Motability Operations | Group plc

Half Year Report

For the six months ended 31 March 2016

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Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted by the European Union and that the Interim Management Report includes a fair review of the information required by DTR 4.2.7, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board

Mike Betts
Chief Executive
27 May 2016

David Gilman
Finance Director
27 May 2016

2016 Highlights

98%
overall customer satisfaction (independently measured)

92%
customer renewal rate at the end of lease

93%
employee engagement: 10pts higher than 'High-Performing Organisations' benchmark (independently measured)

82%
of customer calls answered within 20 seconds (achieved >80% for the last eight years)

A+/A1
rating upgrade from Moody's in September 2015 from A2 to A1, bringing rating in line with Standard & Poor's A+ rating

78%
of vehicles sold online via mfldirect at the end of lease during the six months to March 2016

Our customers are at the heart of everything we do

Motability Operations is contracted by Motability (the charity) to operate the Motability Car, Powered Wheelchair & Scooter Scheme. Having operated the Scheme since 1978, we aim to deliver value and an excellent service for customers by providing an affordable, consistent, 'worry-free' leasing proposition which is universally available across the United Kingdom to recipients of qualifying mobility allowances.

1.9m

people in receipt of a qualifying allowance can choose to lease one of our products

Overall customer satisfaction independently measured at

98%

for five consecutive years

Key customer statistics

655k

customers currently choose us

>4m

vehicles supplied since the Motability Scheme was launched

92%

customer renewal rate

Delivering the Scheme

We work with

18,000

Motability Dealer Specialists across a national network of over 4,800 approved Motability dealers

With our

34

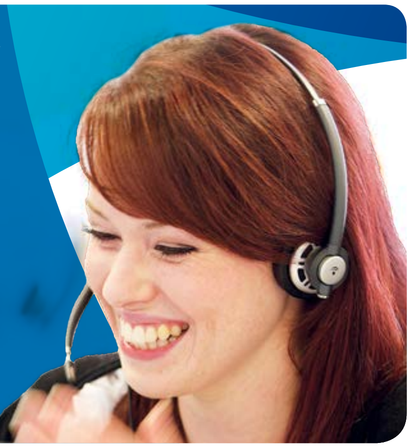
Vehicle manufacturers

Representing **96%** of the UK brand availability

Through our

800

employees



We buy over **220,000** new cars each year, and sell over **600** per day, seven days a week, into the used-car market as vehicles are returned to us at the end of lease

UK-wide

proposition with consistent standards and service levels across the UK. Our priority is to meet the specific needs of Motability Scheme customers

Through our unique insights and understanding of customers' needs, the Scheme offers universally available, affordable, 'worry-free' mobility and independence to those who qualify.

The Scheme provides value to our customers by offering a wide choice of vehicles, powered wheelchairs and scooters, at affordable prices.

Our people deliver first-class customer service, and understand how disability affects customers' needs.

All profit is retained in the Scheme for the benefit of customers.

We have a clearly defined strategy to meet the requirements of Scheme customers and our people, which will ensure the long-term sustainability of the Scheme.

What we do

Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme. Under a service contract with Motability, we are responsible for the effective and efficient delivery of the Scheme

Motability was established in 1977 to enable disabled people to use their mobility allowance to access affordable motoring through a leasing package. The Motability Scheme was formed as a pioneering partnership, bringing together Government; banks; manufacturers; the Charity, Motability, which directs policy and oversees the Scheme; and Motability Operations, the operating company. Motability Operations is owned by the four major UK banks.

Under the service contract with Motability, Motability Operations is required to meet specific performance targets across a range of measures including customer service, choice & affordability, value for money and efficiency. As operators of the Scheme, we seek to leverage economies of scale and tightly manage our cost base. It is by running an efficient operation that we are able to deliver a consistent, highly affordable and competitive proposition for our customers which would not otherwise be available through the retail market.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme a disabled person must receive the qualifying mobility allowance (see below). Neither Motability Operations nor Motability plays any role in deciding who is eligible for this allowance. The 1.9 million people who are currently in receipt of this allowance can choose to lease one of these products from Motability Operations. At present, just over one third of allowance recipients choose to use their allowance to participate in the Scheme.

For those who decide to join the Scheme, we provide a unique and universally available mobility proposition, designed to meet the specific needs of our disabled customers. In choosing to take a vehicle, powered wheelchair or scooter on the Scheme, customers assign their mobility allowance to Motability Operations.

In return, we provide worry-free, affordable mobility including full insurance, maintenance and servicing, tyre and windscreen replacement, breakdown cover and 60,000 miles' mileage allowance over three years.

How we do it

Individuals may choose to use their mobility allowance to lease a car, powered wheelchair or scooter on the Motability Scheme. Motability Operations, as operator of the Scheme, aims to provide these customers with a 'worry-free' proposition

Mobility allowance
Government decides who should receive mobility allowances. Customers may choose to assign their mobility allowance to lease a car, powered wheelchair or scooter

Customers
Our customers are at the heart of what we do. We provide affordable and 'worry-free' mobility through a wide choice of vehicle solutions that meet their specific needs

Mobility allowance

To access the Scheme, an individual must receive the Higher Rate Mobility Component of the Disability Living Allowance (DLA), the Enhanced Rate of the Mobility Component of the newly introduced Personal Independence Payment (PIP) (both administered by the DWP; in Northern Ireland this is administered by the Social Security Agency and in the Isle of Man by the Department of Health and Social Security) or either the War Pensioners' Mobility Supplement or the Armed Forces Independence Payment (AFIP) (both of which are administered by Veterans-UK). Receipt of a qualifying allowance is the sole eligibility criterion for people wishing to access the Scheme.

Motability Operations

Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme.

As the UK's largest car leasing company, we have 39 years' experience in the industry and have supplied over four million vehicles since the Motability Scheme was launched.

Nearly 655,000 customers currently choose to access the Scheme (consisting of 639,800 Car Scheme customers and nearly 14,800 Powered Wheelchair & Scooter Scheme customers). We aim to offer customers a comprehensive and affordable solution. Currently, 34 vehicle manufacturers (representing 96% UK brand availability) and 12 powered wheelchair and scooter manufacturers are represented on the Scheme.

We aim to provide sustained value and choice, combined with first-class customer service. To this end, we continually review and develop our business model to ensure that we optimise the value that we provide to customers. The key elements of this business model are set out on pages 4 and 5.

This business model is underpinned by a robust balance sheet which is designed to ensure that our operation is stable and sustainable in the long term. This enables us to provide Motability Scheme customers with continued affordability throughout the economic cycle. All profit is retained in the Scheme for the benefit of customers.

Motability

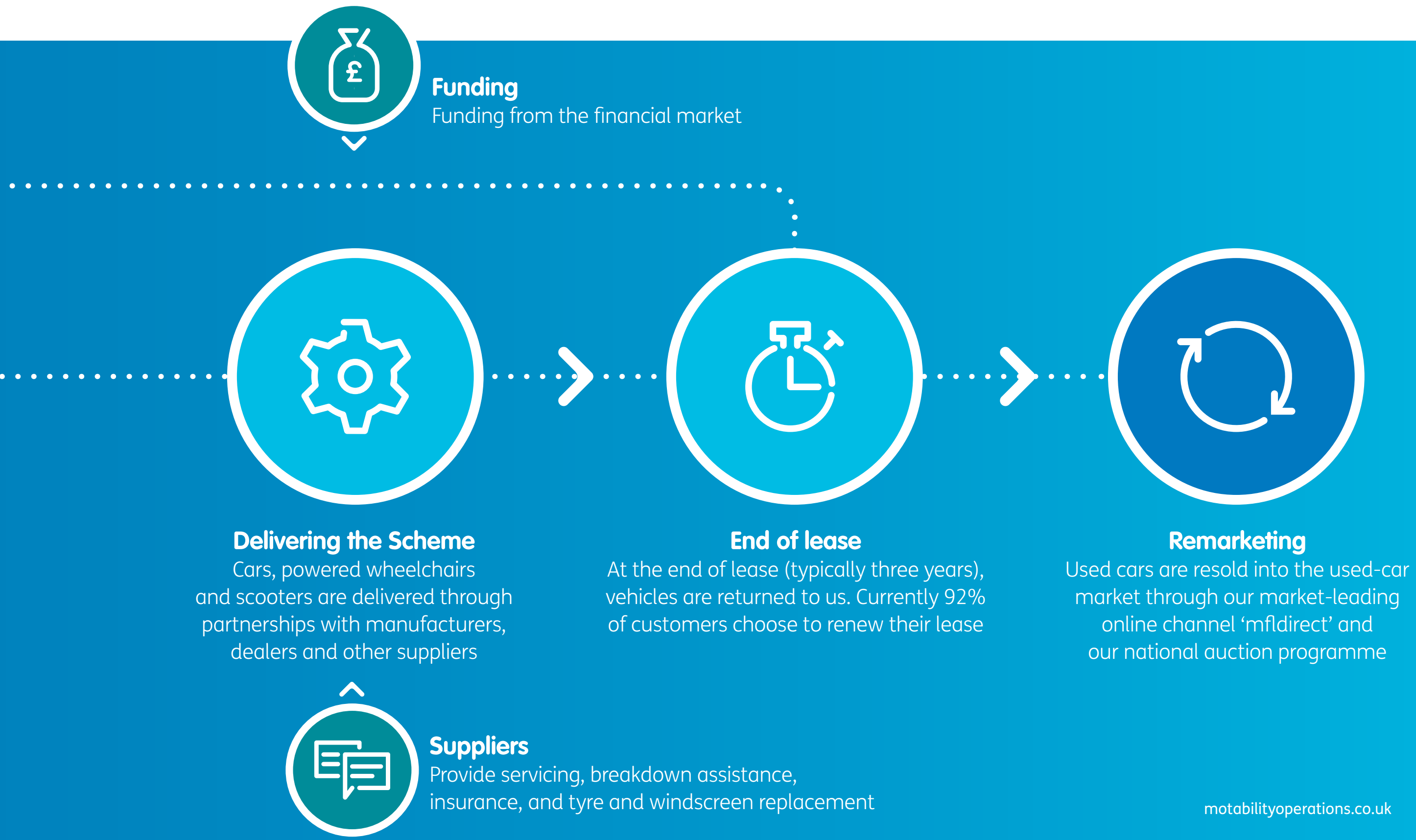
Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. Motability directs and oversees the Motability Scheme – with its prime purpose being to ensure that those disabled people who want to use their mobility allowance to obtain a vehicle, scooter or powered wheelchair on the Motability Scheme always receive the best possible service and value for money.

Motability contracts with Motability Operations to operate the Scheme. Motability and Motability Operations are constitutionally and operationally separate entities.

The Motability Scheme

The Motability Scheme provides customers with 'worry-free' mobility, with a lease price which includes:

- Use of a leased vehicle
- Comprehensive insurance
- Maintenance and servicing
- Tyre and windscreen replacement
- Breakdown cover
- 60,000 miles' mileage allowance



Delivering value for our customers

The way in which we deliver the Scheme is designed to maximise the value we provide to customers. We are commercial in our approach and ensure that we benchmark well to market best practice

Our revenues
Motability Operations' revenue comprises rental income from customers' mobility allowances and proceeds from the resale of vehicles at the end of lease

Our financing
We finance the Scheme by issuing bonds in the Sterling and European Debt Capital Markets, through securing term finance and credit facilities from the major UK banks and through the liquidity provided by our capital base

Our suppliers
We manage a range of key suppliers to ensure that we provide customers with a consistent UK-wide proposition, representing excellent value for money and delivering first-class customer service

Our revenues

In choosing to join the Scheme, customers assign their mobility allowance to Motability Operations. Customers can choose from a wide range of models with 'nil advance payment' – where the assignment of their allowance alone is sufficient to cover the cost of leasing the vehicle. However, some customers may elect to top this up with an 'advance payment' depending on their choice of vehicle. Our aim is to ensure that we use customers' money – our rental income – to deliver the best possible products and services for them.

We do not receive any grant or funding from Government.

Nearly half of our revenue is derived from the resale of the vehicles that are returned to Motability Operations at the end of lease each year – we sold over 220,000 vehicles in the year to September 2015, generating over £1.9 billion in revenue. The effective management and deployment of our vehicle remarketing activities, and the subsequent realisation of asset values, is critical in underpinning ongoing affordability and providing stable lease prices to customers.

Our financing

As a standalone company, Motability Operations is financed through commercial market-based funding and by reinvesting profits back into the business.

Our current financing comprises a blend of borrowing from the Sterling and European Debt Capital Markets (bonds), combined with facilities negotiated with the major UK banks to provide liquidity headroom. We currently have £4 billion of bonds in issue and a £2 billion bank facility. In order to access these markets on competitive terms it is necessary to maintain an investment-grade credit rating. Our A+/A1 credit rating from Standard & Poor's and Moody's respectively underpins our ability to fund the Scheme in a sustainable and cost-effective manner.

The balance of our financing is provided by our capital base, comprising accumulated reserves, which not only supports the Scheme's liquidity requirements, but also underpins our financial sustainability.

We ensure that we maintain an appropriate diversity of funds and a well-laddered maturity profile to minimise refinancing and liquidity risk. Our existing financing facilities provide sufficient liquidity headroom to meet our financing needs in the medium term.

Our suppliers

We aim to provide a UK-wide and universally available proposition to a consistently high standard. In order to deliver this, we engage with and manage a range of suppliers. We aim to not only deliver value through every aspect of our supply chain, but also ensure that suppliers deliver the highest standards of customer service.

We source vehicles from 34 vehicle manufacturers and use a variety of adaptation and conversion specialists.

Through our national network of over 4,800 approved Motability Dealers, we oversee the delivery of the full 'end-to-end' customer process – from application for and delivery of the vehicle, through servicing, maintenance and repair, to the return of the vehicle at the end of contract. This involves the training of 18,000 Motability Dealer Specialists and results in over one million transactions between Motability Operations and the dealer network each year.

We manage a number of other key suppliers who deliver other elements of the 'worry-free' package, including prioritised roadside assistance, and tyre and windscreen replacement.

£3.9bn
in revenue generated during 2015

A+/A1
credit rating

18,000
trained Motability Dealer Specialists

Our insurance

Insurance is an essential element of our 'worry-free' proposition. Our new insurance arrangements provide an efficient and sustainable structure which ensures we offer value and continued peace of mind for our customers

Our vehicle remarketing

Our ability to optimise the market value of the used vehicles as they are returned to us at the end of lease is a core competency for Motability Operations, and fundamental to delivering affordability and stability in lease prices for customers

Our people

Our business culture is customer focused and performance driven. We set challenging targets and we encourage our people to think and act commercially whilst remaining aligned to our values

Our insurance

In October 2013 we began the migration of our fleet onto reconfigured insurance arrangements. This revised structure was implemented to ensure that the offering continues to provide value for money and is sustainable in the long term. Whilst customers continue to benefit from fully comprehensive insurance provided by RSA, since 1 October 2013 Motability Operations has retained a proportion of premium exposure through its A+ rated reinsurance captive MO Reinsurance Ltd (MORL).

MORL's net exposure is contained through the placement of a conservatively structured reinsurance programme, which spreads insurance supply amongst a number of highly rated reinsurers and, in so doing, diversifies risk and ensures stability of insurance provision in the future.

RSA continues to provide policy and claims administration activities through its dedicated RSA Motability unit in Liverpool.

The efficient financial model that underpins the new arrangements brings with it additional financial benefits, all of which are passed on to customers.

Our vehicle remarketing

Unexpected volatility in the used-car market may impact our ability to realise the predicted value of our vehicles. This is our single largest risk. We are currently required to sell over 220,000 cars into the used-car market each year (over 600 per day, seven days a week), as these are returned to us at the end of lease.

The effective deployment of this activity, and therefore the realisation of the optimal value for these assets, is fundamental to protecting the affordability and sustainability of the Scheme. To achieve this we operate a market-leading online trade sales channel 'mfldirect', through which we sell to an actively managed buying base of over 3,200 dealers. During the year ended September 2015 we sold over 173,000 vehicles (over 77%) through this online channel. Vehicles that are not sold online are routed through our national auction programme, with over 550 branded events held across 19 auction centres last year.

Our people

We believe that our people are our greatest asset. By retaining a motivated and engaged workforce we are able to deliver consistently strong business performance within a business culture aligned to our values and principles.

Through our workforce of over 800 employees we operate the Motability Scheme. We challenge our people to be customer focused and to think and act commercially. This supports our dual goals of delivering excellent customer service and ensuring that we provide value to our customers.

As a responsible employer we are committed to paying our people at least the level of the current minimum 'Living Wage', as calculated by the Living Wage Foundation, for their base location.

Through our customer call centre we handle approximately 950,000 calls every year, with over 80% of calls being answered within 20 seconds.

Each year we participate in an independently measured employee culture survey which measures employee views across a range of topics such as engagement, customer focus and leadership. The 2016 survey results once again showed that Motability Operations continues to significantly outperform the UK 'High-Performing Organisations' benchmark across all categories.

524,000

vehicles now on cover under the revised insurance arrangements

>600

used cars sold every day, seven days a week

93%

employee engagement

Another six months of affordable, worry-free mobility for our customers

Over the half year to March 2016, Motability Operations has delivered outstanding results across all its major strategic objectives.

We aim to excel in customer service, and I am pleased to record that satisfaction remained at its record 98% in the independent (CSI) survey of customers conducted in October 2015.

In addition, our performance was reviewed by the Institute of Customer Service (ICS) in the autumn of 2015, measuring the business against other providers. I am delighted to disclose that Motability Operations' customer service was reported by the ICS as the 'highest in the UK', and at least 10 percentage points ahead of many household names in retail and financial services.

The Company's performance is delivered through long-term strategies for enhancing customer service, combined with measures to ensure enduring affordability. Throughout the six months we have continued to offer over 500 cars on the price-list costing no more than the customer's allowance, including a number priced at a lower level, allowing customers to retain some of their mobility allowance.

The last six months have also seen strong outcomes for vehicle sales, despite some challenging market conditions.

Our robust financial performance has enabled us to maintain appropriate levels of reserves, while continuing to invest in many areas of customer need, including support for wheelchair accessible vehicles and adaptations. We also work with Motability to provide transitional support for customers who face losing their Scheme vehicle as a result of assessment for the Personal Independence Payment (PIP).

These strong results reflect a cultural approach which is engrained through every part of the business, led by a management team dedicated to delivering outstanding financial performance and customer service.

The outcomes of the first six months give us every confidence that this level of performance will be fully sustained throughout the remainder of 2016.

Neil Johnson OBE

Chairman

Sustainable value for customers

Our overarching aim is to provide customers with access to an affordable range of vehicles which gives them the freedom to lead a full and active life

Our financial stability provides a solid platform which is integral to the sustainability of the customer proposition – this underpins our ability to consistently provide customers with an affordable product which meets their diverse disability needs.

Performance

Overview

The business continued to deliver a strong performance during the first six months of the financial year to March 2016, meeting the full range of financial and non-financial targets.

We continue to track a wide range of measures to assess our performance in delivering our key customer targets. Customer satisfaction is measured independently in a customer survey carried out twice a year. In the latest survey in October 2015, overall customer satisfaction continues to track at 98%.

In terms of affordability and choice, a key measure is the range of affordable vehicles available on the price-list. We are pleased to report that we have been successful in continuing to deliver a price-list which provides value and choice for our customers, with over 500 vehicle models available at 'nil advance payment' (where the customer's allowance alone is sufficient to fund all lease costs) throughout the period, including a number of automatic models.

The ultimate validation of our success is customer renewal rate at the end of lease. It is therefore pleasing to report that this remains consistently high at over 92%.

We continue to invest in the customer proposition, and plan to invest close to £200m this year on direct and indirect customer initiatives. Customer investments include expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing a good condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and expenditure to support the cost of vehicle adaptations and the affordability of wheelchair accessible vehicles. In January 2016 we were pleased to be in a position to make a charitable donation of £15m to enable Motability to continue providing customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations.

Financial performance

Revenue in the six months to March 2016 was £2,000m, up 3.0% year on year (2015: £1,941m). Profit for the period, which is retained in the Scheme for the benefit of our customers, was £118.0m, representing a post-tax return on assets of 3.0%. This result includes a gain of £35.4m from vehicle sales (2015: £56.8m), reflecting a strong performance in a challenging used-car market, including the continued success of our online sales route, with over 77% of vehicles sold through this channel during the six months to March 2016.

For the six months to March 2016, the Group incurred a tax charge of £3.5m, comprising an underlying tax charge of £25.4m and a deferred tax liability release of £21.9m, which is a result of the enactment of the planned future reduction in the rates of corporation tax to 19% in April 2017 and 18% in 2020 (the March 2016 Budget announced a further reduction to 17% in April 2020, however at the Balance Sheet date this rate had not been enacted).

This result takes Restricted Reserves on the Balance Sheet to £2,206.6m, providing Motability Operations with capital in line with target at 19% above the Group's minimum capital requirement.

>500

Cars available at 'nil advance payment' throughout the period

38.8min

average roadside assistance response time. Prioritised assistance ensures that our customers are mobile again as soon as possible.

"We closely monitor performance against a range of financial and non-financial targets to ensure that we deliver a consistent proposition which represents good value for money for our customers"

Mike Betts
Chief Executive

Assets and residual values

The carrying value of operating lease assets has increased 1.1% since September 2015, to £6,324.0m.

The latest fleet revaluation continues to give due consideration to the current focus on diesel emissions, with Euro 5 technology being replaced with cleaner Euro 6 in new registrations from September 2015, and also the emerging picture with regard to the integrity of published emissions statistics.

At March 2016, the revaluation of the fleet versus the priced position reflected a projected gross exposure of £39.7m which, after adjusting for selling costs, lease extensions and early-terminating leases, results in a net exposure of £297.9m. This projected exposure is charged to the income statement over the remaining term of the respective leases. At the Balance Sheet date £151.3m of this exposure had been recognised through the income statement, including £31.3m in the six months to March 2016, with the balance to be charged across the next three financial years.

Financing and liquidity

The Group continues to pursue a strategy aimed at diversified sources of funding, protection of structural liquidity and maintaining a well-laddered debt maturity profile. With these principles in mind, the Group issued a £600m 20-year Sterling bond in March 2016. Consistent with our financing policy, this transaction de-risks our future refinancing requirements, providing us with liquidity to settle the £300m bond maturing in September 2016. Existing bank facilities, in combination with the ten bonds in issuance under our European Medium Term Note programme, provide the Group with liquidity headroom in line with targets.

Our corporate credit ratings (A+/A1, both with a stable outlook) remain an important enabler of our access to financing at competitive rates from the debt capital markets.

Insurance

Our revised insurance arrangements, which commenced on 1 October 2013, are now firmly embedded. Under this structure, Motability Operations participates in a proportion of premium exposure via our A+ rated reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme. The introduction of these arrangements not only secures the long-term supply of insurance, but also brings greater efficiency and financial benefits, all of which are passed on to customers.

Our fleet continues to migrate on to the revised arrangements as new and renewing business falls under this cover. The new structure has been integrated seamlessly, with expertise, processes and data flows all successfully embedded into the business. At the end of March 2016, over 524,000 vehicles were 'on-cover' under the new arrangements.

Following an independent actuarial assessment of the reserving position, MORL reported a £10.1m post-tax profit for the six months to March 2016.

Welfare reform

In 2013, the Government introduced a new benefit – Personal Independence Payment (PIP) – which will gradually replace Disability Living Allowance (DLA) for disabled people aged between 16 and 64.

From October 2013 to 2019, the Department for Work and Pensions (DWP) plans to reassess some two million disabled people, including around 360,000 who currently lease a Motability car. Recipients who qualify for the enhanced rate of the mobility component of PIP will be able to continue leasing a car as they do today. However, because PIP is a new benefit assessed using different criteria, some people are losing their eligibility for the Motability Scheme. Other potential customers will qualify for the first time.

As a Scheme, we wish to support those customers losing eligibility. Many people may have been customers for a long time, and could not have expected a change in their eligibility for the Scheme to occur. Some, especially those with lifetime or indefinite awards, may have expected to remain permanently on the Scheme.

We have therefore worked closely with Lord Sterling and our colleagues at Motability and have implemented a package of support which is appropriate to customer needs, affordable and will not compromise the financial strength of the Scheme.

To date we have made donations totalling £175m to Motability as part of our commitment to fund this transitional support. As of March 2016, 17,670 Scheme customers have lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme. To date, Motability has made 11,962 transitional support payments to customers who have either returned or purchased their vehicles, with a further 2,141 potential payments in the pipeline pending vehicle hand-backs by the customers.

Outlook

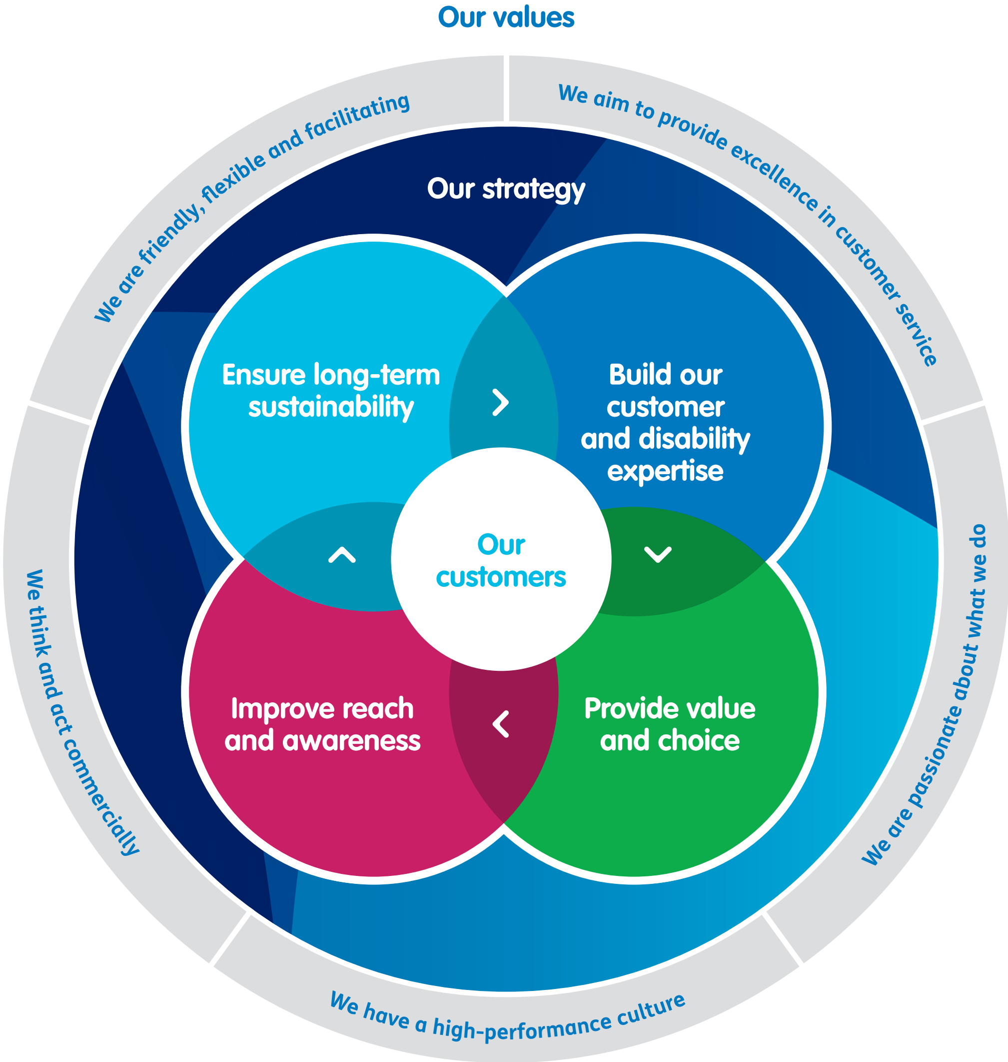
As part of our regular forecasting process we model a wide range of scenarios and stress-tests, in order to understand the potential impact of both industry-specific and macro-economic factors which may affect our business. The current scenario modelling includes an assessment of the potential fall-out from the continuing focus on manufacturers' emission statistics and also a range of scenarios with respect to the potential impact of a "Brexit" outcome in the 23 June referendum.

Whilst it is not possible to be certain regarding the consequences of a vote for Britain to exit the European Union, our stress-testing provides reassurance that our business model is sufficiently robust to withstand the full range of potential outcomes, whilst continuing to deliver an affordable and consistent proposition to customers.

Our strategic framework

Our strategy
In order to ensure that our activity delivers outstanding value to customers, we have defined four strategic 'pillars'. These set out a clear framework within which we align our business objectives, performance targets and business planning. Our people, positioning principles, culture and values form the bedrock to deliver these objectives.

Our values
Our values are central to delivering and meeting the needs and expectations of our customers. We embrace diversity, which enables us to have a wide variety of approaches and perspectives, enhancing performance and creating value for customers.



People and principles
Our people are fundamental to our success and we are committed to recruiting and retaining an engaged and motivated workforce. We have created an excellent working environment, and promote a collaborative business culture aligned to our core values and principles. We seek to develop our people and to reward and recognise excellent performance.

Performance
We track performance through a range of corporate Key Performance Indicators (KPIs). These KPIs are defined in the context of the four strategic 'pillars', thereby ensuring that activity across the business is aligned with these strategic objectives. Employee performance is measured with reference to the delivery of both individual and Company targets.

For more detail see pages 10-13

Risk management
Through our comprehensive risk management processes we identify and assess the risks that we face. Having understood the nature of these risks, we ensure that we have the appropriate mitigants in place to reduce these exposures.

For more detail see pages 14-16

Build our customer and disability expertise

We aim to maintain consistently excellent levels of customer service throughout the leasing proposition, and demonstrate disability expertise in our approach to our customers and in our role as an employer.

Goals

Understanding our customers is critical to our success. By listening and responding to their feedback, we are able to adapt our proposition and focus our resources on their needs. Our success is dependent on our ability to deliver a Scheme that meets our customers' requirements and provides excellent service. Development of our disability expertise is fundamental to our success in understanding our customers and the delivery of our customer service aspirations.

Objectives

- Deliver best-practice customer service through our call centre
- Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets
- Build our adaptation and conversion expertise to ensure that customers have a seamless experience and that we are recognised for the excellence of our 'one-stop-shop' service
- Provide our customers with the information and tools they need to select a suitable car from the wide range available
- Provide information to support decision-making to meet customers' mobility needs
- Work with disability organisations for guidance and support.

Overall customer satisfaction 98%

We deliver by listening to our customers and ensuring that we meet their requirements.

Calls answered within 20 seconds 82%

We have successfully met our target of answering 80% of calls within 20 seconds for eight consecutive years. This performance was maintained during the six months to March 2016, with 82% of calls answered within 20 seconds.

Roadside assistance average response time 38.8min

Mobility is a priority to our customers. In the event of a breakdown our customers receive priority assistance, and with an average response time of 38.8 minutes during the six months to March 2016 (compared with a KPI target of < 42 minutes), customers are quickly attended to and are mobile again.

We aim to go the extra mile to understand our customers' requirements and in particular to support their specific disability needs

Provide value and choice

We provide a wide range of vehicles to our customers at competitive and affordable prices.

Goals
We believe that customers should be able to choose from a wide selection of vehicles. Within this offering we are committed to providing a range of affordable models which are suitable for our customers' needs.

To this end we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms – the aim being to provide value without compromising choice or quality.

Objectives
- Maintain a range of at least 200 cars at 'nil advance payment'
- Provide a wide selection of vehicle models and brands
- Ensure that our residual value-setting and forecasting is the best in the industry
- Provide stability in pricing and choice throughout the economic cycle
- Retain our market leadership for vehicle remarketing.

Affordable vehicle choice at 'nil advance payment' >532

We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the six months to March 2016 we exceeded this target with at least 532 models at any one time.

Relative affordability – % cheaper than alternative >44%

We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and a VAT concession (which is passed onto customers in lease pricing) deliver the majority of this differential.

% of vehicles sold online at the end of lease 78%

Selling via our online sales channel, 'mfldirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return. During the six months to March 2016, 78% of vehicles were sold online.

We work with a wide range of suppliers to ensure that we provide customers with a good range of products at affordable prices

Improve reach and awareness

We seek to create improved awareness and understanding of the Scheme proposition within our potential market. In doing so, we attract new customers to the Scheme.

Goals

Through promoting greater understanding of the Scheme proposition, we seek to develop better-informed potential customers who are well positioned to evaluate its benefits.

Fundamental to this are the loyalty and trust of our existing customers, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.

Objectives

- Raise understanding of Scheme elements and confidence and trust in the Scheme
- Maximise effectiveness of multimedia channels to increase understanding within the eligible customer base
- Identify and, where appropriate, remove any barriers for potential customers
- Continue to encourage dealers to promote the Scheme in line with our brand.

Trust in Motability 98%

Since 2012 we have measured customers' trust in the Motability 'brand'. Trust is considered to be key in enabling current and potential customers to make an informed and confident choice of a mobility solution that meets their disability needs and, in turn, strengthens customer advocacy of the Scheme.

Customer renewal rate at the end of lease 92%

Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the six months to March 2016 this was maintained at 92%, compared with a KPI target of 85%.

Customer advocacy 98%

Existing customers are the Scheme's biggest advocates, with over 98% saying that they would recommend the Scheme to others.

The 'Big Event' and 'One Big Day' events, held in accessible locations provide great opportunities for potential customers to find out more about the Motability Scheme

Ensure long-term sustainability

We ensure that our business model, finances, people, reputation and infrastructure are geared to support the long-term sustainability of the Scheme.

Goals
Long-term sustainability is fundamental to the delivery of the other three strategic pillars. From a financial perspective we seek to ensure that we maintain a robust balance sheet and reserves base capable of absorbing market volatility, and that we secure longevity of funding on competitive terms capable of supporting our range of fleet expectations. This, in turn, allows stability of pricing through the economic cycle. We regard the enhancement of our reputation and the continuation of the support we enjoy across our stakeholder groups as pivotal to our sustained success.

Objectives

- Maintain a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events
- Create opportunities to access wider sources of competitive funding. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates
- Continue to nurture effective partnerships with key stakeholders
- Maintain a forward-looking environmental policy, ensuring availability of a range of low-emission vehicles, but balancing our customers' needs with CO_2 considerations
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people.

Credit rating A+/A1

We seek to preserve our credit rating with our robust approach to financial and risk management and through the flexibility of our pricing process. Our ratings are A+/A1 with stable outlooks (from Standard & Poor's and Moody's respectively).

Capital adequacy +19%

The Group targets capital levels to be at least 15% above its Minimum Capital Requirement (MCR) providing us with confidence that we have a sufficiently robust financial platform to protect the Scheme through the economic cycle.

Employee engagement 93%

We participate in an independent annual review of business culture, where we have significantly outperformed the 'High-Performing Organisations' benchmark. Employee engagement is 10pts higher than the benchmark.

We believe that by retaining an engaged and motivated workforce we can ensure that we deliver excellent service to our customers

Our dynamic and robust approach

Through our comprehensive risk management processes we identify and assess the potential risks that we face. Having understood the nature of these risks, we ensure that we have effective mitigants in place to reduce these exposures

At Motability Operations, we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. It is a core commitment that our approach protects the interests of customers and seeks to ensure that risks are managed sufficiently to avoid pricing shocks through the extremes of the economic cycle. Our risk framework, which is enshrined within our governance framework, is overseen and managed by our Financial Risk Management Committee.

Following the changes introduced to our risk processes last year, including the appointment of a Board Director with specific responsibility for risk and a strengthened risk function, we have taken the opportunity to further enhance our approach and practices. Amongst other things, we have now embedded a formal Risk Appetite Framework into our risk management processes.

We make certain that, through this policy and approach, our activities meet standards of behaviour and fall within boundaries that are consistent with our approved level of appetite for risk.

Risk identification and monitoring

We have designed our risk management framework around the 'three lines of defence' approach to risk governance. Consistent with this approach, we have a dedicated risk management function that is integral to co-ordinating, monitoring and advising on control activities.

This holistic approach encompasses all material risks, with clearly identified accountabilities and responsibilities for risk management, control and assurance. As such, risk management is incorporated as a core part of effective business planning and capital management.

We regularly update our risk management framework to ensure that it remains appropriate to the business. These updates include regular assessments of risks and controls, including the update of risk registers, and early identification of any emerging risks to the achievement of our stated objectives. Our latest risk assessment review included an evaluation of the potential impacts of a "Brexit" scenario following the 23 June referendum.

Risk management framework

We have designed our risk management framework around the 'three lines of defence' approach to risk governance

1st line of defence

Primary risk management

- Controls designed into processes and procedures
- Control Risk Self Assessments and control action plans
- Project risk identification and management processes
- Directors' Risk Assessments

2nd line of defence

Risk control

- Risk department activities
- Policies and procedures, e.g. Authorities Manual
- Director and Heads of Function Annual Accountability Statements
- Company Performance Report and KPIs
- Activities of the Board and Committees

3rd line of defence

Assurance

- Follow-up of agreed recommendations against implementation deadlines and subsequent reporting
- Internal audit reviews

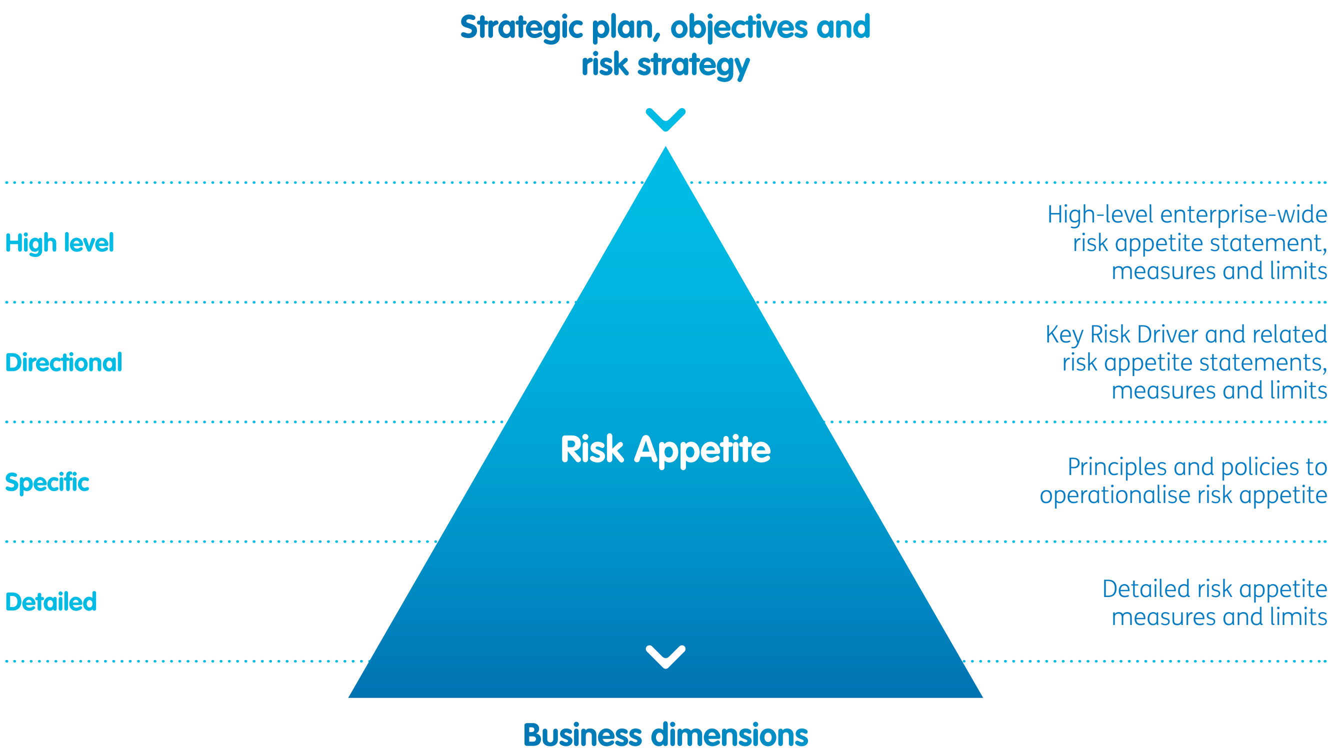
Risk Appetite Framework

Our Risk Appetite Framework (RAF) is now embedded within our wider management and governance processes. This formalised framework builds on our strong risk management culture and aligns our strategic planning and risk management activities.

The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels, which includes over 140 risk metrics.

The development of this framework drew on best practice and has been independently assessed. The responsibility for monitoring and review of the RAF has been included within our governance framework.

> "The implementation of a comprehensive Risk Appetite Framework ensures that there is a clear linkage between our strategic planning, performance monitoring and risk management activities."



- Based upon a top-down hierarchy derived from the strategic plan and objectives and risk strategy
- Articulation of high-level statements and limits aligned to strategic risk objectives such as Earnings Volatility; Embedded Value; Financial Strength; Infrastructure; Reputation etc.
- Analysis of high-level limits to identify and set limits against key risk drivers so as to give directional steer to business
- Documentation of specific minimum standards; principles and 'dos and don'ts' for inclusion in the business policy and risk assessment documentation
- Mapping of directional limits to detailed business Management Information so as to tie together the top-down and bottom-up
- The framework is then used to inform the key business dimensions including: business model, customer profile, control measures, concentrations, competitive position and financials

Summary of our key risks and mitigations

1 Residual values
Unexpected movements in used-car values, failure to achieve market value on disposal

Potential impact
- Volatility in profitability, reserves and pricing. Potential impact on affordability and choice

Mitigation
- Sophisticated in-house residual value setting and forecasting process
- Risk Capital management for asset risk using Economic Capital principles
- Market-leading remarketing approach

Link to strategy
- The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology)

2 Supplier failure
Failure of key manufacturer or other key Scheme supplier

Potential impact
- Compromised customer service provision and potential financial impact of securing alternative supplier
- In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties

Mitigation
- Active monitoring of credit ratings and market announcements
- Strong supplier relationships and communication
- Diversification of supply
- Diversified portfolio

Link to strategy
- Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs

3 Credit
Risk of default of key income streams and exposure to bad debt

Potential impact
- Potential impact on cash inflows and consequent write-off to income statement

Mitigation
- Principal income stream directly from DWP – therefore minimal credit risk
- Residual credit risks are managed through credit assessments and an effective credit control function

Link to strategy
- The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme

4 Treasury
Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk

Potential impact
- Potential impacts include volatility in funding costs, with knock-on effects on lease pricing
- Inability to access new or replacement funding as existing maturities expire

Mitigation
- Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps
- Balanced portfolio of funding maturities and diversification into bond market
- Maintenance of strong credit rating
- Good treasury system, controls and governance

Link to strategy
- The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk averse

5 Operational
Risk of failure of key systems, controls or processes

Potential impact
- Potential financial and reputational risk
- Risk of business disruption

Mitigation
- Robust control environment
- Active monitoring of Business Continuity and Disaster Recovery plans
- Information Security framework aligned to best practice and industry standards

Link to strategy
- We ensure that we make appropriate strategic investments in our infrastructure, systems and processes

6 Insurance
Exposure to insurance claims that exceed expectations or supplier failure

Potential impact
- Financial impact of claims exceeding priced expectations
- Failure of a reinsurer could transfer risk back to Motability Operations

Mitigation
- Conservatively placed reinsurance programme effectively limits the Group's net risk
- Risk Capital in place to cover net risk
- Access to extensive expertise
- Diversification of supply across highly rated reinsurers

Link to strategy
- Our revised insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term

Independent review report to Motability Operations Group plc

Report on the consolidated interim financial statements

Our conclusion

We have reviewed Motability Operations Group plc's consolidated interim financial statements (the "interim financial statements") in the half year report of Motability Operations Group plc for the six month period ended 31 March 2016. Based on our review, nothing has come to our attention that causes us to believe that the interim financial statements are not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

What we have reviewed

The interim financial statements comprise:

- the consolidated interim balance sheet as at 31 March 2016;
- the consolidated interim income statement and consolidated statement of comprehensive income for the period then ended;
- the consolidated interim statement of cash flows for the period then ended;
- the consolidated interim statement of changes in equity for the period then ended; and
- the explanatory notes to the interim financial statements.

The interim financial statements included in the half year report have been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union and the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 2 to the interim financial statements, the financial reporting framework that has been applied in the preparation of the full annual financial statements of the Group is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

Responsibilities for the consolidated interim financial statements and the review

Our responsibilities and those of the Directors

The half year report, including the interim financial statements, is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half year report in accordance with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Our responsibility is to express a conclusion on the interim financial statements in the half year report based on our review. This report, including the conclusion, has been prepared for and only for the Company for the purpose of complying with the Disclosure Rules and Transparency Rules of the United Kingdom's Financial Conduct Authority and for no other purpose. We do not, in giving this conclusion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What a review of consolidated financial statements involves

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

We have read the other information contained in the half year report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the interim financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants
London, United Kingdom
27 May 2016

a) The maintenance and integrity of the Motability Operations Group plc website is the responsibility of the Directors; the work carried out by the Auditors does not involve consideration of these matters and, accordingly, the Auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Consolidated income statement

For the six months ended 31 March 2016

	Note	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Revenue	4	2,000.0	1,941.4
Net operating costs excluding charitable donations		(1,776.5)	(1,673.9)
Charitable donations		(15.0)	–
Net operating costs	6	(1,791.5)	(1,673.9)
Profit from operations		208.5	267.5
Finance costs	7	(87.0)	(84.6)
Profit before tax		121.5	182.9
Taxation (*)	8	(3.5)	(37.5)
Profit for the period		118.0	145.4

(*) The taxation charge for the period of £3.5m comprises a tax charge of £25.4m and a deferred tax release of £21.9m which is a result of the future reductions of the corporation tax rate to 19% with effect from April 2017 and 18% with effect from April 2020 (2015: taxation charge for the period of £37.5m comprising a tax charge of £37.5m and a deferred tax release of £nil).

All amounts in current and prior periods relate to continuing operations (see note 2).

The profit is non-distributable and held for the benefit of the Scheme.

Consolidated statement of comprehensive income

For the six months ended 31 March 2016

	Note	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Profit for the period		118.0	145.4
Other comprehensive income items that may be reclassified subsequently to profit or loss			
Gains/(losses) on movements in fair value of cash flow hedging derivatives	15	96.1	(81.0)
(Losses)/gains on foreign currency translation	15	(85.8)	57.7
Tax relating to components of other comprehensive income		(2.1)	4.8
Other comprehensive income for the period, net of tax		8.2	(18.5)
Total comprehensive income for the period attributable to equity		126.2	126.9

Consolidated balance sheet

As at 31 March 2016

	Note	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Assets				
Non-current assets				
Intangible assets		20.9	17.2	14.0
Property, plant and equipment		18.3	19.6	20.9
Assets held for use in operating leases	9	6,324.0	6,254.9	6,115.4
Held to maturity investments		54.0	23.5	–
Hire purchase receivables		–	–	4.9
Trade and other receivables		16.9	25.9	18.6
Derivative financial instruments	16	40.4	1.8	–
Deferred tax asset		–	–	2.8
		6,474.5	6,342.9	6,176.6
Current assets				
Inventories	10	121.2	109.9	97.5
Held to maturity investments		16.2	1.4	–
Cash and bank balances		824.4	267.2	184.8
Hire purchase receivables		–	0.9	4.0
Insurance receivables	11	109.3	75.7	44.3
Trade and other receivables		267.5	237.2	271.4
		1,338.6	692.3	602.0
Total assets		7,813.1	7,035.2	6,778.6
Liabilities				
Current liabilities				
Corporation tax payable		(43.9)	(13.0)	(51.7)
Deferred rental income	12	(179.3)	(170.9)	(164.3)
Insurance payables	13	(34.6)	(30.8)	(20.7)
Trade and other payables		(142.3)	(163.4)	(137.5)
General insurance provisions	14	(146.7)	(106.8)	(61.6)
Financial liabilities	15	(432.7)	(419.3)	(127.2)
Derivative financial instruments	16	(0.5)	(0.1)	(0.4)
		(980.0)	(904.3)	(563.4)
Net current assets/(liabilities)		358.6	(212.0)	38.6
Non-current liabilities				
Deferred rental income	12	(208.5)	(211.8)	(203.4)
Financial liabilities	15	(3,995.2)	(3,319.7)	(3,451.0)
Derivative financial instruments	16	(42.6)	(100.5)	(117.3)
Deferred tax liabilities		(366.6)	(404.9)	(413.9)
		(4,612.9)	(4,036.9)	(4,185.6)
Total liabilities		(5,592.9)	(4,941.2)	(4,749.0)
Net assets		2,220.2	2,094.0	2,029.6
Equity				
Ordinary share capital		0.1	0.1	0.1
Hedging reserve	15	13.5	5.3	5.5
Restricted reserves (*)		2,206.6	2,088.6	2,024.0
Total equity		2,220.2	2,094.0	2,029.6

(*) Restricted reserves are retained for the benefit of the Scheme. As regards ordinary shareholders, there is no dividend entitlement. A capital management policy has been established to ensure that the business and the customer proposition are sustainable throughout the economic cycle.

These financial statements on pages 18 to 40 were approved by the Board of Directors on 27 May 2016.

Mike Betts
Chief Executive

Consolidated statement of changes in equity

For the six months ended 31 March 2016

	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total £m
At 1 October 2014	0.1	24.0	1,878.6	1,902.7
Comprehensive income				
Profit for the period	–	–	145.4	145.4
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(81.0)	–	(81.0)
Gains on foreign currency translation	–	57.7	–	57.7
Tax relating to components of other comprehensive income	–	4.8	–	4.8
Total comprehensive income	–	(18.5)	145.4	126.9
At 31 March 2015	0.1	5.5	2,024.0	2,029.6
At 1 October 2015	0.1	5.3	2,088.6	2,094.0
Comprehensive income				
Profit for the period	–	–	118.0	118.0
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	96.1	–	96.1
Losses on foreign currency translation	–	(85.8)	–	(85.8)
Tax relating to components of other comprehensive income	–	(2.1)	–	(2.1)
Total comprehensive income	–	8.2	118.0	126.2
At 31 March 2016	0.1	13.5	2,206.6	2,220.2

Consolidated statement of cash flows

For the six months ended 31 March 2016

	Note	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Cash flows from operating activities			
Cash generated from operations	17	111.3	86.4
Interest paid		(84.6)	(83.5)
Income tax paid		(12.9)	(27.8)
Net cash generated from/(used in) operating activities		13.8	(24.9)
Cash flows from investing activities			
Purchase of corporate property, plant and equipment and intangible assets		(5.5)	(7.2)
Proceeds from sale of corporate property, plant and equipment		0.2	0.3
Investment in held to maturity financial assets		(45.3)	–
Net cash used in investing activities		(50.6)	(6.9)
Cash flows from financing activities			
Bonds issued		588.0	–
Net cash used in financing activities		588.0	–
Net increase/(decrease) in cash and cash equivalents		551.2	(31.8)
Cash and cash equivalents at beginning of period		198.1	126.5
Cash and cash equivalents at end of period	17	749.3	94.7

Notes to the interim financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB.

Motability Operations Group plc ('the Company') and its subsidiaries are referred to as 'the Group' in this report.

These condensed financial statements are presented in pounds Sterling because that is the currency of the primary economic environment in which the Company operates.

This condensed set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. Statutory accounts for the year ended 30 September 2015 were approved by the Board of Directors on 9 December 2015 and delivered to the Registrar of Companies. The report of the Auditors on those accounts was unqualified, did not contain an emphasis of matter paragraph and did not contain any statement under section 498 of the Companies Act 2006.

This condensed set of financial statements has been reviewed, not audited.

Accounting convention

The financial statements have been prepared under the historical cost convention, except for the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss.

2. Significant accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 March 2016 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and IAS 34, 'Interim Financial Reporting', as adopted by the European Union. The condensed set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2015, which have been prepared in accordance with IFRSs as adopted by the European Union.

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2015, as described in those annual financial statements.

Going concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing these interim financial statements, and have identified no material uncertainties which could affect the Group's ability to continue to do so over a period of at least 12 months from the date of approval of these financial statements.

Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Adoption of new or revised standards

No new or revised standards and interpretations have become effective, or have been adopted in these financial statements.

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective; or effective but not adopted by the EU and have not been early adopted by the Group.

Amendments to IFRS 7	*Financial Instruments: Disclosures*
IFRS 9	*Financial Instruments*
Amendments to IFRS 10	*Consolidated Financial Statements*
Amendments to IFRS 11	*Joint Arrangements*
Amendments to IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 14	*Regulatory Deferral Accounts*
IFRS 15	*Revenue from Contracts with Customers*
IFRS 16	*Leases*
Amendments to IAS 1	*Presentation of Financial Statements*
Amendments to IAS 7	*Statement of Cash Flows*
Amendments to IAS 12	*Income Taxes*
Amendments to IAS 16	*Property, Plant and Equipment*
Amendments to IAS 27	*Consolidated and Separate Financial Statements*
Amendments to IAS 28	*Investments in Associates*
Amendments to IAS 34	*Interim Financial Reporting*
Amendments to IAS 38	*Intangible Assets*
Annual improvements to IFRSs	*2012-2014 Cycle*

Notes to the interim financial statements continued

2. Significant accounting policies continued

Adoption of new or revised standards continued

IFRS 15

The required implementation date for this standard has been deferred to accounting periods commencing on or after 1 January 2018, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2019 (with comparative figures for the previous accounting period also affected). The Group has undertaken initial assessments of the impact of adoption of this standard. IFRS 15 will require the Group to allocate the revenue it receives from customers differently between the provision of vehicles and of other services. This will not have any material impact on reported profits, and will result in an immaterial reduction in the Group's restricted reserves.

IFRS 16

The required implementation date for this standard has been deferred to accounting periods commencing on or after 1 January 2019, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2020 (with comparative figures for the previous accounting period also affected). The Group has undertaken initial assessments of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors compared with the requirements of IAS 17. If IFRS 16 had been applied to the Group's financial statements for the period ended 31 March 2016:

- there would have been no impact on the Group's accounting as a lessor;
- the change in accounting by the Group as lessee would have resulted in an immaterial reduction in the reported profit for the period and in the Group's restricted reserves as at 31 March 2016;
- there would have been an increase in the Group's property, plant and equipment and financial liabilities as at 31 March 2016, with the increase in each of these items being substantially identical.

With the exception of IFRS 15 and IFRS 16, the Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group.

Other standards, amendments and interpretations not described above are not relevant to the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical judgements in applying the Group's accounting policies:

Residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 9.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 9). As at 31 March 2016, if future value of the net sales proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used-car market), the effect would be to increase/decrease the depreciation on these vehicles by £48.7m (2015: £47.4m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

Insurance contracts

There are certain factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the claims invariably results in a lengthy legal process where claims quantum can fluctuate, as described in more detail in note 14.

4. Revenue

An analysis of the Group's revenue is provided below.

	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Rentals receivable from operating leases	1,025.2	992.1
Proceeds from disposal of operating lease assets	959.0	938.6
Insurance reimbursements from disposal of operating lease assets	12.6	8.9
Other income	1.3	0.6
Finance income	0.9	0.3
Hire purchase earnings	0.7	0.5
Contingent rentals	0.3	0.4
Total revenue	2,000.0	1,941.4

Contingent rentals relate to variable charges for excess mileage.

Reinsurance premiums earned by the Group's insurance captive of £99.7m (six months ended 31 March 2015: £53.0m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

5. Segmental analysis

The Group is organised into two main operating segments: Scheme Operations and Fleet Reinsurance. Fleet Reinsurance is not a reportable segment as it does not exceed any of the quantitative thresholds in IFRS 8. Accordingly, no segmental analysis is presented.

6. Net operating costs

An analysis of the Group's net operating costs is provided below:

	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Net book value of disposed operating lease assets	923.6	881.8
Net book value of operating lease assets derecognised as insurance write-offs	20.2	9.9
Fleet operating costs including insurance, maintenance and roadside assistance costs	233.3	261.1
Insurance claims expense	76.3	52.3
Other operating costs	28.8	28.1
Other product costs including continuous mobility costs, adaptations support and communications	24.1	16.4
Employee costs	20.8	19.1
Charitable donations	15.0	–
Legal and professional fees	9.0	6.3
Bad debt charges and movement in bad debt provisions	6.7	3.2
Motability levy and rebates	5.2	5.7
Management fees	0.4	0.4
Net operating costs before depreciation	1,363.4	1,284.3
Depreciation on assets used in operating leases	425.2	386.0
Depreciation and amortisation on property, plant and equipment and intangible assets	2.9	3.6
Net operating costs	1,791.5	1,673.9

The depreciation charge on assets used in operating leases includes a £31.3m charge (six months ended 31 March 2015: £6.2m release) relating to changes in estimates during the period of future residual values.

Notes to the interim financial statements continued

7. Finance costs

	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Interest and charges on bank loans and overdrafts	5.6	5.7
Interest on debt issued under the Euro Medium Term Note Programme	81.1	78.6
Preference dividends	0.3	0.3
Total finance costs	87.0	84.6

8. Taxation

The major components of the consolidated tax expense are:

	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Current tax		
Charge for the period	42.8	51.8
Adjustment in respect of prior period	1.1	–
Total	43.9	51.8
Deferred tax		
Origination and reversal of temporary differences	(18.5)	(14.3)
Impact of change in UK tax rate	(21.9)	–
Total	(40.4)	(14.3)
Tax on profit	3.5	37.5

Income tax expenses have been recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year.

The estimated average annual tax rate used for the current year is 20.0% (2015: 20.5%).

A rate of 20% applied to the profit before tax of £121.5m for the period gives a theoretical tax liability of £24.3m. In addition, a further tax charge for 2015 of £1.1m results in a £25.4m tax charge prior to rate change effects. (2015: a rate of 20.5% applied to the profit before tax of £182.9m for the period gives a tax liability of £37.5m).

During the period, two rate changes (2015: no changes) were substantively enacted (19% with effect from April 2017 and 18% with effect from April 2020). As a result, there was a deferred tax release of £21.9m.

The overall tax charge of £3.5m (2015: £37.5m) is a combination of the £25.4m (2015: £37.5m) charge less the £21.9m (2015: £nil) rate change credit.

In the Finance Bill 2016, the Government announced its intention to replace the enacted 18% rate with a rate of 17%. If this had been enacted prior to 31 March 2016, a further £10.5m deferred tax credit would have been released to the income statement.

9. Assets held for use in operating leases

Cost	Motor vehicle assets £m
At 1 October 2014	7,259.9
Additions	1,475.5
Transfer to inventory	(1,277.3)
At 31 March 2015	7,458.1
At 1 October 2015	7,659.8
Additions	1,449.4
Transfer to inventory	(1,325.0)
At 31 March 2016	7,784.2
Accumulated depreciation	
At 1 October 2014	1,343.6
Charge for the period	386.0
Eliminated on transfer to inventory	(386.9)
At 31 March 2015	1,342.7
At 1 October 2015	1,404.9
Charge for the period	425.2
Eliminated on transfer to inventory	(369.9)
At 31 March 2016	1,460.2
Carrying amount	
At 1 October 2014	5,916.3
Additions	1,475.5
Depreciation	(386.0)
Transfer to inventory (note 10)	(890.4)
At 31 March 2015	6,115.4
At 1 October 2015	6,254.9
Additions	1,449.4
Depreciation	(425.2)
Transfer to inventory (note 10)	(955.1)
At 31 March 2016	6,324.0

Notes to the interim financial statements continued

9. Assets held for use in operating leases continued

Residual values

Residual values represent the estimated net sale proceeds expected from the sale of the asset at the end of the leasing period. A review is undertaken at the balance sheet date using market data to identify net residual values which differ from the sum anticipated at the inception of the lease.

In addition, the assets' resale market value and disposal costs structure are monitored and the process of realising asset values is managed in order to seek to maximise the net sale proceeds.

The following residual values are included in the calculation of the net book value of fixed assets held for use in operating leases:

Years in which unguaranteed residual values are recovered

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Not later than one year	1,475.0	1,449.8	1,354.7
Later than one year and not later than two years	1,522.1	1,473.1	1,499.6
Later than two years and not later than five years	1,875.3	1,820.8	1,884.9
Total exposure	4,872.4	4,743.7	4,739.2

The total unguaranteed residual value exposure presented above consists of the original priced residual values net of revisions in estimation (see the 'Critical accounting judgements' policy in note 3). The amounts resulting from changes in estimates on the live fleet at the balance sheet date are detailed below, together with the split of the timing of the effects between past and future periods.

Effects of changes in estimates included in the unguaranteed residual values above

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Amounts carried at 31 March/30 September	(151.3)	(110.4)	(43.1)
Amounts to be charged in future years	(146.6)	(181.2)	(72.8)
Total effect of changes in estimated residual value	(297.9)	(291.6)	(115.9)

The Group as lessor

The future rentals receivable under non-cancellable operating leases with customers, calculated with reference to the relevant Disability Allowances, for each of the following three periods after the balance sheet date are:

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Not later than one year	1,513.9	1,580.4	1,532.5
Later than one year and not later than two years	856.6	935.8	906.1
Later than two years and not later than five years	302.6	364.4	339.3
	2,673.1	2,880.6	2,777.9

10. Inventories

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Ex-operating lease assets held for sale	121.2	109.9	97.7
Provisions	–	–	(0.2)
Ex-operating lease assets held for sale (net)	121.2	109.9	97.5

Inventories represent the operating lease assets previously held for rental to customers and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £nil has been provided against irrecoverable vehicles (30 September 2015: £nil, 31 March 2015: £0.2m). During the six-month period to 31 March 2016 there was a £nil increase in provision and £nil written off (six months to 31 March 2015: £0.1m increase in provision and £0.1 written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £943.8m (31 March 2015: £891.7m).

The movements of inventories in the six-month periods ended 31 March 2016 and 2015 are as follows:

	£m
At 1 October 2014	99.0
Transfer from operating lease assets (note 9)	890.4
Disposals (including insurance write-offs)	(891.7)
At 31 March 2015	97.7
At 1 October 2015	109.9
Transfer from operating lease assets (note 9)	955.1
Disposals (including insurance write-offs)	(943.8)
At 31 March 2016	121.2

11. Insurance receivables

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Insurance premium debtor	22.6	16.9	12.9
Claims recoveries and rebates	33.0	25.0	15.5
Reinsurance claims recoveries and commissions receivable	53.7	33.8	15.9
Total insurance receivables	109.3	75.7	44.3

The carrying value of insurance receivables approximates to fair value.

12. Deferred rental income

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Current			
Customers' advance payments (*)	115.6	114.5	111.5
Vehicle maintenance income	14.0	13.6	14.1
Vehicle insurance income	6.6	1.0	–
Customers' end of contract bonuses	43.1	41.8	38.7
Total current	179.3	170.9	164.3
Non-current			
Customers' advance payments (*)	115.0	116.9	117.4
Vehicle maintenance income	45.9	46.3	48.8
Vehicle insurance income	15.8	16.7	7.1
Customers' end of contract bonuses	31.8	31.9	30.1
Total non-current	208.5	211.8	203.4
Total	387.8	382.7	367.7

(*) Customers may choose a leased vehicle where the price exceeds the mobility allowance. In such cases they make an advance payment which is recognised over the life of the lease.

Notes to the interim financial statements continued

13. Insurance payables

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Reinsurance premiums payable	6.2	9.6	6.7
Commissions and administration fee payable	9.1	5.9	3.2
Claims reimbursements payable	19.3	15.3	10.8
Total insurance payables	34.6	30.8	20.7

The carrying value of insurance payables approximates to fair value.

14. General insurance provisions and risk management

Insurance risk management

The risk arising under any one insurance contract consists of a combination of a) the possibility that the insured event occurs and b) the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is defined although occurrence is random and therefore unpredictable. The principal risks of insurance relate to underwriting and insurance provisions risk. Underwriting risks arise out of day-to-day activities in underwriting contracts of insurance as well as risks associated with outward reinsurance. Insurance provision risk is the possibility that actual claims payments differ from the carrying amount of the insurance reserves. This could occur because the frequency or severity of claims is greater or less than estimated.

The Group manages this risk through a proactive approach, including:

- regular Board and insurance steering committee meetings, at which the claims information is analysed together with any material changes to the risk;
- Board responsibility for the assessment of the total cost of risk and setting of premiums which are commensurate with the exposure, revisable on a six-monthly basis based upon actuarially forecast information;
- the purchase of reinsurance to protect against losses exceeding individual or cumulative risk tolerances;
- insurance managers' receipt of claims data on a monthly basis, the content of which is reviewed and any unexpected movements queried;
- significant individual losses being notified separately and the development of claims monitored; and
- appointment of independent third-party claims handlers, selected on the basis of their ability to manage significant claims volumes whilst negotiating efficient and equitable claims settlements.

The Directors of the Group are responsible for ensuring that the premiums charged under the insurance contracts are commensurate with the estimated value of claims, operational costs and any remaining exposure presented to the Group. For all risks, the quantum of individual claims is managed by a prescribed system of proactive claims handling by the appointed claims handler. A system of review is in place whereby all claims in excess of £250,000 are reported separately to the Group.

Motor insurance risks

The Group is providing 80% motor quota share reinsurance in respect of the fleet block insurance policy. Comprehensive cover is provided including motor own damage, motor third-party damage and motor third-party liability. Due to the nature of this class of business, the frequency and severity of insured losses is difficult to predict. The Group limits its exposure through the purchase of appropriate reinsurance.

Sources of uncertainty in the estimation of future claim payments

Claims in respect of the motor quota share reinsurance are payable on a loss occurring basis. The Group is liable for all insured events that occur during the term of the contract. There are several variables that affect the amount and timing of cash flows from these contracts. These mainly relate to the timing of claims settlements. The estimated cost of claims includes direct expenses to be incurred in settling claims, net of the expected subrogation value and other recoveries. The Group takes all reasonable steps to ensure that it has appropriate information regarding its claims exposures. However, given the uncertainty in establishing claims provisions, it is possible that the final outcome will prove to be different from the original liability established.

The estimation of the incurred but not reported ('IBNR') reserve will be determined by utilising an actuarial assessment and based on historical claims experience.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and legal advisers and information on the cost of settling claims with similar characteristics in previous periods.

14. General insurance provisions and risk management continued

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £25,000 (2015: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5.0m (2015: £5.0m) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 116.2% (2015: 114.9%) of the Group's net earned premium income or £240.7m (2015: £146.0m) in the aggregate whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 126.35% (2015: 125.9%) of net premium earned or £21.0m (2015: £14.0m) in aggregate, whichever is the lesser. The Group's exposure above these limits is unlimited.

Claims which have not been recovered from reinsurers at the balance sheet date are included in insurance receivables in the balance sheet and are deemed to be fully recoverable. The Group manages its reinsurance risk through:

- regular Board and insurance steering committee meetings, at which the reinsurance markets are considered;
- the Group's policy to select only those reinsurers that have a minimum credit rating of A- or better;
- significant individual losses being notified separately and the development of the claim being monitored; and
- independent third-party reinsurance brokers being appointed on the basis of their ability to negotiate, recommend and place reinsurance with appropriate markets.

General insurance provisions

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Specific claims reserves	146.6	103.0	59.2
Incurred but not reported reserve	0.1	3.8	2.4
Total general insurance provisions	146.7	106.8	61.6

Specific claims reserves

Specific claims reserves are stated gross of losses recoverable from reinsurers. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent claims handler and are intended to provide a best estimate of the most likely or expected outcome. The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

Motor quota share reinsurance	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Specific claims reserves	146.6	103.0	59.2
Third-party recoveries reserve	(26.6)	(20.7)	(12.1)
Reinsurance recoveries reserve	(52.8)	(32.3)	(15.0)
Total net retained	67.2	50.0	32.1

Incurred but not reported (IBNR)

The Group has appointed an independent actuary to undertake an actuarial study of the motor quota share reinsurance claims reserves for the 2015/16 underwriting year. The independent actuary has used a combination of methods to determine the estimate. The methods adopted are summarised below:

Chain Ladder method

The chain ladder method uses the development profile of paid or incurred claims on historical accident years to project the more recent accident years to their ultimate position.

Expected Burning Cost method

This method takes an assumed initial expected burning cost and estimates the ultimate cost directly based on this initial expectation. The initial expected burning cost has been derived based on the historical ultimate cost (from the chain ladder method on either paid or incurred claims as deemed appropriate) adjusted for frequency and average severity inflation as appropriate.

Bornhuetter-Fergusson method

This method takes as a starting point an assumed initial expected burning cost and blends in the burning cost implied by the experience to date (based on the historical claim development pattern).

Notes to the interim financial statements continued

14. General insurance provisions and risk management continued

Average Cost per Claim method

This method uses an ultimate average cost multiplied by a selected ultimate number of claims. The ultimate number of claims has been derived using the chain ladder method for each claims type and band. The ultimate average cost has been derived by creating an average cost development triangle and then applying the chain ladder method.

The Directors have considered the report of the independent actuary and the pattern of development is believed to be sufficiently consistent period on period to provide an appropriate basis to establish additional reserves.

Motor quota share reinsurance

The development of insurance liabilities provides a measure of the Group's ability to estimate the ultimate value of claims. The top half of each table below illustrates how the Group's estimate of total claims outstanding for each underwriting period has changed at successive period ends. The bottom half of the table reconciles the cumulative claims to the amount appearing in the balance sheet. An underwriting-period basis is considered to be most appropriate for the business written by the Group.

Estimate of ultimate claims cost	Underwriting period ended 31 March 2016 £m	Underwriting year ended 30 September 2015 £m	Underwriting year ended 30 September 2014 £m	Total £m
At end of reporting period	105.9	64.8	8.3	
Six months later	–	157.1	53.4	
One year later	–	–	51.6	
Two years later	–	–	–	
Current estimate of cumulative claims	105.9	157.1	51.6	314.6
Cumulative payments to date	(49.1)	(109.4)	(40.7)	(199.2)
Rebates in year	9.1	13.0	4.0	26.1
Total liability included in balance sheet	65.9	60.7	14.9	141.5

Estimate of ultimate claims cost net of reinsurance	Underwriting period ended 31 March 2016 £m	Underwriting year ended 30 September 2015 £m	Underwriting year ended 30 September 2014 £m	Total £m
At end of reporting period	79.3	48.5	8.1	
Six months later	–	118.9	40.9	
One year later	–	–	40.0	
Two years later	–	–	–	
Current estimate of cumulative claims	79.3	118.9	40.0	238.2
Cumulative payments to date	(49.0)	(108.5)	(39.5)	(197.0)
Rebates in year	9.1	13.0	4.0	26.1
Total liability net of reinsurance included in balance sheet	39.4	23.4	4.5	67.3
Comprises:				
Specific claims reserves				146.6
Third-party recoveries reserve				(26.6)
Reinsurance recoveries reserve				(52.8)
Incurred but not reported reserve				0.1
Total				67.3

14. General insurance provisions and risk management continued

Movements in insurance liabilities

	Period ended 31 March 2016			Year ended 30 September 2015		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims	103.0	(32.3)	70.7	25.7	(3.7)	22.0
Notified claims recoveries	(20.7)	–	(20.7)	(5.4)	–	(5.4)
Incurred but not reported	16.3	(12.5)	3.8	9.4	(8.0)	1.4
Total at beginning of period	98.6	(44.8)	53.8	29.7	(11.7)	18.0
Cash paid for claims settled						
In the period	(62.7)	1.2	(61.5)	(87.8)	0.8	(87.0)
Movement in liabilities						
Current period claims	92.8	(8.8)	84.0	154.5	(22.7)	131.8
Prior period claims	7.6	(12.9)	(5.3)	(4.7)	(6.7)	(11.4)
Incurred but not reported	5.2	(8.9)	(3.7)	6.9	(4.5)	2.4
Total at end of period	141.5	(74.2)	67.3	98.6	(44.8)	53.8
Notified claims	146.6	(52.8)	93.8	103.0	(32.3)	70.7
Notified claims recoveries	(26.6)	–	(26.6)	(20.7)	–	(20.7)
Incurred but not reported	21.5	(21.4)	0.1	16.3	(12.5)	3.8
Total at end of period	141.5	(74.2)	67.3	98.6	(44.8)	53.8

15. Financial liabilities

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Current			
Accrued interest and coupon	57.8	50.6	37.1
Bank overdrafts	75.1	69.1	90.1
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	299.8	299.6	–
Total current	432.7	419.3	127.2
Non-current			
Bank loans	398.8	398.7	448.5
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	3,586.4	2,911.0	2,992.5
Preference shares	10.0	10.0	10.0
Total non-current	3,995.2	3,319.7	3,451.0
Total	4,427.9	3,739.0	3,578.2
The financial liabilities are repayable as follows:			
On demand and no later than one year	432.7	419.3	127.2
Later than one year and no later than two years	395.3	–	499.0
Later than two years and no later than five years	1,282.7	1,621.0	1,654.9
Later than five years	2,317.2	1,698.7	1,297.1
Total	4,427.9	3,739.0	3,578.2

All borrowings are denominated in (or swapped into) pounds Sterling.

Notes to the interim financial statements continued

15. Financial liabilities continued

Bank borrowings

All bank borrowings as at 31 March 2016, 30 September 2015 and 31 March 2015 are at floating rates.

As at 31 March 2016 the Group has the following principal bank loans:

A five-year term loan of £0.4 billion taken out on 30 December 2013 carrying LIBOR interest rates plus bank margins at a market rate (30 September 2015 and 31 March 2015: five-year term loan of £0.4 billion taken out on 30 December 2013).

A five-year revolving credit facility of £1.5 billion taken out on 30 December 2013 carrying LIBOR interest rates plus bank margins at a market rate (30 September 2015 and 31 March 2015: five-year revolving credit facility of £1.5 billion taken out on 30 December 2013) of which £nil was drawn as at 31 March 2016 (30 September 2015: £nil, 31 March 2015: £50m).

Debt issued under the Euro Medium Term Note Programme

Bonds issued under the Euro Medium Term Note Programme, net of unamortised discounts and issue costs, are analysed as follows:

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
5.250% Sterling bond due 2016 (IV)	299.8	299.6	499.0
3.750% Eurobond due 2017 (I)	395.3	368.3	360.7
3.250% Eurobond due 2018 (II)	434.9	405.2	397.0
6.625% Sterling bond due 2019	448.9	448.8	448.6
5.375% Sterling bond due 2022	397.4	397.2	397.0
1.625% Eurobond due 2023 (III)	430.8	400.8	–
3.750% Sterling bond due 2026	297.0	296.9	296.7
4.375% Sterling bond due 2027	295.8	295.6	295.4
5.625% Sterling bond due 2030	298.3	298.2	298.1
3.625% Sterling bond due 2036	588.0	–	–
	3,886.2	3,210.6	2,992.5

(I) The repayment obligation in respect of the Eurobonds of €500m (£396.2m) is hedged by cross-currency swap contracts (note 16) for the purchase of €500m and for the sale of £425.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(II) The repayment obligation in respect of the Eurobonds of €550m (£435.8m) is hedged by cross-currency swap contracts (note 16) for the purchase of €550m and for the sale of £459.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(III) The repayment obligation in respect of the Eurobonds of €550m (£435.8m) is hedged by cross-currency swap contracts (note 16) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(IV) On 12 June 2015 the Group redeemed £200m of the 5.520% £500m Sterling bond due 2016.

The Company has a £4 billion Euro Medium Term Note Programme with denominations of GBP 50,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £4 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

During the period to 31 March 2016 and the previous two financial years the Group has issued the following bonds:

- a £600m Sterling bond with a rate of 3.625% issued on 10 March 2016 and expiring on 10 March 2036;
- a €550m Eurobond with a rate of 1.625% issued on 9 June 2015 and expiring on 9 June 2023; and
- a £300m Sterling bond with a rate of 3.75% issued on 16 July 2014 and expiring on 16 July 2026.

15. Financial liabilities continued

Other comprehensive income and the hedging reserve

Repayment obligations under Eurobonds and floating rate term loans are fully hedged to maturity against both currency and interest rate risk. Eurobonds are revalued at every balance sheet date using the closing exchange rate (i.e. the spot rate at the balance sheet date) in accordance with IAS 21. Hedging derivatives are shown at fair value at the balance sheet date. The fair value is determined by discounting the future Sterling and Euro cash flows arising from the swaps to their present values and then translating the Euro denominated elements into Sterling using the closing exchange rate.

Under the hedge accounting rules outlined in IAS 39, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2016, the Eurobond debt liability was reduced by £19.6m (30 Sep 2015: reduced by £105.4m). This movement of £85.8m is a result of Sterling weakening against the Euro. The associated liability relating to derivatives at 31 March 2016 was £2.7m (30 Sep 2015: liability of £98.8m) – a decrease of £96.1m (see note 16). The net valuation difference at 31 March 2016 is therefore an asset of £16.9m which, after tax at 20.0%, leads to a hedging reserve of £13.5m.

Preference shares

Cumulative preference shares of £9,950,000 were issued on 30 June 2008 at an issue price of £1 per share. The shares carry interest at 7%. The preference shares of the Group are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding-up, as stated in the Memorandum and Articles of Association of the Company.

The weighted average interest rates on borrowings as at 31 March 2016, 30 September 2015 and 31 March 2015 were as follows:

	31 March 2016 %	30 September 2015 %	31 March 2015 %
Current bank loans and overdrafts	1.4	1.4	1.4
Non-current bank loans	1.4	1.8	1.8
Non-current debt issued under the Euro Medium Term Note Programme	4.5	4.7	4.9
Non-current preference shares	7.0	7.0	7.0

At 31 March 2016, 30 September 2015 and 31 March 2015, the Group had the following undrawn committed borrowing facilities:

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Working capital facility	100.0	100.0	100.0
Revolving credit facility	1,500.0	1,500.0	1,450.0
Total	1,600.0	1,600.0	1,550.0

Undrawn committed facilities expire as follows:

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Within one year	5.0	5.0	5.0
Within one to two years	–	–	–
Within two to five years	1,595.0	1,595.0	1,545.0
Total	1,600.0	1,600.0	1,550.0

Notes to the interim financial statements continued

16. Derivative financial instruments

	31 March 2016		30 September 2015		31 March 2015	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges						
Cross-currency swaps	(1.7)	1,287.5	(98.1)	1,287.5	(116.6)	885.0
Interest rate swaps	(1.0)	300.0	(0.7)	400.0	(1.1)	400.0
Total	(2.7)	1,587.5	(98.8)	1,687.5	(117.7)	1,285.0
Included in non-current liabilities	(42.6)	985.0	(100.5)	1,085.0	(117.3)	1,085.0
Included in current liabilities	(0.5)	200.0	(0.1)	200.0	(0.4)	200.0
Derivative financial instrument liabilities	(43.1)	1,185.0	(100.6)	1285.0	(117.7)	1,285.0
Included in non-current assets	40.4	402.5	1.8	402.5	–	–
Included in current assets	–	–	–	–	–	–
Derivative financial instrument assets	40.4	402.5	1.8	402.5	–	–

Cross-currency swaps

On 29 November 2010, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of EUR 500m. The Company entered into cross-currency swap arrangements to hedge its currency and interest rate risks on its Eurobond debts. EUR coupon of 3.75% is fully swapped into the GBP rate of 4.242%.

On 8 February 2012, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of EUR 550m. The Company entered into cross-currency swap arrangements to hedge its currency and interest rate risks on its Eurobond debts. EUR coupon of 3.25% is fully swapped into the GBP rate of 3.664%.

On 9 June 2015, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €550m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 1.625% is fully swapped into the GBP rate of 2.9983%.

Interest rate swaps

At 31 March 2016, the fixed interest rates vary from 0.8195% to 0.845% (30 September 2015: 0.789% to 0.845%, 31 March 2015: 0.789% to 0.845%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31 March 2016 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

The following table details the contractual maturity of the Group's interest rate and cross-currency swap liabilities. The undiscounted cash flows are settled on a net basis.

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
No later than one year	(10.4)	(10.5)	(5.1)
Later than one year and no later than three years	(17.2)	(10.1)	(10.0)
Later than three years and no later than five years	(11.0)	(4.6)	–
Later than five years	(10.5)	(16.6)	–
Total	(49.1)	(41.8)	(15.1)

Further details of derivative financial instruments are provided in note 21.

17. Cash generated from operations

Reconciliation of profit to net cash flow from operating activities:

	Six months ended 31 March 2016 £m	Six months ended 31 March 2015 £m
Profit before tax	121.5	182.9
Adjustments for:		
Depreciation and amortisation charge on corporate assets	2.9	3.6
Depreciation charge on operating lease assets	425.2	386.0
Finance costs	87.0	84.6
Gains on disposal of operating lease assets	(35.4)	(56.8)
Losses on operating lease assets written off through insurance	7.6	1.0
Increase in provisions	2.6	0.7
Operating cash flows before movements in working capital	611.4	602.0
Purchase of assets held for use in operating leases	(1,449.4)	(1,475.5)
Proceeds from sale of assets held for use in operating leases	959.0	938.6
Proceeds from insurance reimbursements of operating lease assets written off	12.6	8.9
Decrease in hire purchase receivables	0.9	4.0
Increase in insurance receivables	(33.6)	(23.4)
Increase in other receivables	(17.3)	(12.2)
Increase in deferred rental income	5.2	14.9
Increase in general insurance provisions	39.9	34.5
Increase in insurance payables	3.8	10.7
Decrease in other payables	(21.2)	(16.1)
Cash generated from operations	111.3	86.4

Cash and cash equivalents

Cash and cash equivalents are presented in the consolidated statement of cash flows as the net of cash and bank balances (which comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less) and bank overdrafts. At 31 March 2016, bank overdrafts include £75.1m (30 September 2015: £69.1m, 31 March 2015: £90.1m) of cash in the course of transmission.

Notes to the interim financial statements continued

18. Analysis of changes in net debt

	At 1 October 2015 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 31 March 2016 £m
Cash and bank balances	267.2	557.2	–	–	824.4
Bank overdrafts	(69.1)	(6.0)	–	–	(75.1)
Cash and cash equivalents	198.1	551.2	–	–	749.3
Borrowings due within one year	–	–	–	–	–
Borrowings due after one year	(398.7)	–	–	(0.1)	(398.8)
Debt issued under the Euro Medium Term Note Programme	(3,210.6)	(588.0)	(85.8)	(1.8)	(3,886.2)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,619.3)	(588.0)	(85.8)	(1.9)	(4,295.0)
Total net debt	(3,421.2)	(36.8)	(85.8)	(1.9)	(3,545.7)

	At 1 October 2014 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 31 March 2015 £m
Cash and bank balances	206.9	(22.1)	–	–	184.8
Bank overdrafts	(80.4)	(9.7)	–	–	(90.1)
Cash and cash equivalents	126.5	(31.8)	–	–	94.7
Borrowings due within one year	–	–	–	–	–
Borrowings due after one year	(448.4)	–	–	(0.1)	(448.5)
Debt issued under the Euro Medium Term Note Programme	(3,048.6)	–	57.7	(1.6)	(2,992.5)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,507.0)	–	57.7	(1.7)	(3,451.0)
Total net debt	(3,380.5)	(31.8)	57.7	(1.7)	(3,356.3)

	31 March 2016 £m	30 September 2015 £m	31 March 2015 £m
Cash and bank balances	824.4	267.2	184.8
Current financial liabilities	(432.7)	(419.3)	(127.2)
Non-current financial liabilities	(3,995.2)	(3,319.7)	(3,451.0)
Total	(3,603.5)	(3,471.8)	(3,393.4)
Less interest accruals included in financial liabilities	57.8	50.6	37.1
Total net debt	(3,545.7)	(3,421.2)	(3,356.3)

19. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2016 amounted to £1,704,453 (six months ended 31 March 2015: £1,572,132). Net contributions due at the balance sheet date were £351,613 (31 March 2015: £2,672).

20. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note.

Related parties comprise Directors (and their close families and service companies), the Motability Charity (and its related charity, the Motability Tenth Anniversary Trust) and the shareholder banks. Transactions entered into with related parties are in the normal course of business and on an 'arm's length' basis.

The relationship of the Group to the Motability Charity is set out on pages 2-3.

Transactions

During the six months ended 31 March 2016, Motability charitable grants totalling £9.6m (six months ended 31 March 2015: £11.0m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £4.3m (six months ended 31 March 2015: £4.3m) relating to Motability administration costs (the 'Motability levy').

A further £1.5m (six months ended 31 March 2015: £1.4m) was paid as rebates in respect of grant awards towards advance payments where customers terminated their agreements and rebates in respect of grants made where the Group-managed adaptations could not be processed.

In addition, £0.9m was paid by the Group as a rebate negotiated with Motability, which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair accessible vehicles (six months ended 31 March 2015: £1.2m). The Group donated £955 to Motability's charitable funds during the period (six months ended 31 March 2015: £3,811).

On 21 January 2016, the Group made a charitable donation of £15.0m (six months ended 31 March 2015: £nil) to Motability. The donation was made to enable Motability to provide customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations.

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans; £0.1m (six months ended 31 March 2015: £0.1m) of bank charges were also paid in the period). Additionally, total fees of £0.4m (six months ended 31 March 2015: £0.4m) were due to the shareholder banks in proportion to their shareholdings for management services.

At 31 March 2016 £277.7m of cash and cash equivalents were held with shareholder banks (30 September 2015: £46.0m, 31 March 2015 £59.3m). During the six months ended 31 March 2016 the Group received interest payments on these cash deposits totalling £0.1m (six months ended 31 March 2015: £0.1m).

Notes to the interim financial statements continued

21. Fair value of financial instruments

The fair value of financial instruments traded in active markets is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The following methods and assumptions were used to estimate the fair values of the financial instruments for disclosure purposes:

- the carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature;
- the carrying values less impairment provisions of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables;
- the hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions;
- the fair value of preference shares for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date;
- the fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date; and
- the fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

Summary of financial instruments

		31 March 2016 carrying value £m	31 March 2016 fair value £m	30 September 2015 carrying value £m	30 September 2015 fair value £m	31 March 2015 carrying value £m	31 March 2015 fair value £m
Cash and bank balances	I	824.4	824.4	267.2	267.2	184.8	184.8
Trade receivables	II	87.3	87.3	87.4	87.4	120.6	120.6
Hire purchase receivables – current	III	–	–	0.9	0.9	4.0	4.1
Hire purchase receivables – non-current	III	–	–	–	–	4.9	4.9
Held to maturity investments	III	70.2	70.3	24.9	24.9	–	–
Trade and other payables	II	(141.0)	(141.0)	(162.1)	(162.1)	(136.2)	(136.2)
Bank loans including bank overdrafts – current	IV	(132.9)	(132.9)	(119.7)	(119.7)	(127.2)	(127.2)
Bank loans – non-current	IV	(398.8)	(398.8)	(398.7)	(398.7)	(448.5)	(448.5)
Debt issued under the Euro Medium Term Note Programme (*)	III	(3,886.2)	(4,338.7)	(3,210.6)	(3,577.8)	(2,992.5)	(3,470.7)
Redeemable preference share liabilities	III	(10.0)	(14.3)	(10.0)	(13.7)	(10.0)	(14.1)
Net non-derivative financial instruments		(3,587.0)	(4,043.7)	(3,520.7)	(3,891.6)	(3,400.1)	(3,882.3)
Interest rate swap – cash flow hedge		(1.7)	(1.7)	(0.7)	(0.7)	(1.1)	(1.1)
Cross-currency swap – cash flow hedge		(1.0)	(1.0)	(98.1)	(98.1)	(116.6)	(116.6)
Total		(3,589.7)	(4,046.4)	(3,619.5)	(3,990.4)	(3,517.8)	(4,000.0)

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
II Non-interest bearing
III Bearing interest at fixed rate
IV Bearing interest at floating rate

21. Fair value of financial instruments continued

Fair value measurements

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2);
- inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (Level 3).

	31 March 2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Held to maturity investments	70.3	–	–	70.3
	70.3	–	–	70.3
Non-derivative financial liabilities				
Financial liabilities	–	(4,353.0)	–	(4,353.0)
	–	(4,353.0)	–	(4,353.0)
Derivative financial instruments				
Interest rate swaps	–	(1.0)	–	(1.0)
Cross-currency swaps	–	(1.7)	–	(1.7)
	–	(2.7)	–	(2.7)
Total	70.3	(4,355.7)	–	(4,285.4)

Notes to the interim financial statements continued

21. Fair value of financial instruments continued

Fair value measurements continued

	30 September 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Hire purchase receivables	–	0.9	–	0.9
Held to maturity investments	24.9	–	–	24.9
	24.9	0.9	–	25.8
Non-derivative financial liabilities				
Financial liabilities	–	(3,591.5)	–	(3,591.5)
	–	(3,591.5)	–	(3,591.5)
Derivative financial instruments				
Interest rate swaps	–	(0.7)	–	(0.7)
Cross-currency swaps	–	(98.1)	–	(98.1)
	–	(98.8)	–	(98.8)
Total	24.9	(3,689.4)	–	(3,664.5)

	31 March 2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Hire purchase receivables	–	9.0	–	9.0
	–	9.0	–	9.0
Non-derivative financial liabilities				
Financial liabilities	–	(3,484.8)	–	(3,484.8)
	–	(3,484.8)	–	(3,484.8)
Derivative financial instruments				
Interest rate swaps	–	(1.1)	–	(1.1)
Cross-currency swaps	–	(116.6)	–	(116.6)
	–	(117.7)	–	(117.7)
Total	–	(3,593.5)	–	(3,593.5)

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