatory compliance within the Group with particular focus on the FCA's developing requirements, risk appetite, risk profile and the effectiveness of the Group's internal controls and risk management systems. The Committee ensures that there is an ongoing process for identifying, evaluating and managing the principal risks faced by the Company.

The Board and its Committees discharges its duties in this area through:

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

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

The Committee held four meetings during the year.

Composition and governance

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

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

How the Committee discharged its responsibilities

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

Both the Risk Executive Committee and the Credit Risk Committee of the Morses Club division have reported directly to this Risk & Compliance Committee and a summary of their minutes are sent to all members of this Committee. In addition, the Committee also receives reports and updates from the Shelby Finance Limited subsidiary.

A self-assessment internal review of the performance of the Committee concluded that it had discharged its responsibilities during the year. It also confirmed that it was satisfied with the effectiveness of the Company's risk management function. As Chair, I am satisfied with the functioning of the Committee, and the management information provided by the Company.

The Morses Club strapline is 'Putting You First'; customers are at the heart of the Group's culture, vision and values. In recent years, the level of public and regulatory scrutiny of the Group's marketplace has grown. The Board recognises the importance to the business of risk and compliance, and the need to devote time and energy to these vital areas.

The Committee is responsible for reviewing and reporting to the Board on a number of topics, including:

- the Group's risk appetite (the extent and categories of risk regarded by the Board as acceptable for the Group to bear);
- the Group's risk management and internal controls framework (its principles, policies, methodologies, systems, processes, procedures and people);
- processes and procedures to ensure that the Group operates in compliance with external regulators, for example, the FCA and the ICO;
- the arrangement for the identification, assessment, monitoring, management and oversight of risk with regard to processes and procedures;
- the effectiveness of the Group's internal controls, compliance monitoring and risk management systems; and
- the Group's procedures for preventing and detecting money laundering and fraud.

The Committee has a formal schedule for matters to be discussed at the various meetings. These include a regular review of:

- the work done by the Executive Team's Risk Committee;
- the work done by the Executive Team's Credit Risk Committee;
- the Money Laundering Reporting Officer's (MLRO) Report;
- the Group's assessment and management of conduct risk;
- the Group's policies and practices for treating customers fairly and ensuring consistently good customer outcomes;
- the Group's compliance monitoring activities;
- information and cyber security, including adherence to GDPR;
- business continuity and disaster recovery plan and testing thereof;
- the Group's overall levels and types of insurance.
- customer complaints;
- financial crime;
- whistle-blowing; and
- regulatory matters, including those relating to the FCA.

Activities during the year

During the year, some of the key topics addressed by the Committee included cyber security and data protection, Treating Customers Fairly, regulatory matters, customer complaints, the implementation of new processes in order to allow the HCC business to continue operating, and further enhancements to our system for checking each customer's affordability.

Identifying risks

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

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

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

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

Risk & Compliance Committee continued

Cyber security and data protection

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

Regulatory matters

The Committee has been actively involved in the Group's continuing constructive dialogue with the FCA. The Group has engaged proactively with the FCA throughout the pandemic, from a lending, collections and forbearance approach. We have also been involved with their wider consumer credit thematic work into Covid-19, both from a forbearance and financial resilience perspective. The Group has submitted data to the FCA's Covid-19 team regarding financial resilience and operational matters on a regular basis.

Treating Customers Fairly

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

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

Whistle-blowing

During the year, the Committee reviewed the Company's whistle-blowing procedures. The subject has been included in two online training courses which are mandatory for staff to complete. They have also featured on the staff intranet. The Company has consistently highlighted to its staff the FCA's whistle-blowing hotline as well as providing both an internal contact telephone number and email address, together with the contact details of one of our Independent Non-Executive Directors. During the year, there have been no reportable breaches and no whistle-blowing instances.

Customer complaints

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

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

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

Business continuity

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

The future

The Committee intends to initiate an external review of the Group's Financial Crime and Risk & Compliance functions during the next 2 years. This will bring an outside perspective which can be valuable every few years. A section on the Group risks can be found on pages 26 to 31.

Covid-19

The Committee has been kept fully informed of the actions taken by the Company in response to the unprecedented effects of the Covid-19 virus. It reviewed these actions and was very encouraged by the speed of response and the diligence of the Company and its employees to the challenges posed by this pandemic. Further details are included on pages 4 to 5.

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

Approval

On behalf of the Risk & Compliance Committee

Joanne Lake
Interim Chair
13 May 2021

Directors' Remuneration Report

The approach to Directors' remuneration has been completed taking account of the market, regulatory environment, the need to deliver shareholder return and individual role responsibilities.

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

Remuneration & Corporate Social Responsibility Committee

The Board has appointed a Remuneration Committee (the Committee) which is chaired by Joanne Lake (Independent NED), and comprises Sir Nigel Knowles (Senior Independent NED) and Stephen Karle (Chairman). Dave Belmont (Company Secretary) also attends all meetings.

The Committee was established as a direct consequence of the Company's successful listing on the AIM Market in May 2016.

The terms of reference for the Committee are available online at www.morsesclubplc.com. The Committee has studied Section B of the Best Practice provisions annexed to the Listing Rules of the UK Listing Authority and has voluntarily disclosed the information given below.

This Committee's principal function is to determine the Company's policy on executive remuneration. No Director plays any part in formal decisions about their own remuneration. The HR & Communications Director and Chief Financial Officer provide relevant updates on financial and general Company remuneration matters as invited individuals only. The Committee meets periodically when it has proposals to consider – generally three times a year. In any event, the Committee would meet no less than twice a year.

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

This Remuneration Report is due for approval at the Annual General Meeting on 22 June 2021. Remuneration proposals are supported by external benchmarking to

determine external market trends and to ensure that Director remuneration is proportionate and in line with individual and business performance.

Executive remuneration policy

As the organisation continues to grow and develop, we expect that the remuneration policy will be reviewed. However, the Executive team and the Committee continue to be committed to continued diligence in setting executive remuneration to ensure market relevance, and the delivery of shareholder value as well as continuing to embed the Company's strategy.

Executive remuneration continues to be balanced against the remuneration of the rest of the organisation. Our remuneration policy is underpinned by core principles as outlined below.

- Remuneration is determined within the Company's risk appetite, and is subject to oversight and approval by the Remuneration Committee.
- Key FCA principles, including the principles of Treating Customers Fairly apply throughout. Although all employees should contribute towards a commercial result, remuneration is designed to drive a 'balanced scorecard' approach, based on responsible lending principles and outstanding individual performance. Delivery of good customer outcomes is central to the Company's remuneration approach.
- Remuneration structures will be developed in line with the appropriate regulatory environment, including the SMCR and the Company's values.
- A blend of short-term and long-term incentives will support the long-term security of the Company and its employees.
- For key roles, remuneration will take account of pay structures in the external market. Remuneration structures will reflect the size and the scope of any given role.
- Remuneration will be driven by Company as well as individual performance, with a foundation of fairness and ability to pay.
- We will communicate policies clearly and in a timely manner.

Directors' Remuneration Report continued

Business context and Committee decisions on remuneration

The Company successfully listed on AIM in May 2016. As detailed in the report, key elements of the Company's business strategy with regard to technology and acquisitions have been delivered. The Company has undergone a transformation in the HCC division, with a large increase in the levels of remote lending and collections due to restrictions imposed by the Covid-19 pandemic. The HCC division was able to restart lending to its existing customers from April 2020, and subsequently to new customers from July 2020. The Digital division has made excellent progress in developing foundations upon which to build in future years.

Directors' remuneration

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

Non-Executive Directors

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

1 P Smith is the highest paid Director.

2 A Hayward was appointed as CFO on 1 July 2019 and resigned on 16 March 2020. His base salary for 2021 of £106,449 includes £90,615 notice pay.

3 A Thomson stepped down as a NED on 17 March 2020 and became CFO on the same date.

4 A Thomson stepped down as CFO on 1 January 2021 and became a NED on the same date.

5 G Campbell was appointed as CFO on 1 January 2021.

6 S Finn was appointed as a NED on 5 May 2019 and resigned on 12 February 2021.

7 L Easson was appointed as a NED on 1 September 2019 and resigned on 17 March 2021.

8 P Storey stepped down as a NED on 4 May 2019.

Directors' remuneration policy

Service contracts

All Executive Directors were reissued with a revised service contract as part of the arrangements for the IPO. Service contracts cover a continuous period (ie, not a fixed term) and a notice period of six months applies to both the Company and to individuals. There are no compensation payments for loss of office.

Letters of appointment

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

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

Allowances and benefits

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

Life assurance

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

Holidays

Executive Directors are entitled to 30 days' paid holiday in addition to UK public bank holidays. The holiday year runs from January to December. In addition, Directors can purchase an additional 10 days' holiday in each calendar year.

Pension

Executive Directors are enrolled into the Company pension scheme. Personal contributions are matched by the Company up to a maximum of 7%. This level of Company contribution is the same for all employees and Directors, and therefore complies with Provision 38 of the 2018 Corporate Governance Code recommendations regarding executive pensions.

Annual bonus

The annual bonus is the value of the bonus earned within the year and can be up to 100% of salary, based on the performance conditions outlined below. Any earned bonus is payable in August following the year end in February, conditional on independent audit and confirmation by the Committee.

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

Performance bonus conditions

The performance bonus is payable if the Executive Director has delivered key objectives, including targeted adjusted profit before tax¹, promoting good-quality customer outcomes (ie, Treating Customers Fairly), maintenance of headline customer satisfaction score and completing key strategic projects and acquisitions, all underpinned by regulatory compliance.

¹ Definitions are set out in the Glossary of Alternative Performance Measures on pages 138 to 141.

Directors' Remuneration Report continued

Deferred share plan (this section is subject to audit)

Executive Directors may participate in a deferred share plan, a three-year plan (commencing 2016/17) awarded through an annual deed of grant, subject to the discretion of the Remuneration Committee. There have been no variations to the terms and conditions or performance criteria for share options during the financial year. Awards under the Deferred Share Plan (DSP) may be in the form of:

- A conditional right to acquire Ordinary Shares at no cost to the participant, or an option to acquire Ordinary Shares at no cost to the participant or a right to receive a cash amount relating to the value of a certain number of notional Ordinary Shares.
- Share awards will be subject to performance conditions which are: delivery of targeted adjusted profit before tax¹, total shareholder return (measured over a period of one year's satisfactory audits), compliance training, and individual executive performance.
- Awards will be granted on an annual basis.
- Awards will vest on the third anniversary following the grant date (unless determined otherwise by the Remuneration Committee). Awards will lapse should an individual leave employment and are not transferable.

2018/19 Award

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

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

2019/20 Award

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

2020/21 Award

The table below details the maximum earnings from the deferred share plan in 2020/21. The issue price of the shares was £0.62².

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

¹ Definitions are set out in the Glossary of Alternative Performance Measures on pages 138 to 141.

² The Committee was unwilling to offer a share award to the Executives based on the reduced share price as at May 2020. The award was therefore granted using a deemed share price of £1.36 which was the average share price for the awards in the previous four years.

2017 vesting

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

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

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

Directors' shareholdings

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

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

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

All employee remuneration

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

There is no formal consultation with employees regarding the remuneration of Executive Directors.

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

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

Directors' Remuneration Report continued

Changes in Directors' pay in relation to all employees

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

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

1 The strict legal requirement is to only provide details of employees of Morses Cub PLC, so we have decided to voluntarily disclose in respect of all Group employees.

2 Note that calculation is on a FTE basis.

3 No annual performance bonuses were paid in 2021.

4 A Hayward was appointed as CFO on 1 July 2019 and resigned on 16 March 2020.

5 A Thomson stepped down as a NED on 17 March 2020 and became CFO on the same date. On 1 January 2021, he stepped down as CFO and became a NED on the same date. The increase in his salary as an Executive Director was primarily caused by the additional period worked compared to 2020. The decrease in his salary as a Non-Executive Director was caused by the related reduction in the period worked compared to 2020.

6 G Campbell was appointed as CFO on 1 January 2021.

7 S Finn was appointed as a NED on 5 May 2019 and resigned on 12 February 2021. The increase in her fee as a Non-Executive Director was solely the result of the additional period worked compared to 2020.

8 L Easson was appointed as a NED on 1 September 2019 and resigned on 17 March 2021. The increase in his fee as a Non-Executive Director was solely the result of the additional period worked compared to 2020.

CEO pay ratio

We have detailed the CEO pay ratio below.

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

FY21

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

FY20

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

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

Relative importance of spend on pay

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

Corporate Social Responsibility (CSR)

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

Joanne Lake

Chair – Remuneration & Corporate Social Responsibility Committee
13 May 2021

Disclosure Committee

The Company is required to make timely and accurate disclosure of all information required to meet the legal and regulatory obligations and requirements arising from its listing on the London Stock Exchange under the Market Abuse Regulations (MAR).

The Disclosure Committee exists to help the Company meet these requirements. The Committee's responsibilities include determining the timely disclosure of material information, and assisting in the design, implementation and periodic evaluation of disclosure controls and procedures.

Although AIM-listed companies are no longer required to maintain insider lists, there is still an obligation to take all reasonable steps to ensure that people with access to inside information acknowledge their legal and regulatory duties, and a company must be able to provide the FCA with an insider list, upon request. In practice, this means Morses Club has chosen to retain an up-to-date insiders' list.

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

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

The Committee held one meeting during the year.

Approval

On behalf of the Disclosure Committee

Stephen Karle

Chairman
13 May 2021

COMMITTEE MEMBERS

Stephen Karle (Chairman)

Sir Nigel Knowles

Joanne Lake

**Baroness Simone Finn (resigned
12 February 2021)**

Peter Ward

Andy Thomson

Les Easson (resigned 17 March 2021)

Paul Smith (CEO)

**Graeme Campbell (CFO) (from 1
January 2021)**

