25 August 2022

Morses Club PLC

Preliminary results for the 52 weeks ended 26 February 2022

Morses Club PLC ("the Company" or "the Group"), an established provider of non-standard credit services, announces its preliminary results for the 52 weeks ended 26 February 2022.

Company Update

- Considerable challenge in HCC business due to continued high level of claims from CMCs, resulting in a significant complaints liability of £42.6m being recognised in the FY22 accounts, as an exceptional item, with significant uncertainty of the potential total liability which will be paid. The Directors accept there is a liability in relation to customer redress claims for unaffordable lending against the Company (Redress Claims) at the balance sheet date, however there is significant uncertainty of the total liability which will be paid. This is due to the fact that the methodology for assessing the population of claims is yet to be agreed, and the level of subsequent customers who may claim against that methodology not yet being known

- Working with key stakeholders to pursue a potential Scheme of Arrangement to deal with the increase in complaints

- Pausing of processing of all new unaffordable lending claims effective from 11 August 2022. Without this pause, it is the Directors' belief that the Group could have suffered significant near-term liquidity issues, threatening its going concern status

- Working with funders, who remain supportive, to secure further funding in line with the future product set of the business. The Group's current facility of £35m is only in place until 31 March 2023, which is less than 12 months following the date of signing of the financial statements. Discussions continue with lenders regarding the covenants within the facility, the extension or deferral of the term-out clause which would be enacted by the end of September 2022 and would place restrictions on the ability of the Group to issue new loans and the facility's possible extension. This term-out clause is pre-existing and essentially provides assurance to the funders of the repayment of the facility within the last 6 months of the agreed term. In practice, this has the effect of converting the rolling credit facility to a term loan. This would mean that any subsequent collections made on the loan book, would be ringfenced to pay down the facility, less any operational costs the business has. Therefore, it would place restrictions on the business with regard to the issue of new loans

- The quantum of the redress claims liability and timing of settlement, as well as the extension or deferral of the term out clause and availability of funding beyond 31 March 2023, create a material uncertainty that may cast significant doubt about the Group's and Company's ability to continue as a going concern

- Reshaping the HCC business to draw a line under redress complaints – creating a product set to serve our customers and address a market which will continue to grow in the current economic climate

- Reshaped the digital division to maximise the core credit offering and to take advantage of the wider non-standard credit market. Due to significant changes in market conditions, the e-money current account product U Account was withdrawn in May 2022

- The HCC division is currently engaged in a programme to potentially end the self-employed status of agents and replace the work with a new role of employed Customer Support Associate. The aim is to complete this by Autumn 2022

- Continued deep commitment to providing credit to underserved customers

FY22 Operational Highlights:

- 143,000 HCC customers (FY21: 151,000) – continued focus on quality lending
- Strong customer satisfaction of 97% in HCC (FY21: 98%)
- 66% (FY21: 67%) of all HCC lending cashless with 81% (FY21: 80%) of collections now made remotely
- 81% of HCC customers use the online portal (FY21: 70%)
- Delivered further technology and process enhancements in HCC to balance a digital service with in-person customer service to enable a virtually paperless documentation process
- 39,000 Dot Dot customers (FY21: 29,000), an increase of 34%
- Established 92% customer experience score for Dot Dot loans (FY21: N/A)

FY22 Financial Highlights:

- **Group**
  - Revenue increased by 11.2% to £111.4m (FY21: £100.2m)
  - Total credit issued to all customers increased 15.7% to £149.3m (FY21: £129.0m)
  - Net loan book of £55.8m (FY21: £53.5m), an increase of 4.3%
  - Adjusted profit before tax[1] of £4.6m (FY21: £6.1m)
  - Statutory loss before tax of £42.9m (Statutory profit before tax FY21: £0.5m) due mainly to exceptional costs primarily relating to recognition of HCC redress claim liability
  - Impairment as a percentage of revenue for the period of 32.3% (FY21: 20.8%) is due to sales increase in the Digital division and the complaints write-off of £3.5m
  - Adjusted return on assets[1] of 10.1% (FY21: 8.9%)
  - Statutory return on assets of -57.4% (FY21: 0.3%)
  - Adjusted EPS[1] of 4.4p (FY21: 3.9p)
  - Statutory Loss Per Share of -25.0p (FY21: 0.2p)
  - Board has not recommended a final dividend for FY22

- **HCC**
  - Total credit issued of £108.0m (FY21: £109.7m)
  - Adjusted HCC profit before tax[1] of £10.0m, a decrease of 33.3% (FY21: £15.0m), due to the increase in complaints in the period
  - Statutory HCC loss before tax of £35.0m due to £44.4m of exceptional costs primarily relating to the recognition of the redress claim liability (Statutory profit before tax FY21: £11.8m)
  - Impairment a percentage of revenue of 15.3% below Company guidance range of 21% to 26% which is a continuation of a positive trend

- **Digital**
  - Revenue increased by over 115% to £29.6m (FY21: £13.8m)
  - Credit issued up to 114% to £41.3m (FY21: £19.3m)
  - Gross loan book increased by 97% to £23.8m (FY21: £12.1m)
  - 39% improvement in adjusted loss before tax from the prior year improving from (£8.9m) to (£5.4m)
  - Statutory Digital loss before tax of £7.9m (FY21: (£11.3m)), an improvement of 30%
  - Returned an adjusted profit before tax in January and February 2022

Alternative Performance Measures & Key Performance Indicators

Key performance indicators	52-week period ended 26 February 2022	52-week period ended 27 February 2021	% +/-
Revenue	£111.4m	£100.2m	11.2%
Net Loan Book	£55.8m	£53.5m	4.3%
Adjusted Profit Before Tax[1]	£4.6m	£6.1m	(24.6%)
Statutory (Loss)/ Profit Before Tax	(£42.9m)	£0.5m	(8680.0%)
Adjusted Earnings per share[1]	4.4p	3.9p	12.8%
Statutory (Loss)/ Earnings per Share	(25.0p)	0.2p	(12600.0%)
Cost / Income ratio	64.9%	70.9%	(8.5%)
Return on Assets	(57.4%)	0.3%	(19033.3%)
Adjusted Return on Assets[1]	10.1%	8.9%	13.5%
Return on Equity	(77.0%)	0.4%	(19350.0%)
Adjusted Return on Equity[1]	13.6%	10.3%	32.0%
Tangible Equity / average receivables[1]	74.6%	86.3%	(13.6%)
No of customers (000's)	186	180	3.3%
Number of agents	1,077	1,385	(22.2%)
Credit Issued	£149.3m	£129.0m	15.7%
Impairment as % of Revenue[1]	32.3%	20.8%	(55.3%)

1. Definitions are set out in the Glossary of Alternative Performance Measures on page 31

Gary Marshall, Chief Executive Officer of Morses Club, commented:

"The last 12 months have been challenging for the Company and we fully recognise the current challenges we as a Group still face. However, we are deeply committed to the sector and the customers who require our services more than ever due to the current macroeconomic environment.

"The underlying operational performance of our credit business was stable and consistent throughout the period. The digital lending division, Shelby Finance, has had a particularly strong year, with total credit issued more than doubling to £41.3m. The division returned an adjusted profit before tax in January and February 2022 which was a key milestone.
"The overall long-term outlook for the Group is positive. We have made significant strides to reshape the Group and there will be more to do as we continue our discussions with the Financial Conduct Authority ("FCA") to progress on a potential Scheme of Arrangement. Any potential Scheme of Arrangement would remove the uncertainty of continued redress claims and remove the risk of ongoing liabilities with regard to volatility in the level of complaints. I am confident that we can work through this in a constructive way, as it is vital that our customer demographic continues to be served by a provider which understands the market and operates in a socially conscious way.

"The Group's strong management team, which has significant experience of transitioning businesses, understands the need to operate at pace and we have a renewed momentum on transforming the Company to produce sustained development for both divisions.

"We remain focused on continuing to build the trading position of the Group and are convinced that the reshaping of our business will help the Company move forward from the challenges it currently faces. Our position as the only remaining HCC lender of scale in the UK and the commitment we have to the sector, along with our core expertise in serving customers in this market will help secure our longer-term future, despite the impact on profitability for the period as well as into FY23.

"I would like to thank all our teams within the business and our wider stakeholders, for their hard work and continuous commitment to the Company during this particularly challenging time."

Sell-side Analyst Presentation

A presentation for analysts will take place at 9.30am today. Please contact charles.dingwall@camarco.co.uk for further details.

Forward looking statements

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

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

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Notes to Editors

About Morses Club

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

UK HCC is considered to be a specialised segment of the broader UK non-standard credit market. UK HCC loans are typically small, unsecured loans delivered directly to customers either remotely or in their homes.

Morses Club's HCC division is the largest UK Home Collected Credit (HCC) lender[1] with 143,000 customers throughout the UK. The HCC division enjoys consistently high customer satisfaction scores of 97%[2]. In 2019 the Company introduced an online customer portal for its HCC customers, used by 81% of customers

The Group's growing Digital division, Shelby Finance, operates under the online brand Dot Dot Loans which provides online instalment loans of up to 48 months to c. 39,000 active customers.

Morses Club listed on AIM in May 2016.

About the UK non-standard credit market

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

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

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

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

2 Independent Customer Satisfaction Survey conducted by Mustard

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

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

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

Company Update

Redress Claims

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

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

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

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

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

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

Funding

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

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

Summary

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

In assessing the Group's going concern status the Directors produced a number of forecast scenarios, all of which include a requirement for funding in line with the current agreement with lenders. The base case forecast on which the Directors have based the going concern assessment includes an assumption that the settlement of Redress Claims occurs in an orderly manner over a period of time and that complaints do not remain at recent peak levels. If complaints volumes are higher than this level then this will accelerate the settlement of the Redress Claims liability and will therefore have a detrimental impact on liquidity. The timing of the settlement of the Redress Claims liability is key to the going concern assessment of the Group.

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

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

Potential implementation of a Scheme

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

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

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

Following the Company announcement on 20 July regarding the potential Scheme of Arrangement, the Group experienced a higher level of unaffordable lending claims in the HCC division, which led the Group to seek a pause on the processing of claims, which was announced as effective from 11 August 2022.

Without this pause, it is the Directors' belief the Group could have suffered significant near term liquidity issues, threatening its going concern status. Accordingly, it is also the Directors' belief that this would lead to worse outcomes for historic customer owed redress than can be achieved through the potential Scheme.

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

Chief Executive Officer's Review

Introduction

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

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

Performance

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

Digital

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

Customer demand was strong, with a focus on short-term lending during the period. Customer satisfaction for the division was 92% (FY21: N/A). Due to the IFRS 9 requirement to take forward-looking provisions at the outset of the loan period, impairment was outside the guidance range in H1; however, impairment significantly improved in H2. The overall impact of this resulted in impairment of 67.6% (FY21: £55.1m), above the guidance range of 45% – 55%. The division is now primed for growth, with a stable platform and a significant target market. Month-to-month profitability was achieved in the last two months of FY22. Our growth plans in early FY23 are expected to increase impairment in the short term.

Home Collected Credit

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

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

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

Strategy

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

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

External market

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

In the current climate, with ever-increasing challenges on domestic expenditure and the cost of living, we expect significantly more people to come into the market. This significant consumer demand will need to be met, and this is against a backdrop of reduced supply. Our agents provide informal feedback about the general state of people's financial circumstances and there have been concerning news reports about the number of people being forced to turn to illegal lenders. Our reshaped business is well positioned to support customers through these challenging economic times. There has been a sharp regulatory focus on the sector, with a key outcome being the imminent consumer duty requirements, due to begin implementation in July 2023, and there are ongoing discussions about relending approaches.

People and culture

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

Board changes

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

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

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

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

Stakeholder engagement

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

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

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

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

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

Outlook

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

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

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

Our strong management team, which includes a combination of people with experience in established businesses and those with experience in transitioning businesses to different ways of working, understands the need to operate at pace, and we have a renewed impetus on transforming the business to deliver sustained growth for both divisions.
We remain focused on continuing to build the trading position of the Group, and are confident that the changes that the business has made will help the business move forward from the challenges it currently faces. Its position as the only remaining HCC lender of scale in the UK, and the deep commitment it has to this sector, along with the core expertise in serving customers in this market will help its longer-term future, despite the impact on profitability for the period and impact in FY23.

Chief Financial Officer's Operational and Financial Review

Introduction

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

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

UK.

Overview

The underlying results for the Group for the 52 weeks ended 26 February 2022 reflect a stable financial performance, overcoming the many challenges presented by Covid-19 and wider market conditions, particularly with regard to the increase in complaint volumes received in the year in the HCC division, driven by claims management companies. Despite these challenges, the Group's underlying trading performance, which excludes exceptional costs, was profit-generative overall. However, due to the impact of the provision of £42.6m due to the exceptional item relating to claims, the Statutory PBT for the Group generated an overall loss-making position. The rise in complaint volumes in the HCC division received in the year led to further analysis of the root causes of these complaints. We engaged with an external technical expert to establish a proposal for a potential (as yet unapproved) redress methodology for customers who may have been affected by unaffordable lending.

As a consequence, the net present value of the cost of settling these complaints has been recognised as an exceptional item in the accounts. As management has used estimates of total redress due and an assumed take-up rate, details of which are included in Note 1 on page 111, there is material uncertainty regarding the exact quantum of this liability.

The continued impact of Covid-19 during the year created volatility of demand for our services but our customer numbers remained stable in HCC and increased substantially in our Digital division, with the resulting impact on the loan book. Our underlying debt and collection performance has been strong and we have reduced our overall cost base to mitigate the impact as much as possible. Administration and depreciation costs increased by £3.7m to £54.0m (FY21: £50.3m) but this included customer redress costs of £8.5m (FY21: £1.7m).

We also decided not to take any government support or furlough any staff during the period. We have taken steps to develop our credit policies and product proposition in both divisions, tightening lending criteria and assessing the borrowing patterns of our customers to ensure that the risk profile of our customer base continues to be within our risk appetite.

	FY22			FY21		
£'m (unless otherwise stated)	HCC	Digital	Total	HCC	Digital	Total
Statutory (Loss)/ Profit Before Tax	**(35.0)**	**(7.9)**	**(42.9)**	**11.8**	**(11.3)**	**0.5**
Restructuring and non-recurring costs	0.4	0.1	0.5	2.9	2.4	5.3
Exceptional costs[2]	44.4	2.4	46.8	–	–	–
Amortisation of acquisition intangibles[3]	0.2	–	0.2	0.3	–	0.3
Adjusted Profit Before Tax[1]	**10.0**	**(5.4)**	**4.6**	**15.0**	**(8.9)**	**6.1**
Tax on Adjusted Profit Before Tax	0.6	0.7	1.3	(0.8)	(0.2)	(1.0)
Adjusted Profit After Tax	**10.6**	**(4.7)**	**5.9**	**14.2**	**(9.1)**	**5.1**

Statutory EPS[1]			**-25.0p**			**0.2p**
Adjusted EPS[1]			**4.4p**			**3.9p**
Return on Assets[1]	-57.3%		**-57.4%**	22.0%		**0.3%**
Adjusted Return on Assets[1]	23.2%		**10.1%**	27.2%		**8.9%**
Return on Equity[1]	-47.5%		**-77.0%**	18.5%		**0.4%**
Adjusted Return on Equity[1]	19.2%		**13.6%**	22.8%		**10.3%**

1. *Definitions are set out in the Glossary of Alternative Performance Measures on page 31*
2. *Costs relating to the complaints liability provision, corporate restructure and closure of U Account*
3. *Amortisation of acquired customer lists and agent networks*

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

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

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

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

Trading summary

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

Group results

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

Revenue increased by 11.2% to £111.4m (FY21: £100.2m) due primarily to the increased credit issued in Digital. HCC revenue decreased by 5.3% to £81.8m (FY21: £86.4m). Digital revenue increased by 115.0% to £29.6m (FY21: £13.8m).

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

HCC self-employed agent commission costs decreased by 24.5% to £15.1m (FY21: £20.0m), and as a percentage of revenue they decreased to 18.5% from 23.1% in FY21 as a result of the loan book reducing during Covid-19 and a reduction in commission rates. Administration expenses and depreciation increased by £3.7m to £56.9m (FY21: £50.3m), while as a percentage of revenue they increased to 51.1% (FY21: 50.2%). This is due to customer redress costs of £8.5m being reported in administration costs (FY21: £1.7m reported in cost of sales) and broker costs of £1.7m being reported in cost of sales (FY21: £0.0m). A provision of £1.8m (FY21: £2.0m) for customer redress and Financial Ombudsman (FOS) fees has been recognised in recognition of outstanding complaints at the end of the period. In estimating the FY22 provision, management have incorporated historical Company information for the average percentage of complaints which are upheld, the average value of compensation claims paid out and the number of outstanding complaints that remained unresolved at the balance sheet date. This was then trued-up by £1.0m to £2.8m based on information available up until the reporting date.

Adjusted profit before tax decreased to £4.6m from £6.1m in FY21. HCC adjusted return on assets decreased from 27.2% in FY21 to 23.2% in FY22. Restructuring and other non-recurring costs of £0.5m (FY21; £5.3m) relate to redundancy and office closures.

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

Funding costs of £2.0m were £0.4m lower than FY21 reflecting the lower level of borrowings throughout FY22. The statutory loss before tax for FY22 was (£42.9m) compared to a statutory profit before tax of £0.5m in FY21.

Earnings per share

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

Dividend

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

Funding

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

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

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

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

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

Balance sheet

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

Summarised balance sheet £'m	**FY22**	FY21
Loan book	**55.8**	53.5
Goodwill	**12.9**	12.9
Bank borrowings	**(19.2)**	(8.3)
Cash at bank	**6.2**	8.3

Other net assets	**(23.5)**	4.4
Total equity	**32.2**	70.7

Cash flow

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

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

Complaints

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

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

Outlook

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

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

Graeme Campbell
Chief Financial Officer
25 August 2022

MORSES CLUB PLC
CONSOLIDATED INCOME STATEMENT
FOR THE 52 WEEK PERIOD ENDED 26 FEBRUARY 2022

	Notes	52 weeks ended 26.2.22 £'000	52 weeks ended 27.2.21 £'000
Revenue		**111,396**	100,234
Impairment on financial assets		**(35,960)**	(20,794)
Cost of sales		**(15,406)**	(20,657)
GROSS PROFIT		**60,030**	58,783
Administration expenses	2 & 4	**(100,901)**	(55,967)
Operating profit before amortisation of intangibles and exceptional items		**6,095**	3,161
Amortisation of acquisition intangibles	12	**(187)**	(345)
Exceptional items			
Complaints liability		**(42,640)**	-
Corporate restructuring costs		**(1,759)**	-
U Accounts closure costs		**(2,380)**	-
Exceptional items total	3	**(46,779)**	-
Operating (Loss)/ profit		**(40,871)**	2,816
Finance costs	6	**(1,985)**	(2,360)
(Loss)/ profit before taxation	4	**(42,856)**	456
Tax on profit on ordinary activities	7	**9,489**	(239)
(Loss)/ profit after taxation		**(33,367)**	217

Earnings per share		**26.2.22 Pence**	27.2.21 Pence
Basic	9	**(25.03)**	0.17
Diluted	9	**(25.03)**	0.17

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

MORSES CLUB PLC
BALANCE SHEET
AS AT 26 FEBRUARY 2022

		Group	
Assets	**Notes**	**26.2.22**	27.2.21
Non-current assets		**£'000**	£'000
Goodwill	11	**12,854**	12,854
Other intangible assets	12	**8,514**	8,863
Investment in Subsidiaries	14	**-**	-
Property, plant & equipment	13	**689**	734
Right-of-Use Assets	15	**1,739**	1,696
Deferred Tax	21	**9,112**	581
Amounts receivable from customers	16	**2,633**	82
		35,541	24,810
Current Assets			
Amounts receivable from customers	16	**53,214**	53,408
Taxation receivable	16	**2,790**	1,387
Other receivables	16	**3,903**	4,927
Cash at bank		**6,179**	8,258
		66,086	67,980
Total assets		**101,627**	92,790
Liabilities			
Current Liabilities			
Trade and other payables	17	**(6,401)**	(10,039)
Complaints provision	29	**(20,237)**	(2,012)
Lease liabilities	19	**(778)**	(790)
		(27,416)	(12,841)
Non-current liabilities			
Bank and other borrowings	18	**(19,226)**	(8,302)
Complaints provision and liability	29	**(21,692)**	-
Lease Liabilities	19	**(1,063)**	(994)
		(41,981)	(9,296)
Total liabilities		**(69,397)**	(22,137)
NET ASSETS		**32,230**	70,653
Equity			
Called up share capital	22	**1,344**	1,325
Group reconstruction reserve	23	**-**	-
Retained Earnings	23	**30,886**	69,328
TOTAL EQUITY		**32,230**	70,653

MORSES CLUB PLC
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE 52 WEEK PERIOD ENDED 26 FEBRUARY 2022

Group	Notes	Called up share capital £'000	Retained Earnings £'000	Total Equity £'000
As at 29 February 2020		**1,312**	**69,343**	**70,655**
Profit for year		-	218	9,477
Total comprehensive income for the period		-	218	218
Share issue		13	-	13
Share based payments charge	27	-	1,079	1,079
Dividends paid	8	-	(1,312)	(1,312)
As at 27 February 2021		**1,325**	**69,328**	**70,653**
Loss for year		-	(33,367)	(33,367)
Total comprehensive loss for the period		-	(33,367)	(33,367)
Share issue		19	-	19
Share based payments charge	27	-	242	242
Dividends paid	28	-	(5,317)	(5,317)
As at 26 February 2022		**1,344**	**30,886**	**32,230**

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

MORSES CLUB PLC
CASH FLOW STATEMENTS
FOR THE 52 WEEK PERIOD ENDED 26 FEBRUARY 2022

		Group	
		26.2.22	27.2.21
	Notes	**£'000**	£'000
Net cash (outflow)/inflow from operating activities	1	**(819)**	33,054
Cash flows used in financing activities			
Dividends Paid	8	**(5,317)**	(1,312)
Proceeds from additional long-term debt		**25,100**	11,500
Repayment of long-term debt		**(14,200)**	(37,000)
Principal paid under lease liabilities		**(943)**	(1,499)
Interest received		**-**	-
Interest paid		**(1,398)**	(1,622)
Interest paid (lease liabilities)		**(222)**	(353)
Net cash inflow/(outflow) from financing activities		**3,020**	(30,286)
Cash flows used in investing activities			
Purchase of intangibles		**(4,074)**	(5,282)
Purchase of property, plant and equipment		**(206)**	(1,096)
Additional investment in subsidiary		**-**	-
Net cash outflow from investing activities		**(4,280)**	(6,378)
Decrease in cash and cash equivalents		**(2,079)**	(3,610)

Reconciliation of increase in cash and cash equivalents		
Movement in cash and cash equivalents in the period	**(2,079)**	(3,610)
Cash and cash equivalents, beginning of year	**8,258**	11,868
Cash and cash equivalents, end of year	**6,179**	8,258

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

	Group	
	26.2.22	27.2.21
	£'000	£'000
Profit before tax and exceptional items	**3,923**	456
Exceptional costs	**(46,779)**	-
(Loss)/profit before taxation	**(42,856)**	456
Interest received included in financing activities	**-**	-
Interest paid included in financing activities	**1,577**	2,006
Share issue	**19**	13
Depreciation charges	**1,211**	1,915
Share based payments charge	**242**	1,079
Impairment of goodwill	**-**	126
Amortisation of intangibles	**2,565**	2,811
Write off of Right-of-Use Assets	**108**	261
Loss on disposal of Tangible Assets	**-**	92
Loss on disposal of Intangible Assets	**1,857**	969
(Increase)/decrease in debtors	**(1,333)**	18,667
Increase in creditors	**35,791**	5,849
	42,037	33,788
Taxation paid	**-**	(1,190)
Net cash (outflow)/inflow from operating activities	**(819)**	33,054

1. ACCOUNTING POLICIES

Basis of preparation

The preliminary announcement has been prepared in accordance with the Listing Rules of the FCA and is based on the consolidated financial statements for the period ended 26 February 2022 which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The financial statements have been prepared on a going concern basis under the historical cost convention. In preparing the financial statements, the Directors are required to use certain critical accounting estimates and are required to exercise judgement in the application of the Group and Company's accounting policies.

Shopacheck Financial Services Limited qualifies for an exemption to audit under the requirements of Section 480 of the Companies Act 2006. Shelby Finance Limited and U Holdings Limited both qualify for an exemption to audit under the requirements of Section 479A of the Companies Act 2006. As such, no audit has been conducted for these companies in the current financial year. As such, no audit has been conducted for these companies in the period ending 26 February 2022.

The preliminary announcement has been prepared on a going concern basis consistent with the basis of preparation of the statutory financial statements for the period ended 26 February 2022.

The preliminary announcement does not constitute the statutory financial statements of the Group within the meaning of Section 434 of the Companies Act 2006.

The preliminary announcement has been agreed with the Company's auditor for release.

Going concern

The Directors have prepared these financial statements in consideration of the appropriateness of the going concern basis, taking account of the material uncertainty due to the quantum and timing of unaffordable lending redress potentially payable to customers, and in respect of the extension or deferral of the term-out clause and availability of funding past the current formal facility end date of 31 March 2023.

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

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

As part of its annual planning process, the Group assessed its business plans and subsequently ran a number of scenarios around the key areas of sensitivities, namely:

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

1. ACCOUNTING POLICIES – continued

Going concern – continued

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

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

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

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

2. EXCEPTIONAL COSTS

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

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

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

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

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

3. LOSS BEFORE TAX

The operating loss is stated after charging:

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

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

	52 weeks ended 26.2.22	52 weeks ended 27.2.21
	£'000	£'000
Short-term employee benefits	**1,515**	1,055
Post-employment benefits	**44**	32
Long-term benefits	**-**	-
Termination benefits	**-**	-
Share-based payments	**321**	248
	1,880	1,335

The number of directors to whom retirement benefits were accruing was as follows:

Money purchase schemes	**3**	4

Information regarding the highest paid Director is as follows:

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

4. TAXATION

Analysis of the tax charge

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

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

Factors affecting the tax charge

The tax assessed for the period is lower than the standard rate of corporation tax in the UK.
The difference is explained below:

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

4. TAXATION - continued

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

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

5. DIVIDEND PER SHARE

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

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

6. EARNINGS PER SHARE

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

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

Diluted earnings per share calculates the effect on earnings per share assuming conversion of all dilutive potential Ordinary Shares. Dilutive potential Ordinary Shares are calculated for awards outstanding under performance related share incentive schemes such as the Deferred Share Plans. The number of dilutive potential Ordinary Shares is calculated based on the number of shares which would be issuable if the performance targets have been met.

7. GOODWILL

	Note	Group Goodwill £'000	Company Goodwill £'000
COST			
At 29 February 2020		13,330	3,642
Additions 2020/21		-	-
At 27 February 2021		13,330	3,642
Additions 2021/22		-	-
At 26 February 2022		**13,330**	**3,642**
Impairment			
At 23 February 2020		(349)	(349)
Impairment loss for the period		(127)	-
At 27 February 2021		(476)	(349)
Impairment loss for the period		-	-
At 26 February 2022		**(476)**	**(349)**
Net Book Value			
At 26 February 2022		**12,854**	**3,293**
At 27 February 2021		12,854	3,293
At 29 February 2020		12,981	3,293

Key assumptions used in goodwill impairment review

The market share price of the Company at 26 February 2022 was £0.134, reflecting the market's view of the current and future value of the Group. This share price results in a market capitalisation value for the Company of £17.9m which is below the Company's net asset value of £32.2m and therefore, an indicator of possible impairment. As a result, we have, assessed the recoverable amount of both the Company's goodwill and investment in subsidiary. The recoverable amount has been calculated using the value in use method. Goodwill is tested for impairment annually or more frequently if there are indications that goodwill might be impaired. Determining whether goodwill is impaired requires an estimation of the discounted future cash flows of the Company using a discount rate of 13% (FY21: 13%) and an initial growth rate over the first three years of 11% (FY21: 47%) followed by a terminal value based on a minimum future growth rate of 2% (FY21: 2%). The future cash flows take into account management's view of the impact from Covid-19 on future performance.

The Group has conducted a sensitivity analysis on the goodwill impairment assessment and believes that there are no reasonably possible changes to the key assumptions in the next year which would result in the carrying value of goodwill exceeding the recoverable amount. The key assumptions in the forecast are:

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

Lending has been informed by the business' ability to previously expand in this market. Performance assumptions are based on targeting the products and customers that will deliver an acceptable return. As the cost base is relatively stable, the key to deliver a return is the scale achieved by higher lending levels. The growth rates are the result of a slow down in sales in FY23 due to cash availability from settling redress claims followed by a return to previously experienced levels of lending by FY25. The discount rates which reflect the time value of money and the risks specific to the financial services sector are sourced from an independent third party. No reasonably foreseeable reduction in the assumptions would give rise to an impairment and therefore no further sensitivity analysis has been presented. The same assumptions have been applied to the goodwill impairment review in both CGUs.

7. GOODWILL - continued

The carrying amount of goodwill has been allocated to cash-generating units (see Note 5) as follows:

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

8. OTHER INTANGIBLE ASSETS

Group	**Software & Licences £'000**	**Customer Lists £'000**	**Agent Networks £'000**	**Totals £'000**
Cost				
At 29 February 2020	12,761	21,620	874	35,255
Additions	5,282	-	-	5,282
Disposals	(3,085)	-	-	(3,085)
At 27 February 2021	14,958	21,620	874	37,452
Additions	4,074	-	-	4,074
Disposals	(2,614)	-	-	(2,614)
At 26 February 2022	**16,418**	**21,620**	**874**	**38,912**
Accumulated Amortisation				
At 29 February 2020	6,140	20,915	839	27,894
Charge for the period	2,428	329	16	2,773
Eliminated on disposal	(2,115)	-	-	(2,115)
Impairment losses	-	38	-	38
At 27 February 2021	6,453	21,282	855	28,590
Charge for the period	2,378	178	7	2,563
Eliminated on disposal	(757)	-	-	(757)
Impairment losses	-	-	2	2
At 26 February 2022	**8,074**	**21,460**	**864**	**30,398**
Net Book Value				
At 26 February 2022	**8,344**	**160**	**10**	**8,514**
At 27 February 2021	8,505	338	19	8,862
At 29 February 2020	6,621	705	35	7,361

Research and development expenditure expensed during the year was £nil (2021: £nil).

9. TRADE AND OTHER RECEIVABLES

Amounts receivable from customers	**Group**	
	26.2.22	27.2.21
	£'000	£'000
Amounts falling due within one year:		
Net receivable from advances to customers	**53,214**	53,408
Amounts falling due after one year:		
Net receivable from advances to customers	**2,633**	82
Net loan book	**55,847**	53,490
Other debtors	**3,594**	2,880
Amounts owed by Group undertakings	**-**	-
Prepayments	**3,099**	3,434
	62,540	59,804

	Group	
	26.2.22	27.2.21
	£'000	£'000
Analysis by security		
Other loans not secured	**55,847**	53,490
Amounts Receivable from customers	**55,847**	53,490

Impairment provisions are recognised on inception of a loan based on the expected 12-month losses or the lifetime losses of the loan.

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

	Group	
	26.2.22	27.2.21
	£'000	£'000
Gross Carrying Amount	**93,076**	90,063
Impairment Provision	**(37,229)**	(36,573)
Net Amounts Receivable	**55,847**	53,490

9. TRADE AND OTHER RECEIVABLES - continued

Amounts receivable from Group customers can be reconciled as follows:

Group	Ref*	Stage 1 £'000	Stage 2 £'000	Stage 3 £'000	2021/22 IFRS 9 Total £'000
Gross carrying amount					
At 27 February 2021		48,763	20,565	20,735	90,063
New financial assets originated	*1*	148,548	374	328	149,250
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	*2*	(30,499)	30,499	-	-
From Stage 1 to Stage 3	*2*	(17,847)	-	17,847	-
From Stage 2 to Stage 1	*2*	1,269	(1,269)	-	-
From Stage 2 to Stage 3	*2*	-	(6,491)	6,491	-
From Stage 3 to Stage 1	*2*	74	-	(74)	-
From Stage 3 to Stage 2	*2*	-	1,759	(1,759)	-
Write-offs	*3*	(11,734)	(4,779)	(22,195)	(38,708)
Collections	*4*	(191,658)	(25,672)	(778)	(218,108)
Revenue	*5*	104,229	6,086	491	110,806
Other movements	*6*	(2,111)	(211)	2,095	(227)
At 26 February 2022		**49,034**	**20,861**	**23,181**	**93,076**
Loan loss provision account					
At 27 February 2021		8,214	10,732	17,627	36,573
Movements through income statement:					
New financial assets originated	*7*	29,400	251	467	30,118
Net transfers and changes in credit risk:					
From Stage 1 to Stage 2	*2*	(12,913)	15,433	-	2,520
From Stage 1 to Stage 3	*2*	(14,531)	-	15,757	1,226
From Stage 2 to Stage 1	*2*	251	(277)	-	(26)
From Stage 2 to Stage 3	*2*	-	(5,330)	5,514	(16)
From Stage 3 to Stage 1	*2*	18	-	(20)	(2)
From Stage 3 to Stage 2	*2*	-	1,122	(1,121)	1
Remeasurements within existing stage	*3*	5,123	(5,977)	3,966	3,112
Payment frequency underlay	*8*	27	(677)	(323)	(973)
Total movements through income statement		7,375	4,345	24,240	35,960
Other movements:					
Write-offs	*3*	(11,734)	(4,779)	(22,195)	(38,708)
Other movements:	*6*	2,501	(711)	1,614	3,404
Loan loss provision account at 26 February 2022		**6,356**	**9,587**	**21,286**	**37,229**
Reported amounts receivable from customers at 26 February 2022		**42,678**	**11,274**	**1,895**	**55,847**
Reported amounts receivable from customers at 27 February 2021		40,549	9,833	3,108	53,490

**References above indicate what each line of the table demonstrates:*

(1) New loans issued in the year
(2) Staging movements of new loans issued and existing debt brought forward
(3) Net write-offs per Stage
(4) Collections per Stage
(5) Revenue per Stage
(6) Other Movements, including acquisitions
(7) Impairment provision associated with new loans issued in the year
(8) Payment frequency underlay

9. TRADE AND OTHER RECEIVABLES – continued

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

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

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

10. DEFERRED TAX

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

10. DEFERRED TAX – continued

	Group £'000
Balance as at 27 February 2021	581
Accelerated Capital Allowances	
Deferred Tax charge in profit and loss account for period – current year	(44)
Deferred Tax charge in profit and loss account for period – prior year	(25)
Deferred Tax rate change	30
Short Term Timing Differences	
Deferred Tax charge in profit and loss account for period - current year	(84)
Deferred Tax charge in profit and loss account for period – prior year	5
Deferred Tax rate change	171
Intangibles	
Deferred Tax charge in profit and loss account for period – current year	(437)
Deferred Tax charge in profit and loss account for period - prior year	(648)
Deferred Tax rate change	(287)
Share based payments	
Deferred Tax charge on Share based payments included in OCI	(35)
Deferred Tax charge in profit and loss account for period – current year	(183)
Deferred Tax charge in profit and loss account for period – prior year	-
Deferred Tax rate change	58
Losses	
Deferred Tax charge in profit and loss account for period – current year	9,976
Deferred Tax charge in profit and loss account for period – prior year	26
Deferred Tax rate change	8
Balance as at 26 February 2022	**9,112**

	Group £'000
Asset values for which deferred tax has not been recognised in relation to the tax written down Value of intangible fixed assets which is not available to deduct against profits until the intangibles are realised.	748
Asset values for which deferred tax has not been recognised in relation to tax losses carried forward which are available to offset against future taxable profits from the same trade.	1,224
Total value of assets on which deferred tax has not been recognised	**1,972**

Deferred tax assets have been recognised in respect of all tax losses and other temporary differences where the Directors believe it is probable that these assets will be recovered.

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

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

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

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

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

12. PROVISIONS

Group	Customer Complaints £'000
At 27 February 2021	2,012
Provisions utilised in the year	(2,012)
Additional provisions in the year	1,786
True-up	1,008
Additional complaints liability provision	39,135
At 26 February 2022	**41,929**

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

12. PROVISIONS - continued

Complaints provision

The complaints provision represents management's best estimate of the Group's liability in regard to outstanding customer complaints that remained unresolved as at the balance sheet date. In estimating the provision, management has incorporated historical Company information for the average percentage of complaints which are upheld, and the average value of compensation claims paid out. A true-up of £1.0m was then applied based on uphold rates observed up until the signing of the accounts.

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

13. POST BALANCE SHEET EVENTS

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

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

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

ALTERNATIVE PERFORMANCE MEASURES

This Annual Report and Financial Statements provides alternative performance measures (APMs) which are not defined or specified under the requirements of International Financial Reporting Standards. We believe these APMs provide readers with important additional information on our business. To support this, we have included a reconciliation of the APMs we use where relevant and a glossary indicating the APMs that we use, an explanation of how they are calculated and why we use them.

APM	Closest Statutory Measure	Definition and Purpose
Income Statement Measures		
Impairment as % of Revenue (%)	None	Impairment as a percentage of revenue is reported impairment divided by reported revenue and represents a measure of credit quality that is used across the business and within the sector.
Agent Commission as % of Revenue (%)	None	Agent commission, which is included in cost of sales, divided by reported revenue. This calculation is used to measure operational efficiency and the proportion of income generated which is paid to agents.
Cost / Income Ratio or Operating Cost ratio (%)	None	The cost/income ratio is cost of sales and administration expenses, excluding exceptional items, finance costs and amortisation divided by reported revenue. This is used as another efficiency measure of the Company's cost base.
Credit Issued (£m)	None	Credit issued is the principal value of loans advanced to customers and is an important measure of the level of lending in the business.
Sales Growth (%)	None	Sales growth is the period-on-period change in Credit Issued.
Adjusted Profit Before Tax (£m)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional items, non-recurring costs and amortisation of goodwill and acquisition intangibles. This is used to measure ongoing business performance.
Adjusted Profit Before Tax (underlying HCC)	Profit Before Tax	Profit Before Tax per the Income statement adjusted for exceptional items, non-recurring costs and amortisation of goodwill and acquisition intangibles, Territory Build subsidies and losses of Digital CGU.
Adjusted Earnings Per Share	Earnings Per Share	Adjusted Profit After Tax divided by the weighted average number of shares. This gives a better reflection of underlying earnings generated for shareholders.

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

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

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

ALTERNATIVE PERFORMANCE MEASURES - continued

	52 weeks ended 26.2.22 £'000	53 weeks ended 27.2.21 £'000
Adjusted basic earnings per share		
Basic (loss)/earnings	**(33,367)**	217
Amortisation of acquisition intangibles	**187**	345
Restructuring and other non-recurring costs	**506**	-
Exceptional costs	**46,779**	5,339
Tax effect of the above	**(8,186)**	(799)
Adjusted earnings	**5,919**	5,102
Weighted average number of shares for the purposes of basic earnings per share ('000s)	**133,300**	131,383
Adjusted earnings per share amount (pence)	**4.4p**	3.9p

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

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

ALTERNATIVE PERFORMANCE MEASURES - continued

Other measures

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