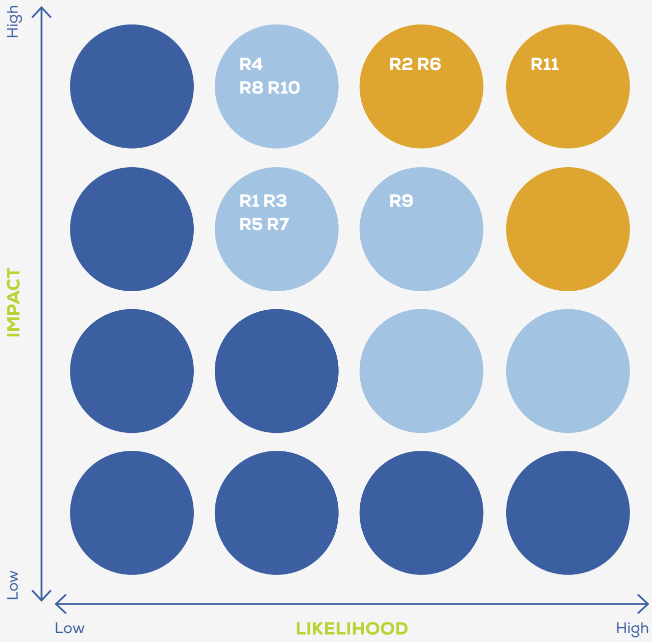
Principal Risks and Uncertainties



Key

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

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

↑ Increase → No change ↓ Decrease

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R1	Conduct Risk	The risk of poor outcomes for customers, by: • Offering inappropriate products. • Failing to assess affordability. • Failing to identify vulnerable customers. • Failing to show forbearance if customers struggle with their repayments.	Treating Customers Fairly is a fundamental part of the Company's culture. Comprehensive and verifiable training and oversight of agents and staff, in both the HCC and Digital divisions, is undertaken. First and second-line quality assurance operates alongside an automated, mobile technology-based sales & collections process. During the year, the HCC division has implemented enhanced affordability procedures incorporating additional external data. This, together with the new loan optimisation system, has enhanced our affordability process and the customer journey for agents and customers at the point of sale. The HCC division enhanced the digital loan process to facilitate remote lending. The Company has fully embedded the policies and procedures required by the Senior Managers and Certification Regime.	→
R2	Regulatory Risk	The risk of legal or regulatory action resulting in fines, penalties, censure or other sanction or legal action arising from failure to identify or meet regulatory and legislative requirements. This also includes the risk that new regulation(s) or changes to the interpretation or implementation of existing regulation(s) may affect the Group's operations and cost base.	A gap analysis is undertaken when any rules or regulatory guidance changes. Governance, risk and compliance are independently and externally reviewed by our lawyers. We maintain continuous communication with key external stakeholders and professional contacts to keep our information updated. The business is continuing to review its lending approach in light of the FCA relending study and the Woolard Review that looked at change and innovation in the unsecured credit market. During the year, the Digital division appointed a new Head of Compliance, reporting to the Group's Risk & Compliance Director.	↑ The HCC sector has become under closer scrutiny from the FCA during the last 12 months.

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R3	Credit Risk	The risk of default on a debt may arise from a borrower failing to make the necessary payments. The primary risk lies with the lender and includes lost principal and interest, disruption to cash flow, and increased collection costs.	Group policy prescribes business oversight and control. Weekly management information allows the Group to monitor the effects of lending decisions. Regular reviews of policies and outcomes are undertaken by the Credit Risk Committees of the HCC and Digital divisions. Covid-19 had an initial impact on repayment rates, but these have improved and are now back to pre-Covid-19 levels.	→
R4	Reputational Risk	The risk of loss due to damage to, or a decline in, the Group's reputation, for example through poor customer outcomes resulting in a high level of complaints.	Effective corporate governance provides business oversight and control. We undertake independent monitoring, for example market surveys and mystery shopping. In 2020, we continued surveys of all types of customer, including those who benefited from our policy of forbearance. The number and nature of complaints are closely monitored. We have widened customer access to online documentation through a customer portal and provided customers with a more robust and customer-centric experience.	→
R5	Strategic and Business Risk	The risk arising from poor business decisions, substandard execution of decisions, inadequate resource allocation, and/or from failure to adapt sufficiently to changes in the business environment. Examples could include: • Acquisitions stretching resources beyond capability. • Failure to maintain the Company's competitiveness in its markets. • Inadequate corporate governance.	A full Committee-based corporate governance structure operates with Board oversight. The Board and Executive Team hold an annual two-day strategy planning meeting. Detailed strategic planning and oversight are implemented alongside horizon scanning. The recruitment application process for additional staff, prior to interview, is highly automated and efficient. We are involved in lobbying through our trade associations. During 2020, the Company put into place contingency plans to minimise the risks to the health and safety of our customers, employees and agents. All staff were able to operate from home effectively and the HCC business is able to lend and collect both remotely and through doorstep activities.	→
R6	Wider Industry Risk	This risk can arise from concerted action by Claims Management Companies (CMCs) which can lead to a significant increase in the level of complaints being raised against the Group, whether they are ultimately settled or rejected. A change of approach by the Financial Ombudsman (FOS) resulting in more complaints being upheld without good reason. The increased cost of each FOS claim, whether the complaint is upheld or not. The Group has recognised a provision for the cost of fully settling complaints and FOS fees in relation to outstanding complaints at the balance sheet date.	During the year, the Group has seen a noticeable increase in the level of complaints received from CMCs. In many cases, these have been spurious or allegedly sent by individuals who have never been customers or have been sent without the customer's knowledge or consent. CMCs are now regulated by the FCA and it is hoped that they will act more responsibly in the future. The Group is actively engaging with FOS and the FCA through the sector trade associations.	↑ Claims management companies are becoming more active in the financial services sector.

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R7	Operational Risk	The risk of loss arising from inadequate or failed procedures, systems or policies, employee errors, system failure, fraud, or other criminal activity – indeed any event that disrupts business processes. Business continuity plan fails to maintain customer service.	The Group has a comprehensive suite of policies and procedures covering its operational activities that is subject to regular review and revision. All agents and staff participate annually in a personal safety review and follow our home/remote working policy. A comprehensive business continuity policy and procedure is in place and a third-party disaster recovery site is now available should it be required. Disaster recovery tests are performed periodically on critical systems. The Group's business interruption insurance cover has been maintained, following the increase in cover negotiated in 2019. We responded rapidly to the outbreak of Covid-19, successfully adapting our operating model to enable all our agents to work from home and replacing face-to-face customer visits with a remote customer communication strategy. We made use of our existing technology platform and payment methods to maintain customer contact and collection activity. We launched a new cashless remote lending product, which is available to all existing Morses Club HCC customers and is compliant with all regulatory requirements. All necessary checks and agreements are transacted via our online Customer Portal, leveraging our existing technology platform. Customers using the new remote lending product can choose to have funds deposited directly into their bank account or loaded onto a Morses Club Card, ensuring that existing customers can continue to access our products and services during this time. The Digital division reviewed operating practices so all employees have been working from home. Assessment of credit risk was also reviewed to ensure that risk appetite for credit risk and TCF were maintained. The Digital division has implemented a number of new systems during the year, including the implementation of a new Loan Management System. These have been subject to rigorous testing and project management.	→
R8	Liquidity Risk	The risk of the Company being unable to meet its current and future financial obligations on time.	During the period we extended our loan facility with the incumbent three lender consortium to December 2021, reducing the facility limit to £40m. In May 2021 we successfully reached agreement with a new two lender consortium, for a more cost efficient and slightly lower £35m facility, extended to December 2022. The new facility will continue funding our existing HCC products, but crucially, it will unlock funding for our Dot Dot loan products and help the business achieve its immediate strategic objectives.	→

Principal Risks and Uncertainties continued

RISK NUMBER	TYPE OF RISK	DEFINITION	RISK MITIGATION	RESIDUAL MOVEMENT DIRECTION
R9	IT and Cyber Risk	The risk of business interruption from cyber crime or system failures. IT/Cyber risks include: • IT systems and networks can be damaged and/or information can be lost owing to third-party actions. • Data protection/information security issues occur or there is a failure to meet the requirements of data protection regulation/legislation (eg GDPR). • Strategy and architecture risk arising from inadequate requirements and business analysis. • Outsourced supplier risk arising from the use of external IT platforms. • Major change impacts on daily business and/or results in poor quality delivery.	The Group has an ongoing programme to conduct regular vulnerability assessments against our core infrastructure services. The Group recognises the increased relevance of this risk as the move to digitise the business continues and has plans to increase the frequency and scope of its testing. We have a dedicated information security resource and undertake penetration testing of our external and internal networks which helps to identify new or emerging security concerns. During the year, the Group successfully completed its annual disaster recovery test, simulating a total loss of data centre and the successful failover of all production systems to the disaster recovery site. This covered both of the HCC and Digital divisions. Since the outbreak of Covid-19 we have engaged with suppliers to ensure increased resilience for all key IT services. During the year, we have undertaken phishing exercises in order to educate our staff. Most of our data is now encrypted at rest. The Group's cyber insurance cover has been increased once more in consultation with the Group's insurers. The business change team closely monitors demand and resource plans.	↑ The risk is seen as increased owing to the increase in the number of cyber attacks globally, plus the increase in the volume of online business.
R10	Agents' self-employed status	The risk that employment and/or tax legislation changes to such an extent that the Company cannot maintain self-employed status for its agents.	The Company carefully monitors the position with its advisers and conducts an ongoing review of business processes, systems and contracts in order to maintain self-employed status for its agents.	→
R11	Covid-19 pandemic	The risk that normal business is significantly affected by Covid-19 by restricting face-to-face contact with customers, reducing the number of staff working from offices and reducing the demand for loans.	During FY21, the Group rapidly developed systems whereby customers can apply for loans and repay them remotely – by telephone or through the customer portal. At the time of writing, all staff are working from home effectively, including the customer call centres. The reduction in demand for loans is addressed by constantly monitoring the cost base of the business. The decision has been made to close both office facilities in Birstall, with the registered office being moved to Nottingham in April 2021. For further information see the viability statement on page 31.	→

Emerging risks

The Company uses proactive risk management in order to view current and future events and predict where emerging risks might appear. This horizon scanning is fundamental to being able to predict business needs and potential issues and there are numerous techniques for this process.

Risk identification exercises are performed as part of general risk management practice within the Group.

Current events are highlighted and analysed, for example, regulatory fines to other organisations. This is then reported on at executive level as a horizon scanning item for Risk Executive reports.

Other future business, economic, political, or newsworthy events are also highlighted and added to the horizon scanning process.

Risks identified using these processes are prioritised and managed following the Group's established risk processes. In the vast majority of cases, the Group sees risks change and develop rather than emerge. However, climate change can be seen as an emerging risk.

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

Viability Statement

The directors and the Audit Committee consider a 12 month horizon as part of the going concern assessment (page 60), but in addition the directors consider the Groups longer term viability as part of their continuing programme of monitoring risk. For the purpose of assessing the future prospects of the Group, the Directors have selected a 3-year timeframe. This timeframe has been selected as it corresponds with the Board's strategic planning horizon.

The assessment has been made, at the date of signing these accounts, with reference to:
- the Group's financial position for the year ended 27 February 2021.
- the Group's strategy and business plan.
- the Board's risk appetite.
- the Group's principal risks and uncertainties and how these are identified, managed and mitigated.
- the Group's going concern assessment, and.
- the external environment that the Group operates within.

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

The Directors review and renew the 3-year strategic plan at least annually. Progress against the strategic plan is reviewed at every meeting by the Board through presentations from the Executive Management Team on the performance of their respective business units, the assessment of market opportunities, and the consideration by the Board of its ability to fund its strategic ambitions.

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

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

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

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

As part of its annual planning process, the Group assessed its business plans and subsequently ran a number of scenarios around the key areas of sensitivities namely
- Loan volumes
- Collections
- Loan book quality/credit risk
- Cash availability
- Collect out scenario (in accordance with Regulatory guidance)

As discussed in the Risk Management report, the Board, primarily through its Risk & Compliance Committee, has established the Group's risk appetite and strategy, and approved its frameworks, methodologies, policies, and roles and responsibilities. The Group maintains a risk register covering the entire business. Risks and their status are reviewed regularly, and the Risk & Compliance Committee has performed a robust risk assessment during the year.

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