

# Corporate Governance Report

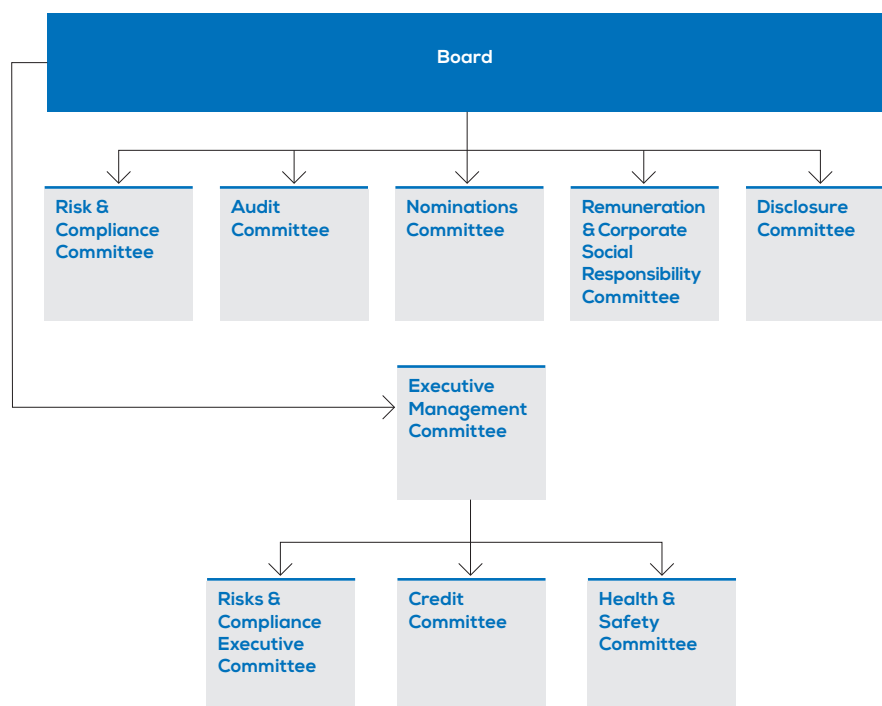
**From the date of the IPO, the Directors have adopted the provisions of the September 2014 edition of the UK Corporate Governance Code (although being AIM listed, the Group is not obliged to comply with this). The only exception is the Directors' Remuneration Report, which has been prepared in accordance with AIM Rule 19.**

The Board's role is to provide entrepreneurial leadership of the Group within a framework of prudent and effective controls which enables risk to be assessed and managed. The Board sets the Group's strategic aims, ensuring that the necessary financial and human resources are in place for the Group to meet its objectives, and reviews management performance.

As part of their role as members of a unitary board, Non-Executive Directors constructively challenge and help develop proposals on strategy.

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

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



## Membership of Board Committees

In the course of this first year since the Company's admission to AIM, the Board has agreed that all Non-Executives should participate in the Audit, Risk & Compliance, Nominations and Disclosure Committees in order to gain a full appreciation and understanding of the Company.

Details of Board Meeting attendance since the Group's listing on AIM on 5 May 2016 are shown in the table on the right.

During the period until 5 May 2016, Stephen Karle was Chairman of the Audit & Risk Committee. On 1 January 2017, the Audit & Risk Committee was split into the Audit Committee and the Risk & Compliance Committee.

	Position	Meetings Attended	Considered Independent
<b>Stephen Karle</b>	Non-Executive Chairman	8/8	✓
<b>Paul Smith</b>	Chief Executive Officer	8/8	✗
<b>Andy Thomson</b>	Chief Financial Officer	8/8	✗
<b>Sir Nigel Knowles</b>	Senior Independent and Non-Executive Director	6/8	✓
<b>Joanne Lake</b>	Non-Executive Director	7/8	✓
<b>Patrick Storey</b>	Non-Executive Director	8/8	✓
<b>Peter Ward</b>	Non-Executive Director	7/8	✗

## Leadership

During the period since the Group's shares were listed on the AIM Market, the Group has been controlled through a Board of Directors comprising two Executive and five Non-Executive Directors. The Chairman is mainly responsible for the running of the Board. He has to ensure that all directors receive sufficient relevant information on financial, business and corporate issues prior to meetings. The Board has a formal schedule of matters reserved to it and currently meets at least 10 times per year. It is responsible for overall Group strategy, acquisition and divestment policy, approval of major capital expenditure projects and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the business. This includes its code of conduct, its annual budgets, its progress towards achievement of those budgets and its capital expenditure programmes. The Executive Directors are responsible for all matters affecting the performance of the Group and for the implementation of strategy, policies, budgets and the financial performance of the Group.

## Effectiveness

Prior to the Group's admission to AIM, the Nominations Committee conducted a formal, rigorous and transparent process to identify and recruit three additional Non-Executive Directors. The search for candidates was conducted, and appointments made, on merit, using objective criteria and with due regard for the benefits of diversity for the Board, including gender. The three appointees, Sir Nigel Knowles, Joanne Lake and Patrick Storey bring a wealth of experience covering compliance, financial services, legal, accounting, investment banking and general business matters.

There has been an induction plan for each of the new Non-Executive

Directors. The Board has been briefed by the Group's lawyers on the subject of the Market Abuse Regulations. Further briefings are planned on the subjects of General Data Protection Regulation and the Senior Managers Certification Regime. In addition, Directors are updated with developments in corporate governance requirements.

The Group's CEO is appraised every six months by the Chairman. The Chairman has been evaluated by the Non-Executive Directors led by the Senior Independent Director. During this first year as an AIM-listed company, the Chairman has undertaken an informal and internal evaluation of the Directors, the Board, and the Board's committees. All of the Directors have been considered able to allocate sufficient time to the Company to discharge their responsibilities.

The Company Secretary is available to provide advice and services to all Board members and is responsible for ensuring Board procedures are followed. All directors are able to take independent advice in furtherance of their duties if necessary.

## Accountability Financial Reporting

Reviews of the performance and financial position of the Group are included in the Strategic Report within pages 12 to 27, and present a fair, balanced and understandable assessment of the Group's position and prospects. The Directors' responsibilities in respect of the financial statements are described on page 42 and those of the auditor on page 48.

## Internal Control and Risk Management Systems

The Board acknowledges that it is responsible for the Group's system of internal control and risk management, and for reviewing its own effectiveness on an annual basis. Such a system is designed to manage rather than

eliminate the risk of failure in pursuit of the Group's overall business objectives and can only provide reasonable, not absolute, assurance against material misstatement or loss. The Group's internal control systems are reviewed regularly with the aim of continuous improvement. Whilst the Board acknowledges its overall responsibility for internal control, it believes strongly that senior management within the Group's operating businesses should also contribute in a substantial way and this has been built into the process.

The Board discharges or intends to discharge its duties in this area through:

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

Through the Risk & Compliance Committee, the Board reviews the risk management framework and the key risks facing the business. The finance department is responsible for preparing the Group financial statements and ensuring that accounting policies are in accordance with International Financial Reporting Standards. All financial information published by the Group is subject to the approval of the Audit Committee.

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The Board, with advice from the Audit and the Risk & Compliance Committees, is satisfied that a system of internal controls and risk management is in place which enables the company to identify, manage and evaluate risks.

This process has been in place for the year under review and up to the date of approval of the report and financial statements. The process is regularly reviewed by the Board and accords with the guidance in the UK Corporate Governance Code.

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

### Relations with Shareholders

The Group communicates with institutional and private investors and responds quickly to all queries received verbally or in writing. All Shareholders will have at least 20 working days' notice of the Annual General Meeting at which all Directors will be present and available for questions. The Board is aware of the importance of maintaining close relations with investors and analysts for the Group's market rating. Twice-yearly road shows are conducted by the CEO and CFO when the performance and future strategy of the Group is discussed with larger shareholders. Queries from all shareholders are dealt with by the CFO: in addition, members of the Board obtain regular feedback from major shareholders and discuss this at Board meetings.

### Board Committees

The terms of reference of all of the Board committees are available from the Group's registered office and on its website at [www.morsesclubplc.com](http://www.morsesclubplc.com).

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

### Remuneration & Corporate Social Responsibility Committee

The Remuneration & Corporate Social Responsibility Committee comprises three Non-Executive Directors, of whom two, Joanne Lake and Stephen Karle, are independent. The members of the Committee are:

- Joanne Lake (Chairman);
- Stephen Karle; and
- Peter Ward.

The Remuneration & Corporate Social Responsibility Committee meets at least twice a year and on other occasions as deemed appropriate by the Committee's Chairman.

The Committee Chairman is appointed by the Board on the recommendation of the Nominations Committee.

A full Remuneration & Corporate Social Responsibility Committee report appears on pages 37 to 39.

### Audit Committee

The Audit Committee meets at least four times each year.

The Audit Committee comprises all of the Group's Non-Executive Directors, namely:

- Patrick Storey (Chairman);
- Stephen Karle;
- Sir Nigel Knowles;
- Joanne Lake; and
- Peter Ward.

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

### External Audit

The Group's external auditor is Deloitte LLP.

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

The Committee also reviews the performance of the auditor taking into account the services and advice provided to the Group and the fees charged for these services. Details of the auditor's total fees for the year can be found on page 60. The Group does not currently have a formal non-audit work policy, but the Committee maintains regular scrutiny of the auditor's activities and charges.

Deloitte LLP was first appointed as auditor of Morses Club Limited with effect from 1 March 2009. Since then, Morses Club Limited acquired Shopacheck Financial Services and the resulting Group was listed on AIM in May 2016. During this period of change, the Group has valued the continuity of the existing auditor's appointment.

On the basis of its review of the performance of the auditor since the IPO last year, the Committee has recommended to the Board that Deloitte be proposed for re-appointment at the forthcoming Annual General Meeting. Deloitte has indicated its willingness to continue in office. The Committee confirms that there are no contractual obligations that restrict the Committee's choice of external auditor in the future.

#### Internal Audit Function

During the Autumn of 2016, we established an internal audit function and appointed a suitably qualified and experienced internal audit manager who reports directly to the Audit Committee Chairman. The internal audit function objectively reviews the Group's internal control processes against the risk-based internal audit plan and audit charter approved by the Committee. The plan is based primarily on output from the risk management process, but it is flexible and may include ad-hoc investigations and other assurance work agreed by the Committee. Specialist technical knowledge and resource is externally sourced if and when required.

#### Meetings of the Committee

The Audit Committee meets with the external auditor without the presence of executive management at least once each year to discuss matters relating to its remit and any issues relating to the audit. The Committee has direct and unrestricted access to both internal and external audit functions. The Chairman also has regular contact with the

external auditor, the Chief Financial Officer and the internal audit manager outside the formal meetings to ensure that any areas for discussion are dealt with in a timely manner.

The work undertaken by the Committee included the following activities:

- a review of the full-year results including the Annual Report and Accounts, preliminary results statement and the external auditor's report. In reviewing these documents and determining whether they were fair, balanced and understandable, the Committee also considered the work and recommendations of management;
- an interim results statement review;
- a consideration of the appropriateness of accounting policies and critical accounting estimates and judgements, including a review of information from the Chief Financial Officer and reports from the external auditor setting out their views on the accounting treatments and judgements in the financial statements;
- a consideration of the level of non-audit work carried out by the external auditor and the seeking of assurances from the auditor that it maintains suitable policies and processes ensuring independence;
- a review of arrangements, for example whistleblowing, by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters; and
- a review of the going concern assumptions when considering interim and final results statements and long-term viability in the case of the final results statement, taking into account internal financial projections.

We acknowledge that the external auditor has reviewed the significant areas of judgement and subjected them to robust challenge. Significant areas of judgement considered by the Committee included:

#### 1. Impairment

The Group makes judgements in relation to identifying objective evidence of impairment and calculates the provision by reference to historical payment performance to estimate the amount and timing of expected future cash flows. These estimates are revised annually and approved by the Board.

#### 2. Revenue Recognition

Under IAS 39, interest income should be recognised on the shorter of the expected life or the contractual life of the loan. Under IAS 39, the Committee has judged that interest income should be recognised over the contractual life of the loan based on historical loan book performance.

#### 3. Acquisitions

During the period, the Group has made a number of acquisitions. Management has made judgements as to whether each of the acquisitions constitute a business and therefore is required to be accounted for as a business combination in accordance with IFRS 3.

Customer lists have been allocated a fair value on acquisition as the relationships are an important influence on the revenue-generating capacity of the business. Agent networks have also been identified and capitalised as an intangible asset.

The amount of goodwill initially recognised as a result of an acquisition is dependent on the allocation of the purchase price to the fair value of the identifiable assets acquired and the liabilities assumed. The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement.

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### Risk & Compliance Committee

The Risk & Compliance Committee is scheduled to meet four times each year.

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

In January 2017, the Board therefore divided the Audit & Risk Committee into two separate committees: the Audit Committee and the Risk & Compliance Committee.

The Risk & Compliance Committee comprises all of the Non-Executive Directors of the Group, namely:

- Patrick Storey (Chairman);
- Stephen Karle;
- Sir Nigel Knowles;
- Joanne Lake; and
- Peter Ward.

In addition, the following executives are also Committee members:

- Paul Smith (Chief Executive Officer);
- Andy Thomson (Chief Financial Officer);
- Ian Cooper (Risk and Compliance Director); and
- Barrie Grimshaw (Business Change & IT Director).

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

- the Group's risk appetite (the extent and categories of risk regarded by the Board as acceptable for the Group to bear);
- the Group's risk management and internal controls framework (its principles, policies, methodologies, systems, processes, procedures and people);

- the arrangement for the identification, assessment, monitoring management and oversight of risk with regard to processes and procedures;
- the effectiveness of the Group's internal controls, compliance monitoring and risk management systems; and
- the Group's procedures for preventing and detecting money laundering and fraud.

A section covering the Group's risks can be found on pages 24 to 27.

### Nominations Committee

The Nominations Committee is responsible for ensuring that the Board has a formal and transparent appointments procedure. It also has primary responsibility for reviewing the Board's balance and effectiveness, identifying the Board's skills gaps and those individuals who might best fill them. Committee policy will ensure that appointments are made on merit and with respect for the benefits of the Board's diversity.

The Nominations Committee comprises all of the Group's Non-Executive Directors:

- Stephen Karle (Chairman);
- Sir Nigel Knowles;
- Joanne Lake;
- Patrick Storey; and
- Peter Ward.

The Group recognises the importance of diversity both at Board level and throughout the whole organisation. The Board and the Nominations Committee are committed to increasing diversity and the Group is determined to recruit outstanding candidates with diverse backgrounds, skills, ideas and culture.

In future, the Nominations Committee will take responsibility for arranging formal Board appraisals. During this first year, the Board made an assessment that it was appropriate for the Chairman and Senior Non-Executive Director to conduct an informal internal evaluation.

The Nominations Committee meets at least once each year.

### Disclosure Committee

The Disclosure Committee comprises:

- Stephen Karle (Chairman);
- Sir Nigel Knowles;
- Joanne Lake;
- Patrick Storey;
- Peter Ward;
- Paul Smith (Chief Executive Officer); and
- Andy Thomson (Chief Financial Officer).

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

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

The first meeting of the Committee was on 21 February 2017.

### Executive Committee

The Group has established an Executive Committee which is chaired by the Chief Executive Officer and meets each week on which there is not a Board meeting. The Executive Committee is accountable to the Board and its responsibilities include the daily management of the Group's affairs. Members of the Executive Committee meet regularly with the Board and are frequently invited to attend Board meetings.

The Executive Committee has three long-standing committees, a Credit Risk Committee, a Health & Safety Committee and a Risk & Compliance Executive Committee in order to assist its supervision of these important areas.