

# Motability Operations | Group plc

Annual Report and Accounts 2017



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Visit online for our website and online report:  
[www.motabilityoperations.co.uk](http://www.motabilityoperations.co.uk)

\* These sections constitute the Directors' Report

## 2017 Highlights

# 98%

overall customer satisfaction  
(independently measured)

# A+/A1

ratings maintained with stable  
outlooks from Standard & Poor's  
and Moody's respectively

# 94%

employee engagement: 11pts higher  
than 'High-Performing Organisations'  
benchmark (independently measured)

# >91%

customer renewal rate  
at the end of lease

# 81%

of customer calls answered within  
20 seconds (achieved >80%  
notwithstanding a 9% increase in call  
volumes year-on-year)

# 78%

of vehicles sold online via mflirect at the  
end of lease during the year  
to September 2017



Our customers are at the heart of everything we do

We believe in making life simpler. For nearly 40 years, we've been doing just that, opening up new horizons through affordable and worry-free mobility. And we continually innovate and invest to make sure our customers remain supported.

The journey starts here...

**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.**

## Key customer statistics

**629k**

customers currently  
choose to use the Scheme

**>4m**

vehicles supplied since  
the Motability Scheme  
was launched

**>91%**

customer  
renewal rate

## Delivering the Scheme

**UK-wide**

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



**1.8m**

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

Overall customer  
satisfaction independently  
measured at

**98%**

for seven consecutive  
years

We work with over

**16,000**

Motability Dealer  
Specialists  
across a national  
network

of over

**4,800**

approved  
Motability dealers

We bought over

**230,000**

new cars this year

and sold over

**650**

cars per day,  
seven days  
a week\*

\* into the used-car market as vehicles are returned to us at the end of lease

# 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 one of the qualifying mobility allowances (see below). Neither Motability Operations nor Motability plays any role in deciding who is eligible for this allowance. The 1.8 million people who are currently in receipt of this allowance can choose to lease one of these products from Motability Operations. At present, about 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 a mileage allowance of 60,000 miles over three years.

## 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 nearly 40 years' experience in the industry and have supplied over four million vehicles since the Motability Scheme was launched.

Today 629,000 customers currently choose to access the Scheme (consisting of 614,200 Car Scheme customers and 14,800 Powered Wheelchair & Scooter Scheme customers). We aim to offer customers a comprehensive and affordable solution. Currently, 35 vehicle manufacturers (representing 94% UK brand availability) and 13 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 6 and 7.

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

# 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.



## 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

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.

Over 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 238,500 vehicles in the year to September 2017, generating almost £2.2 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

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

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 £4.1 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 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

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 35 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 over 16,000 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.

£4.2 billion

in revenue generated  
during 2017

A+/A1

credit rating

>16,000

trained Motability  
Dealer Specialists



### Our insurance

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

Since October 2013 our fleet has migrated onto reconfigured insurance arrangements. This 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 Insurance Group plc (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

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

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. This year we sold 238,500 cars into the used-car market (over 650 per day, seven days a week), as these were 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 'mflirect', through which we sell to an actively managed buying base of over 3,600 dealers. During the year ended September 2017 we sold 186,000 vehicles (78%) through this online channel. Vehicles that are not sold online are routed through our national auction programme, with 540 branded events held across 21 auction centres last year.

We continually look to develop and improve our online channel to ensure it meets the demands of our purchasing dealers.



### 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

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 900 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 handled almost 1.2 million calls this year representing a 9% increase over the prior year (2016: 1.1 million calls) and continued to meet our target of answering at least 80% of calls answered within 20 seconds.

Each year we participate in an independently measured employee culture survey measuring views across a range of topics such as engagement, customer focus and leadership. The 2017 survey results once again showed that Motability Operations continues to significantly outperform the UK 'High-Performing Organisations' benchmark across all categories.

>99%

of total car fleet on cover through MORL

>650

used cars sold every day, seven days a week

94%

employee engagement

# Another successful year for Motability Operations



Neil Johnson OBE  
Chairman

Our business succeeds because  
it never wavers from a tight  
focus on customer service.”



## Overview

In challenging times, it's never been more important that we provide reliable and affordable support, helping our customers achieve worry-free independence and freedom. I am delighted, therefore, that this year has seen us maintain outstanding levels of customer satisfaction of 98%, while managing the challenges of a changing economic and market environment. These excellent results were also reflected by the Institute of Customer Service in their UK-wide survey, which gave us a satisfaction score of 94.8%, putting us well ahead of the UK's best known consumer brands.

## Welfare reform

Our performance has been all the more impressive given the rapid increase in call volumes, with customers needing support following reassessment for Personal Independence Payment (PIP). This year has seen almost 1.2 million calls, a 9% increase on last year.

During the year, we worked with Motability to make changes to the package of support we offer to customers losing eligibility for the Scheme as a result of PIP assessment, to provide more flexibility. Customers can now choose whether to take the full financial support payment of up to £2,000, or keep the car for up to six months, at which point they receive a reduced sum of up to £500.

By the end of the year, we had around 189,000 PIP customers, whether first time applicants, or those transitioning from Disability Living Allowance (DLA). We expect that by summer 2018, more than half of customers will be qualifying through PIP.

Partly owing to the changed qualifying criteria for PIP, and partly as a reflection of changes in society, we are seeing a greater number of customers with mental health or cognitive conditions. To provide appropriate and timely support, we have invested in specific additional training with expert organisations such as Mind. Mind has also helped us devise resilience programmes for our customer service teams, to assist them in handling a larger volume of challenging calls.

A successful series of business briefings to more than 3,000 dealers through January and February brought the topic of neurological conditions into focus. These included advice on how to prepare the showroom environment and train dealership staff to assist customers with wide ranging cognitive conditions.

## Financial performance and long-term sustainability

Despite the sometimes challenging economic environment, and pressure from Sterling exchange rates, we have continued to provide more than 360 cars on the price list costing no more than the customer's allowance. Though this is a reduction on the previous year (2016: 534) it remains well above our target of providing a minimum of 200 cars at this price point. There were also a number of cars available at below this level, allowing customers to keep some of their mobility allowance.

**"ICS rated Motability Operations once again as the highest performing organisation in the UK across all sectors, with a satisfaction level of 94.8%."**

Our strong financial performance has enabled us to sustain appropriate levels of reserves, while continuing to invest in many areas of customer need. These include support for wheelchair accessible vehicles and adaptations, and further donations to support Motability's charitable work. The financial result has been supported by strong outcomes for vehicle sales, despite some difficult market conditions and changing demand for diesels. We undertook refinancing activity in March, involving a debt capital market issuance raising £350m in a bond maturing in 2032 and €500m in a bond maturing in 2025. This strategy enabled us to lock in long-term borrowing at historically low interest rates. We also successfully tendered the early redemption of a proportion of our EUR/GBP bonds maturing in November 2018 and December 2019.

We have a comprehensive risk management programme to ensure we have effective mitigants in place to reduce potential exposures. We retain reserves to mitigate possible falls in our vehicle values, thereby protecting customers from economic shock. Our reinsurance captive, MO Reinsurance Ltd (MORL), is appropriately capitalised to cope with potential volatility in insurance claims.

Given the rapidly changing environment in which we operate, it's important that we also extend our focus to the further horizon. For this reason, we have initiated a series of longer-term, strategic workstreams, looking at the challenges and opportunities offered through developments such as online customer service, technological changes in vehicles, and more flexible operating models.

To support these challenges, a critical achievement of the year was delivery of the new core leasing system. This was a complex project touching almost every area of the business, and requiring the cut-over of millions of records. That the implementation was delivered almost seamlessly in July reflects both the careful planning and the cross-business commitment invested in its success. The new system provides the platform for many future improvements, from development of online customer service and enhanced integration with business partners, to vehicle sales.

## Looking ahead

Looking ahead, the challenges continue, among them potential implications of Brexit, which will become clearer as we move towards the deadline for a revised structure from 2019.

We benefit throughout from our close working relationship with Motability, the Charity, and I'd like to thank Lord Sterling and the Governors of Motability for their support and guidance during the year.

Thanks also go to all our employees, whose dedicated work is reflected in the outstanding results across the business, and Mike Betts and his Executive team for their energy and resolve in delivering such excellent outcomes.

Neil Johnson OBE  
Chairman

# Delivering a consistently excellent customer proposition



Mike Betts  
Chief Executive

Serving the needs of our customers is our major focus, and we delivered another year of first class performance.”



This year sees a significant milestone, as we head towards the 40th anniversary of the Motability Scheme. As we reflect on this historic moment, all of us at Motability Operations are proud of the long and successful track record of the Scheme in supporting people with disabilities and their families to lead more independent lives.

But it is also important to look ahead, and I am mindful that we are entering a period where we face an unprecedented range of market, economic and environmental challenges.

I feel this is an excellent time to take a longer-term view of our business, in order to safeguard the security and sustainability of the Scheme for many years to come, and we will seek to do this through a number of strategic workstreams launched this year.

## Strategic priorities

Through 2016/17 we made good progress in delivering on our strategic priorities: to ensure long-term sustainability; to maintain consistently high levels of customer satisfaction; to provide a wide variety of vehicles at affordable prices; and to create improved awareness and understanding of the Scheme.

This has been a testing but very successful year for the business. We achieved an outstanding set of results, despite the significant challenges of welfare change, economic uncertainties, and replacement of our core IT systems.

The year's achievements were shaped through a clear strategy, and delivered through focused programmes of improvement. At the core of this is our strong business culture, fundamental to delivering a consistent customer proposition, and evident in the passion and dedication of employees.

## Customer focus

Serving the needs of our customers is our major focus, and we delivered another year of first class performance. Our independently commissioned, six-monthly customer surveys showed satisfaction levels remain at 9.8 out of ten, with 98% of customers also saying they would recommend the Scheme to others, and over 91% choosing to renew.

These surveys are supplemented with benchmarking research from the Institute of Customer Service (ICS). This year the ICS once again recognised our customer service as the best in the UK, with an exceptional score of 94.8%, compared to a sector average of 77.8%.

Motability Operations scored particularly highly for ease of doing business, reflecting our dedication to flexible and facilitating customer service. Customers are delighted to find they get straight through to a person, instead of a recorded list of options. We aim to resolve as many as possible of our customer queries in one contact.

This year we have also supplemented our telephony services with the introduction of web chat. This online channel has proved particularly popular with customers who are unable, or prefer not, to use the telephone.

This excellent feedback from customers was achieved despite a 9% increase in call volumes (to almost 1.2 million), as growing numbers of customers lost eligibility for the Scheme under the Government's welfare reform programme. During the year, over 29,000 Disability Living Allowance recipients who failed to qualify for Personal Independence Payment had to leave the Scheme, and return their vehicle.

Currently, around 43% of working-age customers undergoing reassessment fail to qualify for the enhanced mobility rate of PIP, which they need to remain eligible for the Scheme. With these customers leaving the Scheme, the fleet size declined slightly this year, although the Scheme also attracted around 72,000 brand new customers, who chose to use their allowance to lease a Motability car, powered wheelchair or scooter.

We are keen to support customers leaving the Scheme as a result of reassessment for PIP, recognising the stressful time for those customers involved, and the need to handle each case sensitively. Motability also offers a transitional support package, which provides customers with up to £2,000 towards their mobility needs. Customers also receive advice and general information, as well as a purchase price for their Scheme car.

During the year, we made changes to this package, to add greater levels of flexibility. Customers can now choose whether to take the full financial support payment of up to £2,000, or keep the car for up to six months, at which point they receive a reduced sum of up to £500. Overall, the Scheme paid more than £48 million in transitional payments during the year.

By the end of the year, we had around 189,000 PIP customers, whether first time applicants or those transitioning from Disability Living Allowance (DLA), close to a third of our customer base. We expect that by summer 2018, more than half of customers will be qualifying through PIP.

This trend is producing challenges for the business, as we seek to better reach out to, and support, this new customer base. The DWP assesses for PIP under different criteria from DLA, putting a greater emphasis on mental health and neurological conditions. A larger volume of customers are therefore joining us with these types of disabilities. In addition, like other areas of society, we are seeing more customers generally exhibiting signs of depression and anxiety.

During the year, we worked with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions. Mind has also worked with us to develop resilience training for our customer service teams, who are handling a higher volume of more difficult or emotionally challenging calls.

We also deliver services to customers with a network of partner organisations, including more than 4,800 dealers. We train dealers to encourage consistent quality of service across the UK, and help dealers become more confident in meeting the needs of customers with a range of disabilities.

In January and February we held a series of dealer business briefings, attended by more than 3,000 dealer managers and specialists across the UK. A major focus was advising dealers on how customer requirements are changing, helping them consider how they might best support those with mental health, cognitive and intellectual conditions.

The briefings drew enthusiastic feedback from delegates, with average satisfaction scores of 94%; 9 out of 10 said they were likely to make changes as a result of attending.

In addition, over the year we provided day-to-day operational and disability confidence training for many thousands of dealer Motability specialists, through online and classroom sessions.

We continue to work closely with our partner organisations, including RSA, Europcar, RAC and KwikFit. Over the year, we implemented changes to ensure a more seamless experience for customers requiring breakdown services or replacement cars, and further enhancements are planned.

The year also saw satisfaction growing among our 15,000 powered wheelchair and scooter customers. All customer touch points rated at 90% or above in our bi-annual survey. 96% of these customers now intend to renew, and 97% would recommend the Scheme to others (up by three percentage points from last year).

We continue to invest in order to provide free or significantly subsidised adaptations, supporting affordable solutions to our customers' individual needs. Vehicles with adaptations (the vast majority of which are easily removed at the end of the lease prior to remarketing) now make up almost 10% of our fleet, reflecting an increase in choice and value. In addition, we now have over 29,000 wheelchair accessible vehicles on the fleet, and 316 drive from wheelchair vehicles were also handed over during the year.

Our series of summer events, known as One Big Days, offer current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. The five shows, which included Scotland for the first time this year, attracted more than 22,000 visitors, and a record 765 adapted test drives. Guests rated the events on average at 92%, with over two thirds saying they would follow up their attendance with a visit to a dealer.

Our close partnership with disability organisations remains highly valued, and this year we held our sixth successful disability organisations forum, attended by more than 35 representatives. The forum provides an opportunity to share updates on the Scheme, and address questions the organisations and charities may have on their members' behalf. More than 70 organisations receive our regular newsletter, and we continue to increase engagement, especially with those organisations representing the different types of conditions now seen among PIP qualifiers.

### Financial strength

Our income comprises customers' mobility allowances, assigned to us when they choose to join the Scheme, and proceeds from the sale of used vehicles. We set out to supply the best possible service to customers, while ensuring we maintain optimal efficiency. All profits are then reinvested for the benefit of customers.

I am happy to report that, despite current economic uncertainties, we have seen another year of strong financial performance, generating a post-tax profit of almost £213 million. This strength means we can sustain target capital levels while simultaneously investing in customer service, including subsidised adaptations, wheelchair accessible vehicles (WAVs) and support for customers in hospital. We were also able to donate £45m to Motability to support grant funding of passenger WAVs.

Our capital base positions us well to withstand macro-economic shocks or industry specific effects such as the potential impact of an increasingly negative sentiment around diesel vehicles.

Despite pressures from inflation, exchange rates and changes to the Ogden insurance discount rate, affordability for customers has been maintained, with more than 360 cars available at no more than the customer's disability allowance. More than 130 cars could be obtained at less than the full allowance, enabling customers to keep some money back. These results were achieved through strong relationships with the main car manufacturers, who work closely with us to maintain choice and affordability for customers.

Our reinsurance structure, managed through our wholly owned subsidiary MO Reinsurance Ltd (MORL), operates efficiently and delivers a robust, enduring and cost effective insurance solution. MORL is fully reserved to cope with volatility in claims. During the year we also renewed our reinsurance contracts, strengthening our panel.

Vehicle remarketing delivered excellent results this year, despite a challenging and unpredictable market. We sold over 238,000 cars into a highly competitive marketplace. Online conversion rates remained stable, with 78% of vehicles sold through our e-commerce channel, mfldirect.

In March, we issued two bonds in the debt capital market, raising £350 million and €500 million with bonds maturing in 2032 and 2025. This enabled us to lock in long-term borrowing at historically low interest rates. We also successfully tendered the early redemption of a proportion of our EUR/GBP bonds maturing in November 2018 and December 2019.

Our reserves and liquidity helped us to maintain our Moody's credit rating of A1 and Standard & Poor's A+ rating – both having stable outlooks.

### Sustainability into the long term

Our culture lies at the heart of what we do, and employee engagement is one of our most important measures. Our annual employee survey carried out for us by Willis Towers Watson benchmarks Motability Operations against the UK's highest performing companies. Again this year we saw all divisions scoring ahead of the 'High-Performing Organisations' benchmark in all 11 categories measured, with improvements seen across all areas.

We aim to recruit and retain the talent needed to maintain our strong performance over the long term. We invest in training and development, and structure carefully for succession. This helps ensure we have the right people and skills to underpin our long-term success.

In recognising our journey to the culture we have today, I would like to take this opportunity to thank Anne Downey, who stepped down as HR Director from Motability Operations Limited on 30 June 2017 after twenty years' service to the Company. During her tenure Anne was instrumental in transforming the organisational culture, and building levels of engagement which have driven the high performance levels achieved in the business today.

Long-term sustainability calls for a robust infrastructure, and we continue to invest in the development of our IT systems. This year saw the successful completion of a major upgrade, with the transfer of our fleet onto the new Alfa leasing system. This project, the outcome of more than four years' planning and delivery, has seen the retirement of over 20 legacy systems. It also provides a stable foundation for new developments to come, supporting pricing, customer service, application processing and vehicle remarketing.

Strategically we continue to focus on the development of a longer-term systems roadmap covering a range of areas including vehicle technology and the potential impact of future mobility trends. These workstreams will take a five to ten-year perspective, to complement our annual strategic review which creates initiatives in a two-year time frame, and will report back during 2017/18.

Well defined governance and control processes enabled us to carefully manage financial and operational risks. A best-practice Risk Appetite Framework is now an established cornerstone of our risk management processes.

### Into the future

As the operation of the Motability Scheme approaches its 40th anniversary the year ahead will bring fresh challenges, including the continuing impact of welfare reform, given that around half of working age DLA recipients are still to be reassessed for PIP. We will also need to look further into how we best support the changing profile of customers now joining the Scheme, having qualified under new PIP criteria.

Uncertainty continues to affect the used car market, and we can expect ongoing pressure on exchange rates, as Britain heads closer towards separation from the European Union.

The achievements of this year, during which we successfully addressed a range of challenges, and emerged with sustained levels of customer satisfaction, and in a robust financial position, show we are well placed to manage whatever the coming months bring.

Our task is to ensure that this performance translates into sustained levels of investment, with the objective of better meeting the needs of our customers, and a compelling vision that take us from here, through the next ten years and beyond.

I'd like to thank everyone for their dedicated support in delivering this outstanding set of results.



**Mike Betts**  
Chief Executive

**“We have worked hard to build a financially secure and robust business that can withstand the full range of risks which may affect us.”**



## What are biggest challenges you see over the next few years?

Major changes are underway in our operating environment, and these will lead to significant challenges, and opportunities, over the next few years. These range from welfare reform, to the impact of new technology on mobility. Our plan is to address these through both short and longer-term strategies, making sure we maintain our tight focus on meeting customer needs.

In terms of welfare reform, we are now three years into the transition from Disability Living Allowance (DLA) to Personal Independence Payment (PIP), and approaching the halfway point of the DWP's programme. Our focus has always been on how to help customers going through this process, and this year we made a change to our support package, to provide more flexibility, especially for customers wishing to remain longer in their vehicles.

Our support arrangements are now well established, and are running smoothly. However, the volume of customers having to hand back their cars is driving more need for contact, and this year we received a record of almost 1.2 million calls. We also spend more time resolving calls, responding to greater levels of perceived stress and anxiety among our customers, therefore increasing our average handling time. Accordingly, we make sure call centre teams are trained and supported, to offer careful and empathetic handling.

Another, closely related, challenge is gaining better understanding of the types of conditions affecting newer customers now qualifying through PIP. While more than half of new customers continue to qualify through physical impairments, a large volume has become eligible through mental health or neurological conditions.

We are exploring the impact of this change, and looking at the implications, both for reaching out to potential customers and in supporting them through their lease.

Another important focus at present is the impact of exchange rates on car prices, as well as changing attitudes to fuels such as diesel. We have seen some pricing pressures resulting from sterling fluctuations, but have maintained an affordable price list, with more than 360 vehicles at no more than the customer's allowance.

The customer response to recent coverage on diesel has been quite marked, with more than 70% of customers now choosing petrol, as opposed to less than 50% that we have seen in recent years.

A strong year for vehicle remarketing has helped us offset any reduced demand for diesel in the used car market, resulting in an excellent year for car sales, despite the challenging market.

## What do you see as some of the challenges over the longer term?

Transport technology is a rapidly changing world, and hardly a day goes by without coverage of new developments on autonomous vehicles, ride sharing and hailing, and connected technology. We need to stay up to speed on these developments, while concentrating specifically on those areas that may have the most significant implications for current and future customers.

To address this, we have embarked on a longer-term strategic review, which will complement our usual two-year strategy refresh, looking at the five-to-ten-year horizon. Workstreams will explore customer needs; technological developments; the political environment; economic and industry trends; and any perceived gaps in our provision.

One important springboard for the future also got underway this year, with the long-awaited replacement of our core leasing system. Our stable new platform, Alfa, means we are now able to proceed with a number of substantial enhancement programmes, including the shaping of our longer-term digital roadmap.

The next few years will see us transform the way we interact with customers, business partners and stakeholders, using web-based platforms to offer greater levels of connectivity and self-service.

I should be clear that we have no plans to push customers online – our excellent customer services teams will continue to provide first class telephony support, and that support will always be there. But we do want to make sure that customers really can interact with us in all the ways they would like – and that may in future mean an integrated blend of phone, email, webchat or social media.

We will govern all these touch points with the same supportive principles that apply to telephone contact, making interactions intuitive and seamless for all our users.

We have some exciting years in prospect.

**“Our excellent customer services teams will continue to provide first class telephony support, and that support will always be there. But we do want to make sure that customers really can interact with us in all the ways they would like – and that may in future mean an integrated blend of phone, email, webchat or social media.”**

## What are the competitive pressures on Motability Operations as a business?

The Motability Scheme has functioned as a successful public-private partnership for nearly 40 years. Its unique arrangement with the Department for Work and Pensions means that disability allowances can be diverted directly to Motability Operations, avoiding credit risk; this enables the Scheme to be offered universally, regardless of an individual's circumstances.

However, as a standalone company delivering the Scheme, under our service contract with Motability, Motability Operations operates in a very competitive context. The Company is financed through commercial market-based funding, sourced through the highly competitive Sterling and European bond markets.

We are also the largest supplier of used cars to the motor trade in the UK, selling over 238,000 used cars in the current year. It's critical to the success of the Scheme that we maximise the values obtained for the vehicles, and around half our operating income is drawn from this challenging marketplace.

However, perhaps the best indicator of the competitiveness of the Scheme is that so many customers choose to use their allowance to lease one of our cars, wheelchairs or scooters. There is no obligation on them to do so, and people can use their disability allowance in any way they wish. We aim to win custom through offering the most attractive package of affordable, worry-free motoring. In fact, over the last ten years we have seen numbers on the Scheme double, as more eligible recipients get a better understanding of what the Motability Scheme can offer. It's also rewarding to note that many customers come to us on the recommendation of others. We are happy that customers rate our services so highly, but will never rest on our laurels.

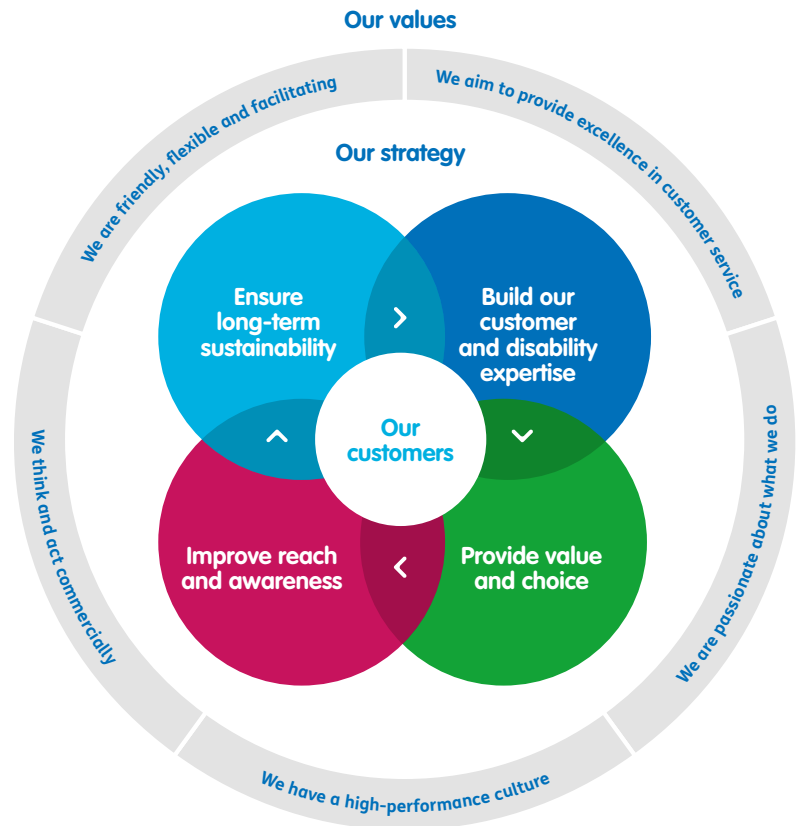
# Our strategic framework

## 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, strategic initiatives, 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.

➔ Turn to page 39 for more information on our people

## 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.

➔ Turn to pages 16-23 for more information on our performance

## 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.

➔ Turn to page 33 for more information on our risk management

# 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

## Initiatives delivered

- Increased our investment in adaptations to improve the range available to customers when they choose their vehicle and extended our support to improve Wheelchair Accessible Vehicle (WAVs) affordability
- Continued to support PIP stopped allowance cases and provided an option for qualifying customers to retain their vehicle for 26 weeks
- £45m was donated to Motability to support the provision of financial grants towards the cost of passenger WAVs
- Worked with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions and to develop resilience training for our customer service teams in handling more difficult or emotionally challenging calls
- Successful implementation of web chat to provide an alternative online channel for customers, which has proved particularly popular with customers who are unable, or prefer not, to use the telephone

## Net Promoter Score

**89.4%**

in Institute of Customer Service's UK Customer Satisfaction Index (UKCSI)

## Received a

**90%**

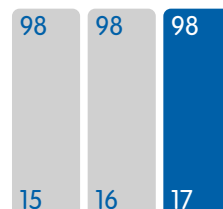
satisfaction rating for our complaints handling

## KPIs

Overall customer satisfaction

**98%**

Target of >92%

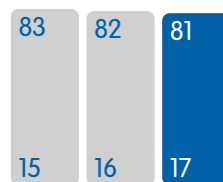


We deliver by listening to our customers and ensuring that we meet their requirements.

Calls answered within 20 seconds

**81%**

Target of >80%

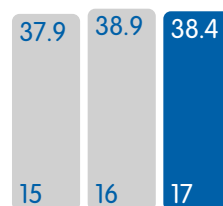


This performance was maintained, for a tenth consecutive year, during the year to June 2017 notwithstanding a 9% increase in call volumes resulting in 1.2 million calls being handled by the call centre. The target was temporarily suspended for the final quarter of the year to support call quality whilst call handlers adjusted to new systems.

Roadside assistance average response time

**38.4min**

Target of <42 min



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 38.4 minutes during the year (compared with a KPI target of < 42 minutes), customers are quickly attended to and are mobile again.

Leasing through the Motability Scheme is more than just a mobility solution; worry-free motoring opens new horizons for customers. From helping people to travel to work or school, to keeping up with hobbies and accessing medical care, the Scheme opens doors.

.....

“Waiting is a very difficult thing for my oldest son, who has severe autism and learning disabilities. It’s especially hard when it comes to busy and overcrowded places like train stations and using public transport. Like many people with autism, he struggles with his sensory input and an information overload can be very overwhelming, raising his anxiety levels and then resulting in challenging behaviour.

Having a Motability car has made a massive difference to our lives and has made the community so much more accessible.”

Karin,  
Customer



# 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

## Initiatives delivered

- Worked with car manufacturers to maintain choice and affordability for customers with more than 360 cars available at no more than the allowance, despite cost pressures from exchange rates
- Implemented a number of digital enhancements to our online vehicle remarketing platform (mflirect)
- Activity has commenced on the long-term development of the supporting systems infrastructure for our online remarketing processes

## Brand participation % on Scheme\*

>94%

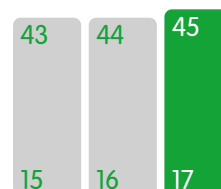
\*Weighted by UK market share

### KPIs

Relative affordability –  
% cheaper than  
alternative

>45%

cheaper

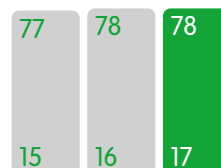


We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and a VAT concession (which is passed onto customers in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

% of vehicles sold online  
at the end of lease

78%

Target of  
>70%

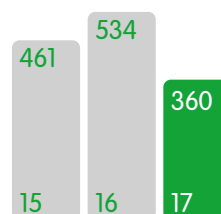


Selling via our online sales channel, 'mflirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return. During the year to September 2017, 78% of vehicles were sold online.


Affordable vehicle choice  
at 'nil advance payment'

>360

Target of  
>200



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 year to September 2017 we exceeded this target with at least 360 models at any one time.



The Motability Scheme aims to provide unbeatable value and choice in the wide selection of vehicles and products available. That choice helps customers find the right car to achieve their ambitions.

.....

“I’d always been into sports, especially hockey and basketball. Then I was involved in an accident which left my coordination badly affected. I can’t walk much, or very far, but I can still drive.

The Motability Scheme has made an amazing difference to my life. It’s allowed me to continue doing all the things I thought were lost to me. Playing para-hockey makes me feel normal, and my son lives in another part of the country so I can travel to pick him up. Having a new car with the inclusive package gives you the peace of mind to get out to different places, and it’s no hassle whatsoever.”

Steven,  
Customer

# 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

## Initiatives delivered

- Held a series of dealer business briefings, attended by more than 3,000 dealer managers and specialists across the UK. A major focus was advising dealers on how customer requirements are changing, helping them consider how they might best support those with mental health, cognitive and intellectual conditions
- Continued our series of summer events, known as One Big Days, offering current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. These events attracted more than 22,000 visitors, and a record 765 adapted test drives. Guests rated the events on average at 92%, with over two thirds saying they would follow up their attendance with a visit to a dealer

We work with

**>16,000**  
Motability Dealer  
Specialists

Across a national  
network of

**4,800**  
approved Motability  
Dealers

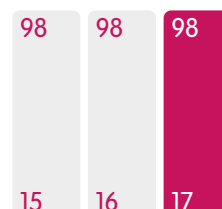
## KPIs

Trust in Motability

**98%**

Trust in  
the Scheme

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.

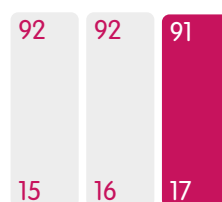


Customer renewal rate  
at the end of lease

**>91%**

Target of  
>85%

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 year to September 2017 this was maintained at over 91%, compared with a KPI target of 85%.

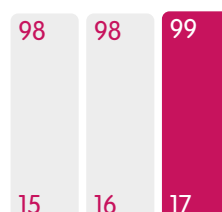


Customer  
advocacy

**99%**

Target of  
85%

Existing customers are the Scheme's biggest advocates, with 99% saying that they would recommend the Scheme to others.



Our One Big Days and Big Events help us reach people who are new to the Scheme and increase their understanding. This year we welcomed over 22,000 visitors, as well as arranging a record number of test drives.

.....

“I’d recommend coming along to a One Big Day event to find out more about the Motability Scheme. You can test drive the cars, talk to the dealers and adaptations specialists – and I guarantee you will find a way to get your independence back.

I’ve been with the Motability Scheme for two years and it’s given me such great freedom. I have no use of my right leg, but now I can transfer into my car and use hand controls, with enough space for my scooter in the boot. This allows me to actually get out of the house, and means I can enjoy days out with my wife.”

Andrew,  
Customer



# 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 endeavour to operate efficiently and responsibly to support our customers and stakeholders. 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, providing a choice of environmentally friendly vehicles on the scheme, balancing customer needs with fuel economy & emissions
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people

## Initiatives delivered

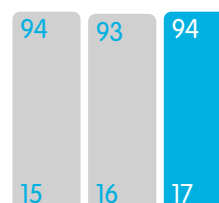
- Implemented robust long-term systems infrastructure with the completion of a major systems replacement project and transfer of our car fleet onto a new leasing system
- Successful delivery of refinancing plan securing adequate liquidity, at historically low interest rates, to replace a maturing bond and significantly de-risk future refinancing activity

## KPIs

### Employee engagement

94%

Target to exceed  
HPO benchmark  
(83%)



We participate in an independent annual review of business culture, where we have significantly outperformed the 'High-Performing Organisations' benchmark. Employee engagement is 11pts higher than the benchmark.

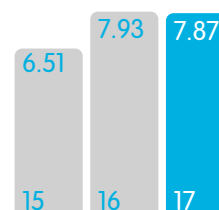
### Credit rating

A+ A1

Our credit ratings underpin our ability to fund the Scheme in a sustainable and cost effective manner. Our ratings are A+ / A1 with stable outlooks (from Standard & Poor's and Moody's respectively).

### Debt maturity profile

7.87yrs



The Group aims to retain a well-laddered debt maturity profile in order to effectively manage refinancing risk. Following bond refinancing activities during the year, the average debt maturity profile has been effectively maintained at 7.87 years.

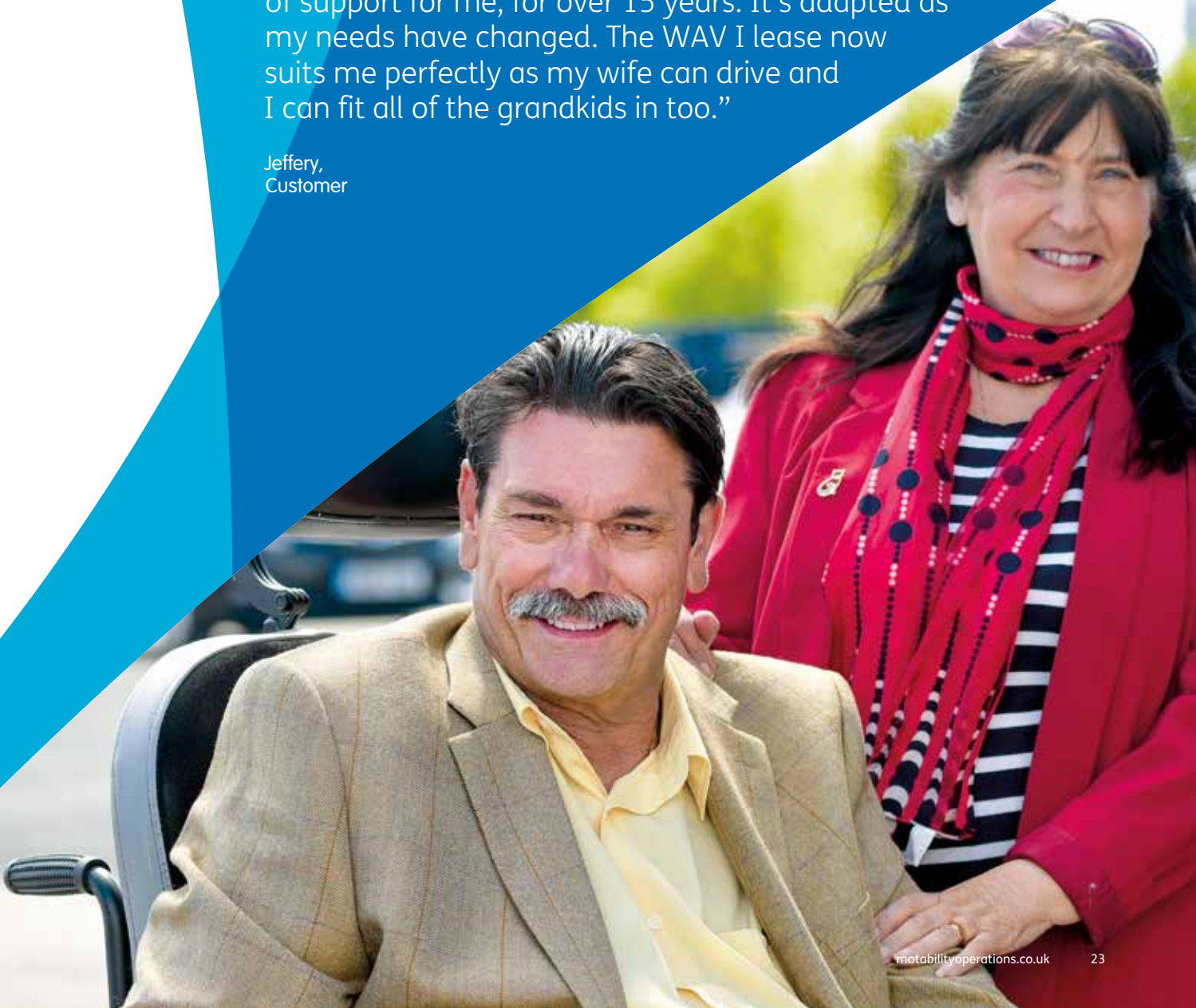
One area for investment is conversions, where our subsidy for Wheelchair Accessible Vehicles (WAVs) enables customers to access these expensive vehicles at a more affordable price. In 2017 we donated £45m to Motability to help support WAV customers meet their mobility requirements.

.....

“My first car was a manual, then as my legs got worse I needed an automatic, and after a few years I had to get hand controls fitted to the vehicle so that I could still drive without the use of my legs. Now, I use a powered wheelchair full-time and don’t drive at all.

The Motability Scheme has provided a constant source of support for me, for over 15 years. It’s adapted as my needs have changed. The WAV I lease now suits me perfectly as my wife can drive and I can fit all of the grandkids in too.”

Jeffery,  
Customer



# Our key financial objective is to secure long-term sustainability for the Scheme

“ Matthew Hamilton-James  
Finance Director

Another robust financial result underpinned by excellent performance across a broad range of targets supporting consistent delivery of our customer proposition.”



## Performance overview

High standards of performance during the year to September 2017 underpin excellent results across our full range of financial and non-financial measures. We reported at the half year the completion of a dual tranche debt capital market issuance and concurrent liability management exercise, which significantly de-risks our future refinancing requirements. In July we successfully transferred our car fleet to a new finance leasing system resulting in the retirement of many legacy systems. This development provides a sustainable platform for the continued provision of existing services and acts as an enabler for future development.

Our overall financial performance supports a capital position that is consistent with our aim of shielding the Scheme from potential economic shock events whilst the successful delivery of our refinancing activity and a significant systems upgrade serves to reinforce our strategy of providing a long-term sustainable customer proposition.

## Financial performance

Customer renewal rates at the end of lease, the ultimate performance validation, remained consistently strong at over 91% and 72,000 new customers also joined the Scheme. However, as expected, our overall number of customers marginally reduced by 2.9% to 629,000 (comprising 614,200 Car Scheme customers and 14,800 Powered Wheelchair & Scooter Scheme) due to the continuing impact of customers losing their eligibility to access the Scheme as a result of the PIP reassessment process.

The deterioration in Sterling exchange rates, following the UK's decision to leave the European Union, inevitably led to some pricing pressure in the year. However, we worked with manufacturers to maintain a competitive price list and we were able to offer at least 360 vehicles costing no more than the customer's allowance versus a target of 200 vehicles.

Total revenue increased by 1.7% to £4,221.7m with the combination of strong remarketing performance and the annual uplift in mobility allowances (increased by 1% from April 2017) more than offsetting the marginal reduction in customer numbers. The 5.8% increase in vehicle sale proceeds was predominantly driven by a higher proportion of younger stock in the overall sales mix, a consequence of the increased number of customers losing their allowance through the PIP reassessment programme. Car disposal volumes, at 238,500, were similar to last year (2016: 237,500), equating to over 650 per day.

The Group recorded post-tax profit for the year to September 2017 of £212.7m (2016: £129.6m), representing a return on assets of 2.5% (2016: 1.7%). This result, ahead of plan, includes a gain of £119m from vehicle sales (2016: £64.5m) driven by the continued success of our remarketing proposition, with 78% of vehicles being sold online, maximising returns available. Whilst our fleet revaluation (see below) continues to reflect an appropriately cautious outlook, consumer demand remained more resilient than anticipated, contributing to this strong vehicle remarketing result. Further details relating to vehicle resales are described later in this report, alongside our insurance activities that yielded another pleasing result.

Notwithstanding the strong remarketing performance in the year to September 2017 we continue to adopt a cautious approach to our fleet revaluation, reflecting the general economic uncertainty and a specific impact on consumer demand from the sustained anti-diesel sentiment. The consequence of this appropriately cautious approach is that, as was the case last year, additional depreciation has been booked into this year's result.

As reported in the 2017 Half Year Report, we have continued to invest in the customer proposition, with more than £232m invested in direct and indirect customer initiatives during the year to 2017, a 5.6% increase on the previous year (2016: £220m). 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.

We have previously made charitable donations to Motability which enable them to provide financial grants to customers who require passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations in order to access or utilise their vehicle. In September 2017, considering our financial performance, the Board authorised the payment of an additional £45m charitable donation to Motability to support this activity (2016: £45m).

The post-tax profit of £212.7m, which is retained in the business for the benefit of customers, results in restricted reserves on the Balance Sheet increasing to £2,430.9m. The restricted reserves provide us with a capital base to meet the dual objectives of ensuring a stable and sustainable Scheme, and also of supporting the financing of the fleet.

During the year the Group's credit ratings were reaffirmed as A+ and A1 by Standard & Poor's and Moody's respectively, both with stable outlooks.

## Taxation

As set out in our published Tax Strategy (available on our corporate website), the Group continues to adopt a clear and transparent approach to tax matters, with the overarching principle being to ensure that the right tax is paid in the right place at the right time. This is reflected in our approach to the taxation treatment of MO Reinsurance Ltd in the Isle of Man, where full UK tax is paid on any profits in respect of these reinsurance activities under the UK Controlled Foreign Company (CFC) rules. The Group has obtained non-statutory clearance from HMRC agreeing this principle.

For the year ending September 2017, the Group's underlying tax charge was £50.6m (19.5%) with a £5.3m deferred tax release following the remeasurement of deferred tax due to changes in the UK corporation tax rate.

## Cost management

We continue to place focus on tightly managing our £2.0 billion cost base, searching for ways to refine and innovate the way in which we manage and deliver the Scheme.

We also recognise the need to invest appropriately to ensure the long-term stability of our infrastructure and, following the successful migration of our Powered Wheelchair & Scooter fleet to a new finance system in 2015, we have now transferred the live car fleet so all leases are now operated from a single system. This significant IT project provides a sustainable technology platform to support current requirements and acts as an enabler for future system enhancements.

Through the effective management of the Scheme we are able to provide a wide range of affordable vehicles for customers. The efficient delivery of the Scheme has also afforded the opportunity to invest in a number of discretionary initiatives to enhance, directly and indirectly, the customer proposition.

## Use of earnings

Our earnings generated in the year have been used to support the provision of our worry-free proposition for today's customers and to strengthen our capital position to ensure continued provision into the long term:

- Investment in the customer proposition: Earnings were reinvested in initiatives targeted on directly and indirectly improving the customer experience, such as pricing support for adaptations & heavily adapted vehicles, ensuring continuous mobility for customers, a good condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and investment to ensure that our dealer network provides customers with a first-class customer experience. In 2017 this total investment was £232.5m (2016: £220m), including £113m of direct customer investment, £74m of indirect investments and the £45m charitable donation to enable Motability to continue providing customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations
- Tax charge: After allowing for the investments outlined above, we delivered a pre-tax profit of £258m in 2017, incurring a net tax charge of £45.3m with an underlying tax rate of 19.5%
- Capital requirements and to finance the fleet: Our post-tax profit was retained to ensure that the Group maintains an adequate capital base to provide resilience given the risks that it faces (see Risk management, pages 33-38). The retained earnings contribute to financing the purchase of new vehicles, thereby also reducing future borrowing requirements.

## Insurance performance

Our insurance arrangements continue to operate efficiently. Under our insurance 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. This arrangement not only secures the long-term supply of insurance, but brings greater efficiency and financial benefits which are passed onto customers.

As in previous years, the Group financial statements include the consolidated results of MORL with segmental reporting to reflect the way we manage and report on this business activity. The segmental analysis can be found on pages 71-73. It is pleasing to report that from a Group perspective the insurance results are ahead of expectations driven largely by positive movement in prior period reserves. MORL delivered a profit of £61.8m in the year to September 2017. This result is underpinned by the latest review of the underwriting position, which has been validated through an independent actuarial review of claims exposures.

Insurance performance underpins a significant reduction (£68.4m) in Group fleet operating costs to £383.2m (2016: £451.6m), driven primarily by the Group consolidation of a £44.6m increase in MORL insurance income (see note 5 on pages 72-73). In addition, we have also received a larger rebate in the year related to a profit share agreement within our previous insurance arrangement in line with our accounting policy (page 68).

### Assets and residual values

Operating Lease Assets were £6,413m at September 2017. Within this, the unguaranteed residual value across the fleet was £4,828m. Exposure to unexpected movements in this residual value represents the Group's single largest financial risk.

The Group has a demonstrable track record of successfully managing residual values through the economic cycle. The prudent and effective management of the asset base remains a top priority for management. This is achieved through the use of a sophisticated methodology for determining the residual value of each asset at the inception of the lease, and also through a quarterly re-assessment of this anticipated residual value during the life of each lease.

This revaluation allows us to be agile and adjust residual values as appropriate to reflect market trends. This enables us to mitigate the risk of potential market volatility. At each financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease. Our in-house model, which is regularly externally validated, has consistently outperformed alternative external benchmarks and remains less volatile and typically more conservative in outlook than other market views.

The September 2017 revaluation continues to reflect a cautious macro-economic outlook following the UK triggering Article 50 on 9 March and the market uncertainty regarding the structure and timing of the UK's future trade deal with the European Union. The revaluation also continues to reflect considerations in respect of the potential impact of the obsolescence of Euro 5 Diesel technology, and linked to this, the growing anti-diesel sentiment which is already showing signs of affecting consumer demand for diesels.

At September 2017, the projected gross revaluation of the fleet versus the priced position reflected an anticipated gross exposure of £226.4m, which after adjusting for selling costs and early terminating leases results in a net exposure of £451.4m. As at September 2017, £220.7m of this exposure had been recognised through the Income Statement, including £72m in the 12 months to September 2017.

As regards vehicle resale activities, the Group continued to perform well during the year ended September 2017, recognising an aggregate gain of £119m (or 6.1%) against the adjusted residual value. This result demonstrates the continuing effectiveness of our remarketing operation – with 186,000 (78%) of vehicles sold via our online channel (mflirect), maximising proceeds. The profit was skewed to the second half of the year and in particular the final quarter when sale values were more resilient than anticipated through the half-year revaluation, in which a more cautious stance was adopted in respect of forecast residual values.

**“Effective financial management provides a platform from which to deliver an efficient and stable Scheme, thereby delivering maximum value for customers.”**

### Financing

#### Capital management

The Group's capital management approach is designed to ensure the sustainability and stability of the Scheme into the long term. The Group's capital base is in the form of its restricted reserves (retained exclusively for the benefit of the Scheme – with shareholders having no entitlement to ordinary share dividends), which are used to protect the Scheme, and so customers, from potential market or economic shock events.

We use an Economic Capital (EC) model to determine the level of capital appropriate to protect the business from such economic shocks. The overarching principle is to secure the sustainability of the Scheme through the economic cycle, and in so doing preserve the relative stability of prices, affordability and choice for our customers. We have adopted a conservative approach, with a core underlying assumption that we need sufficient capital to cover the loss that may arise from all but the most extreme risk events.

In order to ensure that our capital planning adequately reflects the current risk profile of the business, we undertake an annual review of our Economic Capital methodology and the key underlying assumptions. Focus is also given to new or emerging company-specific or wider environmental factors which are considered to have a bearing on the Group's capital requirements. Following this year's review we have assigned additional capital to cover the increasing level of cyber risk faced by all businesses and more specifically the volatility in the Ogden discount rate and its consequential impact in respect of insurance reserves.

During the year an independent review of the Group's Economic Capital methodology confirmed our approach to be proportionate and appropriately conservative given the Group's overarching objective to ensure long-term sustainability.

In order to assess the robustness of our capital position the Group runs a comprehensive range of stress-test scenarios. By running a series of hypothetical market-specific and wider economic extreme stress scenarios, we can objectively scrutinise the efficacy of the Group's capital base. This enables management to affirm the adequacy of the Group's capital position, so providing confidence and assurance as we look to the future. Following this review, the Group's capital position is assessed to be adequate in the context of current and emerging potential risks.

### Total revenue

**£4.2bn**

**1.7% increase on previous year**

### Profit after tax

**£212.7m**

## Cash and funding

The Group continues to pursue a strategy aimed at maintaining diversified sources of funding to protect structural liquidity and supporting a well-laddered debt maturity profile. In determining the timing of refinancing activities, in addition to taking into account the dates of our upcoming debt maturities, careful consideration is given to the economic and political backdrop, to the extent that they may affect the availability of liquidity in the market. With the UK's triggering of Article 50, in addition to various European elections on the horizon, and with debt capital markets remaining receptive as we moved into the new calendar year, the Group undertook a number of refinancing actions in early March 2017.

The refinancing involved a dual tranche debt capital market issuance on 7 March 2017 with a concurrent liability management exercise in respect of a proportion of the Group's November 2018 and December 2019 bond maturities. The issuance comprised an eight-year €500m EUR bond (due 2025) and a 15-year £350m GBP bond (due 2032). This strategy has enabled the Group to lock in long-term borrowing at historically low interest rates. The Group also successfully tendered the early redemption of €160m of £150m of the EUR/GBP bonds maturing in November 2018 and December 2019 respectively.

Whilst this strategy temporarily results in an elevated cash position, and the partial redemption results in incremental financing costs in the current period, these transactions significantly de-risk our future refinancing requirements whilst also providing the liquidity to settle the €500m bond maturing in November 2017.

Of the Group's £1,168m Cash and Cash Equivalents balance reported at 30 September 2017, £203m is ring-fenced in respect of insurance liabilities in MO Reinsurance Ltd, with a further £425m (being the swapped GBP equivalent of €500m) assigned to settle the Group's November 2017 bond maturity. After meeting these commitments, the Group's net cash balance of £540m is considered to provide appropriate liquidity headroom in the context of current and future refinancing requirements.

In September we exercised the extension clause on our current bank funding (terms negotiated last year on a five-year '+1, +1' arrangement), meaning that our £400m term loan and £1.5bn Revolving Credit Facility have been reset to a five-year term ending September 2022 (with an option available to extend to September 2023 next year).

Existing bank facilities, in combination with the 11 bonds in issuance under our EMTN programme, provide the Group with liquidity in line with targets. The Group's average debt maturity was 7.87 years at the Balance Sheet date.

## Treasury policy

Consistent with other aspects of our business activities, we have adopted a risk-averse approach to treasury management. We use derivative financial instruments (specifically interest rate swaps) to reduce our exposure to interest rate movements that affect the funding of existing leased assets. The Group also fully hedges the foreign currency risk consequent on its four fixed-rate Eurobonds using cross-currency swaps. The Group's overall interest rate risk management strategy is to convert all new issued foreign denominated debt into the Group's functional currency of Sterling.

We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value being shown on the face of the Balance Sheet. The fair value of the hedging reserve at 30 September 2017 was £2.2m post-tax.

## Brexit

The uncertainty related to the structure and timing of the UK's future trade deal with the European Union has been assessed against our key risks (pages 34-35).

Our most significant risk relates to unforeseen movements in the market value of second-hand vehicles and our fleet revaluation includes our assessment of the potential impact related to a cautious economic outlook and continued market uncertainty. Though we have maintained a very competitive price list the cost pressures from exchange rate movements have been reflected in new leases that have inceptioned during the year.

We took the strategic decision to bring forward our refinancing activity to mitigate any potential exposure to volatility in debt capital markets whilst also being able to secure long-term funding at historically low rates.

Notwithstanding the uncertain outlook we consider the Group's closing capital position to provide adequate coverage given the current and emerging potential risks faced by the Scheme.



Matthew Hamilton-James  
Finance Director

## Return on assets

# 2.5%

Up from 1.7% in 2016

## Debt maturity

# 7.87 years

Maintained stable  
maturity ladder

# Excellent service levels and a consistent proposition

## Overview

As outlined in the 'Strategy in action and performance' section (pages 15-23), the year ended September 2017 saw the Group continue to deliver high levels of performance across a range of targets.

Customer measures in terms of choice, affordability and satisfaction were all exceeded throughout the period, with overall customer satisfaction continuing at 98%. Renewal rates remain strong, tracking at over 91%.

## Customer awareness and advocacy of the Scheme

Recipients of the higher-rate mobility allowances are able to choose how best to use their allowance. One option is for them to use their allowance to lease a vehicle, powered wheelchair or scooter on the Motability Scheme. Better awareness and understanding of the key components of the Motability 'package' enable customers to make informed decisions on whether leasing a product on the Scheme provides the best option for them.

Our activity aims to increase this understanding through creating opportunities to talk to potential customers, and through ensuring that information about the Scheme is widely and readily accessible through a range of communication channels.

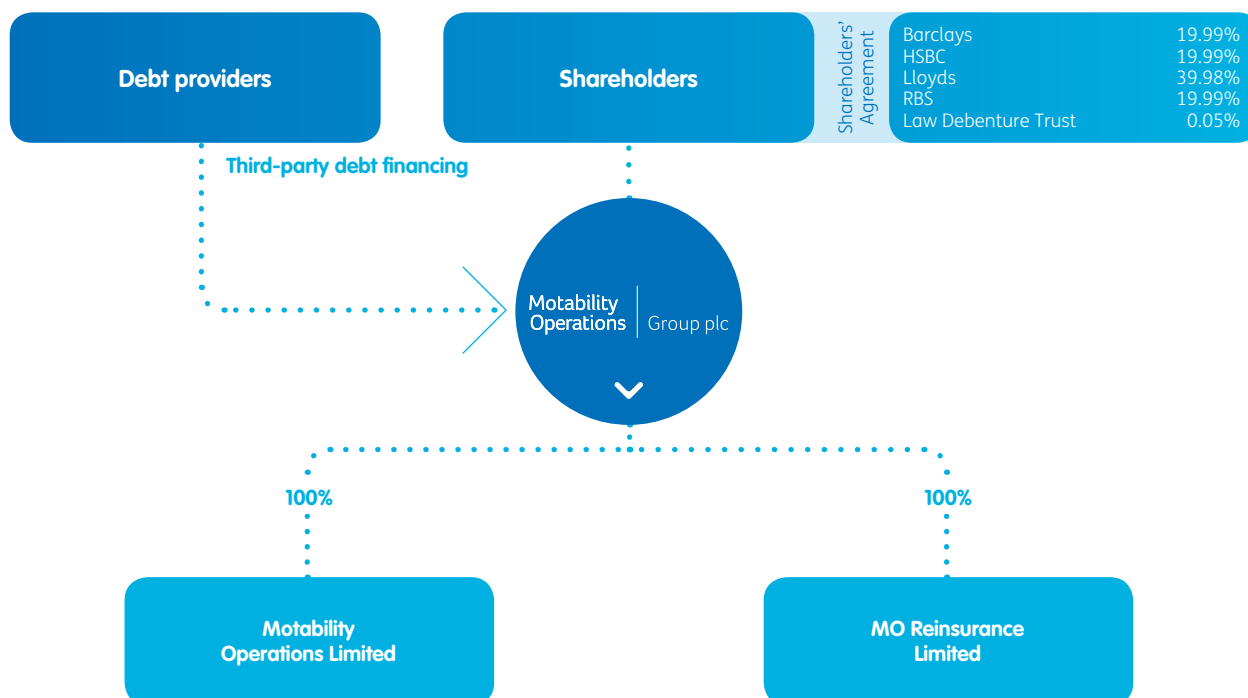
One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 99% would recommend the Scheme.

In addition, a number of promotional programmes have enhanced customers' awareness, including our successful 'One Big Day' regional open days, which provide an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. These events continue to prove to be very popular, with over 22,000 people taking the opportunity to visit and find out more.

During the year over 72,000 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme and more than 91% of customers chose to renew their leases at the end of contract.

## Corporate structure

The diagram below sets out the Group's corporate structure



## Government Welfare Reform changes

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

From October 2013, the Department for Work and Pensions (DWP) began 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 are qualifying 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 to devise a package of support which is appropriate to customer needs, affordable and will not compromise the financial strength of the Scheme.

In September 2013 Motability announced a support package to be made available for customers when they leave the Car Scheme as a result of PIP reassessment. In April 2017 this support package was enhanced to provide greater flexibility for our customers as they go through the PIP reassessment process by allowing customers the option of an extended period to hand back their vehicle following loss of their entitlement to their higher-rate mobility allowance.

Under the revised arrangements customers are able to retain their cars for up to eight weeks after their final DLA payment. The DWP has already announced they will allow DLA payments to continue for four weeks from their initial decision. This gives all customers up to 12 weeks to find alternative solutions. In addition, those customers who joined the Scheme prior to January 2014, who would have had little or no awareness of PIP, have the option of retaining their vehicles for up to 26 weeks after their DLA payments ending.

Customers who return their car to the dealership in good condition and within these time frames qualify for the following support from Motability:

- Customers who entered into their first lease agreement with the Scheme before January 2013 and therefore could not have been aware of PIP and the associated risks when they joined (the vast majority of customers), are eligible for transitional support of £2,000 if the vehicle is returned within eight weeks of the DLA payments ending or a reduced payment of £500 if they choose to retain the vehicle for up to 26 weeks. This provides an extended timeframe in which customers can seek alternative mobility arrangements, and aims to keep them mobile in the event they seek mandatory reconsideration or appeal their original assessment decision. For many customers, the transitional support enables them to continue to have mobility by using the support payment to put towards the purchase of their Scheme vehicle or other used car

- Customers who entered into their first lease agreement with the Scheme with an awareness of PIP being introduced and of the risk that they could lose eligibility following a future PIP reassessment, i.e. after January 2013 and up to December 2013, are being provided with £1,000 of transitional support if the vehicle is returned within eight weeks of the DLA payments ending or a reduced payment of £250 if they choose to retain the vehicle for up to 26 weeks
- Customers who have made an 'advance payment' (an additional upfront payment to lease a larger or more complex vehicle on the Scheme) are having their 'advance payment' refunded on a pro-rata basis. No further costs are being applied to customers whose leases end early as a result of a PIP reassessment
- To help departing customers plan their next step, we are providing general information on motoring, insurance and other services outside the Scheme. This includes information, for example, on buying a new or used car, and arranging insurance. We are working with a leading UK insurance broker who offers insurance quotations to former Scheme customers that recognise their no-claims history on the Scheme.

The Scheme is also offering customers an opportunity to purchase their vehicle following the end of the lease. The payments that they would otherwise have received upon returning the vehicle can be directed towards the purchase price.

We are working with customers who have Wheelchair Accessible Vehicles on the Scheme on a case-by-case basis to understand their needs and assist with their future mobility arrangements, including, where appropriate, enabling them to retain their current vehicle. In a similar way, we are working with powered wheelchair and scooter customers to arrange that, wherever possible, these customers are able to keep their current product.

We are refunding the cost of any privately funded adaptations paid for by the customer. Where the Scheme car was adapted by Motability, we are arranging for similar adaptations to be fitted to the customer's new vehicle.

Since 2013 Motability Operations has made donations to Motability totalling £175m in support of these transitional arrangements.

As expected, the number of PIP reassessments increased this year with more than 37,000 customers losing their entitlement to the higher-rate allowance following their PIP reassessment. As of September 2017, over 68,000 Scheme customers had 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 almost 50,000 transitional support payments totalling over £91m to customers who have returned their vehicles and have met the criteria set out above. Since April 2017, when the revised support package was introduced, more than a third of our customers have opted to remain in their vehicle beyond the eight-week period after their final DLA payment.

## Product offering

During the year, we consistently exceeded our targets on affordability and the choice of vehicles we offer to our customers on the Scheme. This is particularly pleasing given the pressures that the wider economic environment has placed on prices.

For the Car Scheme, we monitor our performance by referring to external benchmarks and to the number of cars we offer at 'nil advance payment'. This is where the allowance alone is sufficient to fund all leasing costs, with no additional contribution required from the customer. Where a customer selects a car that does require a supplement, we receive this as a single payment from the customer at the start of the lease (the 'advance payment').

We set out to ensure that at least 200 cars are available at 'nil advance payment', including a wide choice of automatics and green options. We have consistently met this target throughout the year. We also supply a range of affordable Wheelchair Accessible Vehicles (WAVs). Our prices are over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations.

Product range and choice are important to both our existing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail market. Whilst exchange-rate movements have inevitably put upward pressure on vehicle purchase prices, we have worked hard with manufacturers to ensure that we continue to offer an affordable proposition across a broad range of vehicles. During the financial year, we offered vehicles from 35 manufacturers with 2,200 vehicle derivatives on the price list. Our approach to the PWS Scheme is also to provide customers with a wide and representative choice.

Notwithstanding economic pressure, we are pleased to offer this continued stability in pricing, which allows customers to make choices based on needs when selecting a car, powered wheelchair or scooter with minimal volatility between each price list.

### Protecting the Scheme from abuse

Motability Operations does not play any role in deciding who is entitled to receive the higher-rate mobility allowances. However, if customers choose to use their allowance to lease a vehicle on the Motability Scheme we have a responsibility to ensure that the vehicle is used appropriately. It is a fundamental principle of the Motability Scheme that cars must be used for the benefit of disabled people.

Motability Operations takes steps to remind customers and business partners of their obligations in this respect. This includes asking all customers, drivers and car dealers to sign a Statement of Responsibilities at car handover to confirm they understand these terms of use. These clear guidelines are designed to ensure that Motability cars are used for the benefit of the disabled customer.

Like any organisation with 629,000 customers, there is a small minority of customers who may try to abuse the Scheme. We work with all stakeholders, including Motability, the DVLA, as well as the police, to ensure that effective procedures are in place to protect the Scheme, and to respond appropriately to allegations of Scheme misuse.

During the past year, we dealt with more than 17,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, many of which led to prosecution.

Around 7,722 cases resulted in enforcement action, including 3,869 customers who had their agreements terminated and their cars withdrawn. We invest close to £1.5 million a year in Scheme protection activities both to safeguard the reputation of the Scheme and to protect the proposition for our customers.

We also apply restrictions to the criteria for named drivers, and offer a reduced selection of cars available to younger drivers. Exceptions are considered to address particular disability needs.

In situations where a customer's circumstances give rise to particular risk, such as where none of the drivers live at the customer's home, we retain the option to fit trackers into cars to create a record of customer journeys. In the event of proposed agreements where the disabled person lives a long way from the named driver this would also trigger further investigation. Individual exceptions, such as arrangements for a daily carer, can be authorised if appropriate.

### Customer experience

We focus on providing customers with a seamless, worry-free experience. Product choice and affordability are significant elements of this, but meeting our customers' needs is about much more.

We aim for excellent customer service, which, for us, clearly requires that we take particular steps to meet our customers' disability-related requirements.

We have used an independent research agency to conduct bi-annual customer surveys since 2003. These surveys cover all the key customer contact points on the Scheme. The latest results showed the continuation of excellent levels of overall customer satisfaction of 98%, indicating first-rate levels of customer service. The survey continues to provide valuable feedback on our customer proposition.

Our customer call centre plays a pivotal role in supporting our customers. The strong customer satisfaction results are in no small part attributable to the consistent service levels delivered by the call centre, with 86% of customer queries resolved during their first call.

Initiatives designed to support and enhance the customer experience include:

- Worked with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions and to develop resilience training for our customer service teams in handling more difficult or emotionally challenging calls
- Improvements made to customer communications and the website, creating a more welcoming impact, and more than doubling the information available. This included the launch of our online 'News and Views' section and monthly customer email programme
- Removal of Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly, and implementation this year of web chat, which has proved particularly popular with customers who are unable, or prefer not, to use the telephone
- Availability of an online 'car search', which gives customers a user-friendly and readily navigable tool to find the vehicle that best meets their needs
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

Excellent service underpins our customer recommendations and renewal rates at the end of lease. In fact, 99% of customers say they would recommend the Scheme to friends or family.

Measurement of our disability expertise is inherently more subjective and difficult. However, we continue to place significant focus on ensuring that we meet this goal, both as a customer service organisation and in our role as an employer.

Examples include:

- The use of a Specialised Mobility Team to support the delivery of the Powered Wheelchair & Scooter Scheme proposition
- Displaying vehicle accessibility information on our website
- The availability of targeted specialist publications including the Wheelchair-Accessible Vehicle (WAV) Guide
- The Car Price Guide includes images of cars with accessibility considerations, an 'automatics' column and images to help customers visualise the types of cars available
- Awarded the new 'Disability Confident Employer' accreditation.

## Fleet insurance arrangements

As reported in previous Annual Reports, the Group's current fleet insurance arrangements commenced on 1 October 2013. Under these arrangements RSA continue as insurer, but premium exposure is shared with Motability Operations via its reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme (see the Risk management report on page 34 for more detail).

RSA continue to provide policy and claims administration activities through its dedicated Motability unit in Liverpool, ensuring seamless continuity of service for customers.

These insurance arrangements enable the continuation of excellent customer service and deliver significant additional benefits to the Scheme:

- Customer service: RSA has been the insurance supplier to the Scheme for many years and our arrangement ensures the continuity of our customers' 'worry-free' claims management experience. The revised structure did not result in any visible change for our customers
- Financial: the financial model that underpins the revised arrangements brings with it additional financial benefits, all of which are passed on to customers
- Supply risk: MORL is supported by a conservatively structured reinsurance programme that spreads insurance supply amongst a number of highly rated organisations and, in so doing, diversifies risk and ensures stability of insurance provision into the future.

### MO Reinsurance Ltd (MORL) – Overview

MORL is a wholly owned subsidiary of Motability Operations Group plc, which was established for the sole purpose of reinsuring a proportion of the Company's fleet insurance exposure. In setting up MORL, adherence to core design principles has ensured that the structure is robust, sustainable, efficient and transparent.

As part of the implementation of these arrangements we engaged with Standard & Poor's and Moody's, who have both noted the changes and confirmed these to be 'ratings neutral' for the Group, with the reaffirmation of the Group's credit ratings (A+/A1 respectively) in their most recent credit opinions.

Standard & Poor's categorise MORL as a 'core' subsidiary under their Group Rating methodology – recognising that MORL is integral to the Group's purpose and customer proposition, that the reinsurance programme has been structured to be well within the Group's risk appetite, and recognising also that MORL has been appropriately capitalised. Standard & Poor's has therefore assigned the Group's A+ rating to MORL.

MORL is domiciled in the Isle of Man (IOM), because it is not possible to operate the preferred structure efficiently on the UK mainland. The IOM provides the most appropriate 'near shore' option:

- The IOM is a centre of excellence for reinsurance captives and regulates similar vehicles for a number of large UK and multinational companies
- The IOM's regulatory regime appropriately services the requirements of a business-to-business reinsurance structure, reflecting the new relationship between MORL and RSA
- From a tax perspective, the structure ensures that any profits realised in the IOM through MORL are allocated to Motability Operations Group plc and charged to tax in the UK. This is achieved under the UK Controlled Foreign Company (CFC) rules. These rules, contained in sections 371AA to 371VJ of Taxation (International and Other Provisions) Act 2010, impose a charge to tax on a parent company of the profits of non-resident subsidiary companies in certain prescribed circumstances
- The Group has obtained a letter of non-statutory clearance from HMRC agreeing this principle, and confirming that all profits of MORL are chargeable to tax in the UK, and that it does not benefit from a lower level of taxation than would be incurred if the captive were based in the UK.

The structure continues to operate effectively, with expertise, processes and data flows now all successfully embedded into the business. MORL's reinsurance programme was successfully renewed during the year, thereby continuing to limit the Group's potential financial exposure.

Detail of the reinsurance structure is elaborated within the Risk management section on page 34. From a Group perspective financial performance is ahead of expectations, as outlined in the Finance Director's review on page 25.

### Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 94% brand availability based on market share, with 35 manufacturers currently on the Scheme. This now provides our customers with access to 2,200 vehicle derivatives, delivered through a network of over 4,800 car dealerships. During the year we accounted for almost 9% of UK car registrations.

As a consequence, we provide a significant and stable route to market for the manufacturers. We regard our partnership with them as extremely valuable to the Scheme.

While we take responsibility for the overall customer experience, over 16,000 trained Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. We introduced the Motability Dealer Partnership (MDP) programme in 2004 to ensure that customers receive a consistently high level of service in the car dealerships. This is designed to influence dealer behaviour and performance in every key element of the leasing process (supply, service and aftersales) with a particular emphasis on customer service. The MDP programme has been refined over time to ensure that it continues to focus dealer efforts on delivering the best possible customer outcomes. Feedback from our independent customer satisfaction surveys confirms that this investment in the MDP programme has been successful in delivering improvements that have led to a better customer experience at car and PWS dealerships.

Throughout the year, dealers continued to work closely with us to improve awareness and understanding of the Scheme, and provide a warm welcome for Motability Scheme customers.

Alongside dealers, a number of other key partners deliver services to our customers. These include insurance, roadside assistance and tyre replacement companies, which have to re-tender systematically for the contracts to provide these services. This process helps us leverage our purchasing power and ensures that our commercial terms are in line with the market.

While cost control is critical, we take careful steps to make sure that this does not affect the quality of service provided. We work closely with our service providers to ensure that they maintain our required standards, and routinely carry out supplier reviews to monitor performance against key performance indicators, ensuring that suppliers implement action plans where necessary. We include insurance, roadside assistance and tyre replacement services on our Customer Satisfaction Index, enabling us to benchmark and align the performance of every provider.

### Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2017, we sold over 238,500 cars to the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online process which is augmented by a proactive auction programme. Our online sales channel, 'mflirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has a number of advantages over physical channels, including its lower cost, and it allows a more targeted approach. Following an upgrade to the system platform last year a second round of digital enhancements was delivered to provide a series of customer-requested enhancements. We ensure we listen to our remarketing customers and in an independent satisfaction questionnaire our customers rated our remarketing team at 94% for trust.

Our end-of-contract processes enable us to sell a car online before it is returned at the end of lease. While we target this marketing across all our registered buyers, it provides a particular opportunity for the franchised dealers who originally supplied and then maintained the vehicle. It means that they can buy a low-mileage, fully serviced vehicle that they know first-hand, and which, through our end-of-contract process, will most likely be returned to their forecourt at the end of lease. This opportunity has been promoted to the dealers through the 'Get Your Own Back' marketing campaign.

Through 'mflirect' we have established an efficient and competitive sales environment which ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for 78% of all disposals during 2017. Cars that do not sell online are usually routed to auction and sold at one of our branded events. We have progressively routed more of our early terminating stock via the online channel, and with early terminating volumes having increased as the PIP reassessment process gathers momentum, this route to market ensures that we optimise the value obtained for these vehicles.

Through the versatility of our remarketing strategies, the proactive management of stock and an increased buyer base, the remarketing team has delivered an excellent performance in 2017, contributing to significant gains.

### Environment

We know that our customers are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We therefore aim to ensure that a range of lower emitting, higher MPG vehicle choices is available (which in turn are more cost-effective for our customers). We continue to take a proactive approach to managing our CO<sub>2</sub> emissions agenda with a number of initiatives that provide information and choice for our customers. These include:

- Introducing alternative vehicles with lower CO<sub>2</sub> emissions, including hybrids, combined fuel and new technology products
- Making attractive, low-CO<sub>2</sub> cars available in all vehicle categories on the Scheme (the price list highlights at least two low-CO<sub>2</sub> vehicles in each vehicle category)
- Featuring green choices (low-CO<sub>2</sub> vehicles) in all our promotional mailings
- Providing practical advice to help lower motoring costs and CO<sub>2</sub> emissions in our customer publications, our annual customer newsletters and through our website.

In line with the wider UK market, following sustained negative media in relation to diesel engines and CO<sub>2</sub> emissions, we have seen a marked reduction in applications for diesel cars with a corresponding increase in demand for petrol and alternative fuel vehicles.

Our approach to meeting our environmental responsibilities also extends to the management of our internal infrastructure. In terms of premises, we run a continuing programme of capital investment to ensure that our plant and equipment remain energy-efficient and we actively aim to recycle an increasing proportion of our waste. We recently refurbished our premises to ensure that our buildings are exemplary from a disability accessibility perspective and also meet the highest environmental standards.

We encourage employees to minimise their environmental footprint through use of video-conferencing facilities, promoting lift-share arrangements and membership of the Government's Cycle to Work Scheme.

## Risk management

# 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 approach to risk management is both dynamic and robust, aiming to ensure that we identify, quantify and manage all material risks. Our risk framework, which is enshrined within our governance framework, is overseen and managed by our Risk Management Committees.

We have a Director with specific responsibility for risk. We have also further strengthened our risk management approach through the course of this year. Through our dedicated Risk function, we continue to further enhance our approach and practices. This year saw the risk processes further substantiated following an independent review of the Risk Appetite Framework.

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

### Risk identification and monitoring

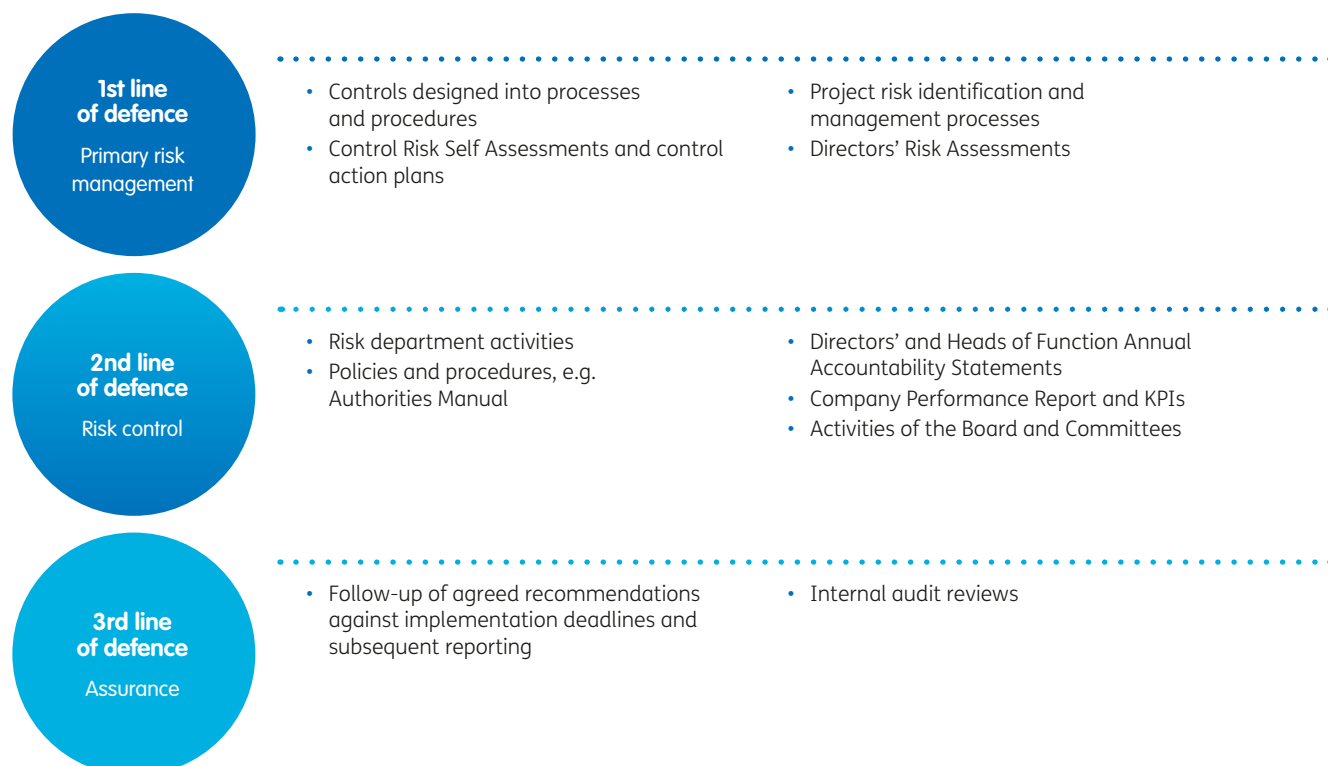
We have designed our risk management framework around the 'three lines of defence' approach to risk governance. Consistent with this approach, we have a dedicated risk management function that is integral to co-ordinating, monitoring and advising on control activities.

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 review 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.

## Risk management framework

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



### Key risks and mitigations

#### 1 Residual values

The most significant risk we face is the exposure to unforeseen and material movement in the market value of second-hand vehicles. This is measured as the difference between the forecast values used for pricing and the latest projected market value at the end of lease.

Through our team of experts, we have developed and implemented an in-house residual value forecasting model to help manage this risk. This combines the latest econometric modelling techniques with subjective feedback gathered from used-car buyers and market experts. The model is periodically recalibrated and validated with an independent review being completed this year. Since it was first implemented in October 2004, our in-house model has outperformed the alternative market benchmarks. We also undertake a quarterly re-forecasting exercise to review and monitor the actual position and assess the associated financial impacts of any movement in residual values.

There is, in addition, an associated risk of differences arising between the benchmark market value and the net proceeds we are able to realise on disposal. This gap can be affected by the effectiveness of our remarketing performance, by vehicle mix, concentration and condition.

We manage this disposal performance risk through the effectiveness of our remarketing activity, through our streamlined logistics operation and through our commercial sales force. Our proactive portfolio management has reduced concentration risk in recent years, with a broad spread of models and manufacturers now represented in our diversified fleet.

#### 2 Insurance risk

Prior to the introduction of Motability Operations' revised insurance arrangements on 1 October 2013, we undertook a forensic assessment of the impact that this would have on the Group's risk exposure.

An overarching design principle guiding the implementation of the revised insurance structure is to ensure that the Group's risk exposure is conservatively managed. Under the new insurance arrangements, whilst the Group now participates in a proportion of premium exposure (insurance risk) via its reinsurance captive MORL, our net exposure is contained through the placement of a conservatively structured reinsurance programme.

This reinsurance cover was successfully renewed ahead of 1 October 2017, and continues to be placed with a panel (14) of highly rated (at least A rated and predominantly AA rated) reinsurers, thereby diversifying the Group's exposure to any single supplier.

Quota-share reinsurance has been purchased to protect Motability Operations against any individual losses exceeding £25,000 (each and every claim). Excess of loss reinsurance protects the Group and RSA against individual losses exceeding £5m (each and every claim). In respect of the layer of risk below £25,000, MORL has purchased Stop Loss reinsurance to protect the Group from exposure to adverse frequency risk, i.e. high volumes of relatively low-value individual claims.

The net exposure retained by the Group is therefore contained in terms of both severity and frequency. In accordance with Motability Operations' established Economic Capital approach to capital management, we have ensured that we hold sufficient capital, at the 99.99% confidence level, to cover this net risk.

There are additional mitigations in place which ensure that the Group is well equipped to manage this retained tranche of risk, including the recruitment and retention of extensive expertise to ensure that we have the requisite knowledge and management information to inform our pricing, reserving and risk analysis activities:

- Three independent Non-Executive Directors with extensive insurance and reinsurance expertise are currently in their second three-year term on MORL's Board
- MORL has outsourced the day-to-day operation of MORL to an experienced captive management company
- External actuarial resource has been retained to support Motability Operations' pricing and reserving processes
- Motability Operations has also recruited an in-house actuary to enhance internal expertise in this area.

#### 3 Treasury risk

The availability of sustainable funding and liquidity is critical to our ongoing operation. This has been brought into sharpened focus since the 'credit crunch' with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.

We manage these risks through a well-defined treasury policy, the operation of which is overseen by the Asset and Liability Management Committee – a sub-committee of the Executive Committee. We maintain a risk-averse stance and continue to develop a diversified portfolio of funding maturities, seeking to lock the majority of funding onto fixed rates. Our policy is also to avoid exotic treasury products. Through our robust financial management and governance we seek to maintain a credit rating that allows us access to a range of debt markets on competitive terms. It is our policy to ensure that we maintain sufficient financing facilities to cater for projected growth over the next 12 months, plus 20% headroom.

#### 4 Supplier failure

Our core product offering is delivered through contracts with key suppliers who provide vehicle insurance, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have significant financial implications as we seek alternative service providers. We manage this risk primarily through ongoing liaison and maintenance of strong relationships with our key suppliers. We also routinely assess their creditworthiness.

We have specifically assessed the risk of failure of one or more of our key manufacturers. Such a failure would probably lead to impaired residual values, invalid warranties, non-availability of parts and maintenance providers, and the potential withdrawal or renegotiation of discounts. We seek to manage this risk through routinely monitoring manufacturer-related news, dedicated account management and by diversifying our portfolio to minimise our exposure to the default of any one manufacturer. We have also developed scenarios to stress-test our durability in the face of such a failure, and are confident that our Economic Capital approach means that we have assigned sufficient risk capital to withstand such an event.

## 5 Operational

The efficiency of our business is key to delivering excellent customer service and also ensuring we maximise and protect the value of our assets.

The management of risk underpins the delivery of our strategic objectives. We have a demonstrable track record of effectively managing our operational risks. This is reinforced by a risk management ethos which is intrinsically embedded in our business culture and supported by our governance framework and policies that are in place to support a consistent approach across the business.

The Risk function operates with a business partnering approach which ensures awareness, consistency and co-ordination across the business. We actively monitor our key controls through the Control Risk Self-Assessment process. Assurance over the effectiveness of our controls is given via our Internal Audit function, that uses a risk based approach to determine areas of focus.

## 6 Cyber risk & information security

Cyber risk and information security are key priorities for the business. We have a sophisticated layered approach to IT security. During the year, we have put in place further initiatives in response to the ever changing nature of the threat of an attack and have an ongoing programme of development in this area which this year has included the introduction of cyber insurance and a Cyber Incident Response Playbook. In addition to these practical measures we have assigned additional capital within our capital modelling to provide protection against this potential risk.

## 7 Credit risk

Customers assign their allowances to us, and this is paid directly from the DWP, hence the credit risk is considered to be very low. Where the total cost of the lease exceeds the value of the customers' allowance, then the customer is required to make an upfront balancing payment – the 'advance payment' – prior to taking possession of the vehicle.

As regards the revenue which is derived from the resale of vehicles that are returned to us at the end of lease, we proactively manage this credit risk. To this end, we regularly carry out credit assessments of the limits set for auction houses, manufacturers and dealers and receive exception reports from monitoring agencies. Exposure to dealer debt is largely mitigated through the 'zero-day' direct debit collection process, with the cash collection being triggered at the point the sale is transacted (and before title is passed).

## Capital adequacy and economic capital

Whilst the Group is not regulated for capital purposes, our approach to balance sheet management aligns with best practice, with the overarching objective being to ensure that we have the financial resilience to withstand economic turbulence without compromising the customer offering. The Group holds capital in the form of 'restricted reserves' to provide the necessary financial shock-absorber to ensure sustainability into the long term. This capital is retained exclusively for the benefit of the Scheme – with ordinary shareholders having no entitlement to dividends.

The Group uses Economic Capital (EC) principles to determine the appropriate level of capital. The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. The key risks are outlined in the table on page 36.

This enables us to determine an appropriate level of capital required to protect the Scheme from potential shock events. The EC methodology we use is conservative, and encompasses all material risks, delivering an outcome that management views as reasonable and prudent.

In order to ensure that our capital planning adequately reflects the current risk profile of the business, we undertake an annual review of our Economic Capital methodology and the key underlying assumptions. Focus is also given to new or emerging Company-specific or wider environmental factors which are considered to have a bearing on the Group's capital requirements.

Our review during 2017 included analysis of a range of scenarios assessing the potential impact of economic uncertainty as the UK Government navigates a path to exit the EU. This year we have assigned additional capital to cover the increasing general level of cyber risk faced by all businesses and more specifically legislation related to the volatility in the Ogden discount rate and its impact on insurance reserves.

An independent review of the Group's Economic Capital methodology was commissioned during the year, with feedback confirming our approach to be proportionate and appropriately conservative given the Group's overarching objective to ensure long-term sustainability.

At the financial year end, the Group's closing capital position (represented by restricted reserves on the Balance Sheet) was considered by Directors to be adequate given the current and emerging potential risks faced by the Scheme.

# Summary of our key risks and mitigations

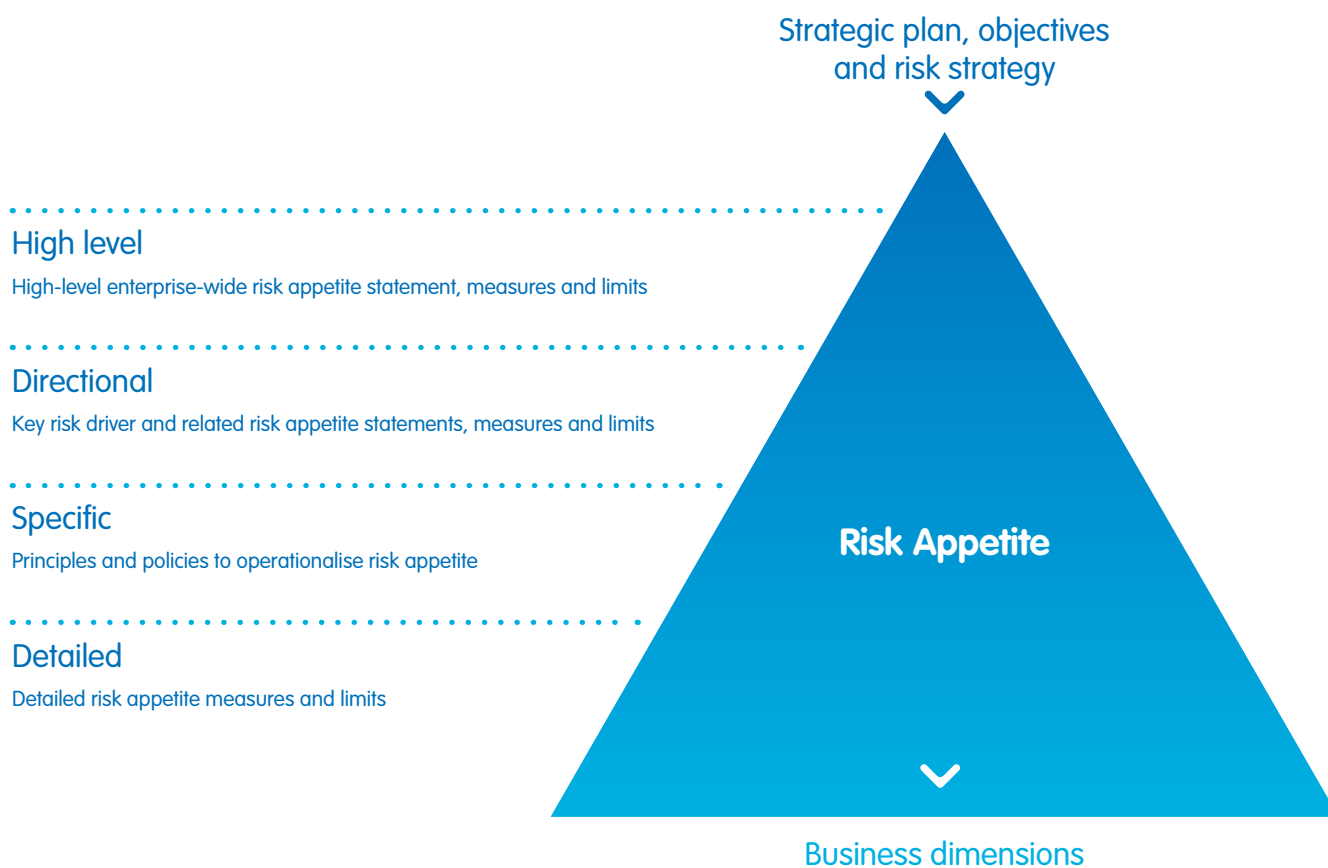
	1	<b>Residual values</b> Unexpected movements in used-car values, failure to achieve market value on disposal	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Volatility in profitability, reserves and pricing. Potential impact on affordability and choice</li> </ul>			
		<ul style="list-style-type: none"> <li>Sophisticated in-house residual value setting and forecasting process</li> <li>Risk capital management for asset risk using Economic Capital principles</li> <li>Market-leading remarketing approach</li> </ul>			
	2	<b>Insurance</b> Exposure to insurance claims that exceed expectations or supplier failure	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Financial impact of claims exceeding priced expectations</li> <li>Failure of a reinsurer could transfer risk back to Motability Operations</li> <li>Legislative changes (e.g. Ogden rate changes)</li> </ul>			
		<ul style="list-style-type: none"> <li>Conservatively placed reinsurance programme effectively limits the Group's net risk</li> <li>Risk capital in place to cover net risk</li> <li>Access to extensive expertise</li> <li>Diversification of supply across highly rated reinsurers</li> </ul>			
	3	<b>Treasury</b> Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding</li> </ul>			
		<ul style="list-style-type: none"> <li>Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps</li> <li>Balanced portfolio of funding maturities and diversification into bond market</li> <li>Maintenance of strong credit rating</li> <li>Robust treasury system, controls and governance</li> </ul>			
	4	<b>Supplier failure</b> Failure of key manufacturer or other key Scheme supplier	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Compromised customer service provision and potential financial impact of securing alternative supplier</li> <li>In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties</li> </ul>			
		<ul style="list-style-type: none"> <li>Active monitoring of credit ratings and market announcements</li> <li>Strong supplier relationships and communication</li> <li>Diversification of supply</li> <li>Diversified portfolio</li> </ul>			
	5	<b>Operational</b> Risk of failure of key systems, controls or processes	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Potential financial and reputational risk</li> <li>Risk of business disruption</li> </ul>			
		<ul style="list-style-type: none"> <li>Robust control environment</li> <li>Active monitoring and testing of Business Continuity and Disaster Recovery plans</li> <li>Focus and investment in IT infrastructure providing a stable and resilient operating platform</li> </ul>			
	6	<b>Cyber risk &amp; information security</b> The loss or harm related to unauthorised access to infrastructure or data	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Potential impacts to customer and stakeholder confidence</li> <li>Potential financial and reputational risk</li> <li>Risk of business disruption</li> </ul>			
		<ul style="list-style-type: none"> <li>Information security framework aligned to best practice and industry standards</li> <li>Designated data protection officer</li> <li>Ongoing employee awareness programme</li> <li>Cyber Insurance and Incident Response plan in place</li> </ul>			
	7	<b>Credit</b> Risk of default of key income streams and exposure to bad debt	Potential impact	Mitigation	Link to strategy
		<ul style="list-style-type: none"> <li>Potential impact on cash inflows and consequent write-off to income statement</li> </ul>			
		<ul style="list-style-type: none"> <li>Principal income stream received directly from DWP – therefore minimal credit risk</li> <li>Residual credit risks are managed through credit assessments and an effective credit control function</li> </ul>			
		<ul style="list-style-type: none"> <li>The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme</li> </ul>	Potential impact	Mitigation	Link to strategy

## Risk Appetite Framework

In recent years we have enhanced our risk management approach through the implementation of a Risk Appetite Framework (RAF). Developing more formalised risk reporting, the 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. Our risk appetite is reviewed and set by Directors on at least an annual basis, utilising information from strategic planning, risk management activity and business objectives.

**"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

✓ Documentation of specific minimum standards; principles and 'dos and don'ts' for inclusion in the business policy and risk assessment documentation

✓ Articulation of high-level statements and limits aligned to strategic risk objectives such as Earnings Volatility; Embedded Value; Financial Strength; Infrastructure; Reputation etc

✓ Mapping of directional limits to detailed business management information so as to tie together the top-down and bottom-up

✓ Analysis of high-level limits to identify and set limits against key risk drivers so as to give directional steer to business

✓ The framework is then used to inform the key business dimensions including: business model, customer profile, control measures, concentrations, competitive position, and financials

## Viability Statement

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Directors have assessed Motability Operations Group plc's viability over a three-year period to September 2020.

A three-year period is considered to be an appropriate period for the viability review for the following reasons:

- Over 97% of customers take up a three-year lease product, and given the Group's objective of providing sustainability and affordability to customers, it is appropriate to assess the Company's viability across a period in which existing contractual obligations to customers can be fulfilled
- Linked to this, over 97% of the Group's existing residual value risk will unwind across this same time period.

This assessment has been made taking account of the current position of the Group, its core three-year lease product, corporate planning process and the Group's key risks and risk appetite as detailed in the Strategic Report on pages 33 to 37.

In making their assessment, the Directors took account of the Group's current financial and operational positions, as well as the broader external risks that may impact the operation.

They also assessed the potential financial and operational impacts, in severe but plausible scenarios, of the key risks and uncertainties and the likely degree of effectiveness of current and available mitigating actions. The financial assessment focused on capital adequacy and liquidity under a range of stress scenarios, thereby providing Directors with confidence in making this viability statement. From an operational perspective, stress scenarios test the Group's ability to continue to provide affordable leases and consistent service levels across a three-year period.

The Directors also assessed the Group's ability to meet its outstanding bond and bank debt liabilities. Whilst it is noted that the longer-term nature of these obligations can extend significantly beyond the three-year period adopted for this viability review, the Directors are satisfied that lenders are not only provided with robust protection through the relevant documentation, but that the Group will have the resources to meet these obligations under the full range of stress scenarios referenced above.

In making this statement, the Directors have made the following key assumptions:

- Customers will continue to be treated fairly and enjoy worry-free motoring including excellent support and service throughout the UK
- Motability Operations will continue to provide a broad selection of affordable vehicles that meet the needs of its customers
- Motability Operations will continue to generate a level of profitability that is adequate to protect the Scheme from economic shock, whilst also covering any growth in the capital requirement and protecting affordability of the price list
- Motability Operations will continue to minimise the impact of market volatility through maintaining a robust balance sheet and appropriate level of reserves
- Motability Operations will continue to minimise the impact of financial volatility through effective realisation and management of residual values
- Motability Operations will continue to maintain access to funding with sufficient headroom to meet its financing needs
- Motability Operations will continue to focus and invest appropriately in IT infrastructure to ensure that a stable and resilient operating platform is maintained.

The Directors have therefore concluded that, based on the extent of the corporate planning process and strong financial positions, there is a reasonable expectation that the Group has adequate resources and will continue to operate and meet its liabilities as they fall due over the period of their assessment and for the foreseeable future.

## People and principles

# Our people are fundamental to our success

In order to deliver excellent performance, we need to recruit and retain talented individuals with the right skills, knowledge and experience.

### Business culture

We promote a positive business culture aligned to our core values and principles, described below. We believe that our business culture provides a foundation for success. For this reason, we are committed to carrying out independent culture benchmarking through an annual employee survey conducted by a global employee research and consulting firm. The results are shared with employees through roadshows hosted by the Chief Executive, with key themes identified and actions being agreed to address any issues that emerge. Results are compared against a benchmark of 'High-Performing Organisations'. In the last nine years, our results have significantly outperformed the 'high-performing' norm.

Employee engagement was 94%, measured using the culture survey.

Motability Operations is an equal opportunities employer. It embraces diversity, which it believes is fundamental to attracting and retaining the most talented people and making the organisation more effective in providing an exceptional service to its customers. The Company has a diversity policy where diversity is defined as including disability, race, sexual orientation, gender, ethnicity, culture, religion, age, nationality, education and experience.

The Remuneration Committee will oversee implementation of Gender Pay Gap reporting, with the first report to be published by April 2018.

The Company has excellent relationships with a large number of disability organisations.

Our approach to recruiting, developing, managing and rewarding performance, as well as employee communication and our working environment, is described over the following two pages.

### Principles

We have defined a number of positioning principles that underpin our business strategy. We use these alongside our values as reference points in conducting our day-to-day interactions with customers, employees and other stakeholders. Our positioning principles ensure that we:

- Treat customers fairly
- Compete on value and customer and disability expertise
- Provide specialist support to remove barriers where appropriate
- Have excellent plc practices and governance
- Work closely with Motability
- Maintain excellent relations with stakeholders
- Are recognised as an outstanding and responsible employer
- Are non-political and transparent
- Ensure that our financial position is capable of sustaining the Scheme into the future
- Provide value for stakeholders
- Are recognised and respected in the community
- Maintain a forward-looking green policy, balancing needs with fuel economy and emissions.

### Our values

#### We strive for excellence in customer service

- Our customers are our first and major focus
- We take ownership
- We are disability-confident.

#### We are passionate about what we do

- We understand the aims and objectives of our business
- We set high standards and go the extra mile
- We trust and respect others and value differences.

#### We have a high-performance culture

- We strive for the highest standards
- We recognise and reward strong performance and success
- We are resilient and professional.

#### We think and act commercially

- We have sound business judgement
- We manage our business for the long term
- We understand the impact of our decisions.

#### We are friendly, flexible and facilitating

- We act honestly and with integrity
- We have a 'can do' and solution-based approach
- We work together and communicate openly.

### Recruitment and induction

Critical to our success is the ability to recruit employees who will deliver excellence in their role and be aligned to our values.

Our leaders know how important it is to make the right recruitment decisions and provide new employees with a thorough induction to the organisation.

All new employees attend a formal introduction to the Company which describes the business strategy and culture. They also attend a 'Disability Confidence' workshop during the first six months of employment.

We run a structured Graduate Programme which seeks to attract and retain a number of high-calibre graduates each year from a range of academic disciplines. This involves an intensive 18-month programme that includes rotations in a number of areas of the business. After this period, we expect graduates to move into key line management or specialist roles. Four years ago, we introduced an internship programme for our Business Systems division.

### Employment of disabled people

We are committed to employing and retaining the best person for the job, whoever that person may be. Our policy is to ensure that disabled people receive equal and fair consideration in recruitment, training and career development. Support and adjustments are provided to ensure that the needs of employees who are, or become, disabled are met. The Company ensures that its policies and practices are not barriers to disabled people. We are members of the Business Disability Forum. We are accredited by the Department for Work & Pensions as a 'Disability Confident' employer (this accreditation replaces the 'two ticks' symbol). We have an internal disability networking group which is sponsored by the Corporate Services Director. Over the last three years, we have run a series of training workshops focused on the recruitment and development of employees with disabilities, including mental health.

We run a Scholarship Programme aimed at supporting disabled students during their academic studies and providing work experience during the summer months.

### Performance management and assessment

Critical to the success of the overall Company is the ability of each employee to deliver excellence and have a clear 'line of sight' to our customers. Individuals' objectives are directly aligned to the business's goals and targets and are reviewed on a regular basis. The performance management framework is consistent across the whole business.

All employees are assessed on the basis of their results and behaviours, each carrying equal weight. As part of the performance management process, all leaders are assessed using 360-degree feedback. Company performance is communicated to employees regularly during the year through team meetings, roadshows and the intranet.

### Reward

Our remuneration is regularly reviewed against the market to ensure that it is fair and competitive. Remuneration decisions are taken in line with our remuneration policy.

We are fully committed to paying our people at least at the level of the current Living Wage, as calculated by the Living Wage Foundation, for their base location.

Performance-related pay is discretionary and is dependent on Company and individual performance. Further details of our approach can be found on pages 49 to 53.

### Training, development and succession planning

Individuals' development is supported through a number of mechanisms including formal training, involvement in specific initiatives or projects, or through secondments to other parts of the business. Mentoring and coaching also form an important part of employees' development.

We manage the risk of losing key individuals through regular talent reviews and succession planning. High-potential employees are identified and plans designed to develop them. Our Nomination Committee reviews the succession plans for Directors and senior managers and takes an active interest in the different programmes run by the business, including the Graduate, Scholarship and Internship schemes.

### Employee communication

Leaders are responsible for ensuring that their teams have regular face-to-face communication to discuss the Company's objectives and performance as well as their own department's priorities. They hold regular team briefings and 'one-to-one' meetings.

The Chief Executive runs a series of roadshows across the business, covering topics such as Company performance, results of the culture survey and an update on strategic initiatives. Divisional directors and Heads of Function also run regular briefings for their teams.

Other employee communication includes regular newsletters, employee consultation forums and use of our corporate intranet.

### Working environment

We believe that the quality of our working environment has a major impact on employee engagement and contribution.

## Committed to high standards of governance

“At Motability Operations, we believe that good governance is inseparable from our objective to run a high-performing business, delivering long-term value to our customers. It is critical for the Board that we have a clear strategy; strong and appropriate risk control; and the right people in place to ensure this is effectively overseen and delivered. We have a strong culture of control, and all Directors and Heads of Function sign an accountability statement setting out expectations.”

Effective governance is fundamental to our aim of delivering outstanding performance, providing long-term stability and offering enduring value to customers. The Board's role is to provide clear and informed judgement in determining business strategy; maintaining a framework of prudent and effective controls to mitigate risk; and having the best team in place to deliver excellent business outcomes.

The business maintains a robust control culture; all Directors and Heads of Function sign an annual accountability statement detailing requirements and expectations. This document shares goals and objectives for the year, and provides the framework for performance assessment at an individual level.

The business revises its strategic plan annually, setting the agenda for achieving affordable, worry-free motoring for customers over the long term. The updated plan is cascaded widely throughout the business, which means individuals, teams and divisions can identify clearly how their goals fit with the Company objectives. The Directors develop a good understanding of the business's operations and external environment and are therefore well-placed to take informed decisions.

This year's extensive strategy overview gave particular emphasis to market impacts, including insights into the impact of PIP changes on customer conditions and support needs; options for addressing our longer-term vehicle remarketing challenges; and the effects of developments in the wider automotive market. As a result, departments have a clear line of sight towards ensuring that our high performance is maintained and fully sustainable.

Risk continues to be an important focus and notably during the year we employed our Risk Appetite Framework to reinforce the systemic management of risk throughout the business. A review and reorganisation of governance committees was completed to support this structure, and company policies were also reviewed and relaunched. We periodically review and assess the performance of our governance committees, and it is of course reassuring to be able to confirm that all committees continue to operate effectively.

We comply with the relevant provisions of the Companies Act 2006, the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules and with its Listing Rules applicable to a company with wholesale debt admitted to trading on the London Stock Exchange's regulated market. Our subsidiary, Motability Operations Limited, is governed by and complies with the requirements of the FCA for Consumer Credit.

Motability Operations' culture and people are core to its achievements, and we are committed to recruitment and retention of an engaged and motivated workforce. We are fully pledged to key representation on the Board, and aim to provide a strong balance and diversity of expertise, skills, experience and objectivity.

The Company's culture, complexity and the scale of risks faced, as well as its annual performance, are all integral measures in addressing remuneration. Motability Operations regularly reviews remuneration against the market, and makes use of pay and benefit programmes which support the achievement of its objectives. The Company's values are fundamental to delivering excellent performance, and this is exhibited at the most senior level.



Neil Johnson OBE  
Chairman

### Motability Operations Group plc Board

The Board meets on a quarterly basis, in December, March, June and September. The agenda will typically include a review of the Company Performance Report (including a financial and operational review), a Chief Executive's update, and Audit, Remuneration and Nomination Committee updates.

### The Board's responsibilities

Matters reserved for the Board include:

- Promoting the success of the business
- Approval of strategy proposed by the Executive Committee
- Approval of financial reporting and controls
- Ensuring maintenance of a sound system of internal control and risk management
- Approval of major capital projects
- Ensuring adequate succession planning for the Board and senior management
- Undertaking reviews of its own performance and that of other Board committees
- Approval of Group policies
- Approval of the structure and terms of reference of the Board committees.

### Roles of the Chairman and Chief Executive

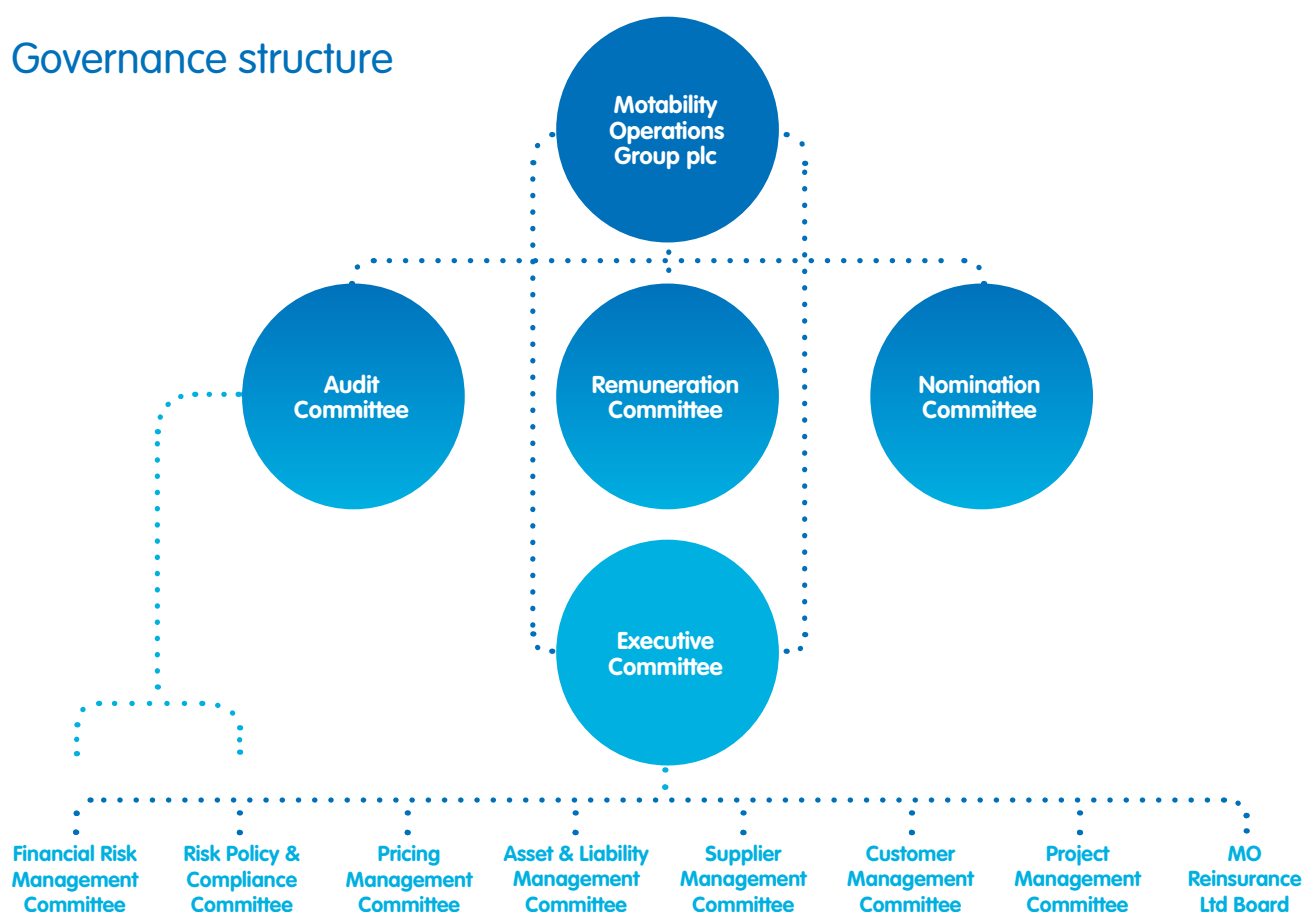
The division of responsibilities between the Chairman and the Chief Executive has been clearly established. The responsibility of the Non-Executive Chairman includes leading the Board and ensuring its effectiveness. This includes setting the agenda for Board meetings, promoting a culture of openness and debate and, with the assistance of the Company Secretary, arranging for the Directors to receive timely, accurate and clear information ahead of Board meetings.

The Chief Executive is responsible for leading and managing the business on a day-to-day basis with authorities delegated by the Board, and is accountable to the Board for the financial and operational performance of the Group. This day-to-day management is effected through the Executive Committee, with the Chief Executive as Chair.

### Non-Executive Directors

The Non-Executive Directors combine broad business and commercial knowledge to enable them to challenge and contribute to the development of our strategy. They bring an independent judgement to all business issues through their contribution at Board and Committee meetings. The Chairman is satisfied that the Independent Non-Executive Directors are independent in both character and judgement.

## Governance structure



## Board of Directors

# Our Board

Membership of the Board comprises a Non-Executive Chairman, two Executive Directors, five Independent Non-Executive Directors and four Non-Executive Directors. The Directors of the Company who were in office at the date of signing the financial statements were:

**Neil Johnson OBE**

**Non-Executive Chairman**

Neil was appointed as Non-Executive Chairman of Motability Operations Group plc on 20 March 2008.

## Executive Directors

**Mike Betts**

**Chief Executive**

Mike was appointed as Chief Executive of Motability Operations Group plc on 20 March 2008.

**Matthew Hamilton-James**

**Finance Director**

Matthew was appointed as Finance Director of Motability Operations Group plc on 1 October 2016.

## Non-Executive Directors

**Christopher Lendrum CBE**

**Senior Independent Director**

Christopher was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 10 June 2009. Christopher was subsequently appointed as the Senior Independent Director on 10 September 2014.

**John Callender**

**Independent Non-Executive Director**

John was appointed as an Independent Non-Executive Director of Motability Operations plc on 30 June 2008.

**Barry O'Byrne**

**Non-Executive Director**

Barry was appointed as a Non-Executive Director of Motability Operations Group plc on 1 October 2017.

**Lisa Bartrip**

**Non-Executive Director**

Lisa was appointed as a Non-Executive Director of Motability Operations Group plc on 1 November 2017 (alternate – Steven Bolton, appointed 1 November 2017).

**Joe Hennessy OBE**

**Independent Non-Executive Director**

Joe was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

**Daniel Meredith Jones**

**Non-Executive Director**

Daniel was appointed as a Non-Executive Director of Motability Operations Group plc on 7 September 2016 (alternate – Martin Dodd, appointed 7 August 2016).

**David Smith**

**Independent Non-Executive Director**

David was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 July 2010.

**Neill Thomas**

**Independent Non-Executive Director**

Neill was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 September 2014.

**Paul Thwaite**

**Non-Executive Director**

Paul was appointed as a Non-Executive Director of Motability Operations Group plc on 30 September 2016 (alternate – Peter Lord, appointed 30 September 2016).

**Jo Pentland**

**Company Secretary**

Jo was appointed as Company Secretary of Motability Operations Group plc on 20 March 2008.

## Executive Committee

“ Mike Betts  
Chief Executive

Over the years we have worked hard to build a financially secure and robust business that can withstand the full range of risks which may affect us.”

The Executive Committee is chaired by Mike Betts, Group Chief Executive, and includes Matthew Hamilton-James, Group Finance Director, and the other members of the Motability Operations Ltd Board – Ian Goswell, Commercial Director; Jo Pentland, Corporate Services Director; Ashley Sylvester, Risk & Business Systems Director; and Julie McManus, Company Secretary.

The Executive Committee met 12 times during the financial year and it has delegated authority from the Board to:

- Manage the day-to-day business operation of the Group and its subsidiaries
- Develop and set strategic objectives
- Agree policy guidelines
- Agree the Group's budgets and plans and, once these are adopted by the Board, be responsible for achieving them
- Ensure appropriate levels of authority are delegated to senior management
- Ensure the co-ordination and monitoring of the Group's internal controls and ensure that activities undertaken are conducted within the Group's risk appetite
- Safeguard the integrity of management information and financial reporting systems
- Approve key supplier agreements
- Ensure the provision of adequate management development and succession, and recommendation and implementation of appropriate remuneration structures
- Develop and implement Group policies through the Governance Committees (Asset & Liability Management; Financial Risk Management; Risk Policy & Compliance; Supplier Management; Project Management; Pricing Policy; and Customer Management) and MO Reinsurance Ltd Board
- Agree internal authority limits and control.

The Executive Committee is kept informed and updated by the subordinate Governance Committees and the MO Reinsurance Ltd Board, and monthly Executive Committee packs are sent to the Non-Executive Directors for information. The Executive Committee reports quarterly to the main Board and there is a standard Board agenda item which allows any Director to comment or ask questions on the content of the Executive Committee packs.

The performance and strengths of the Executive Committee are evaluated periodically and individual members' performance is assessed annually.

Mike Betts  
Chief Executive



# Audit Committee

## “ Christopher Lendrum CBE Audit Committee Chairman

The Audit Committee comprises four Independent Non-Executive Directors and four shareholder appointed Non-Executive Directors. In my capacity as Senior Independent Director, I chair the Audit Committee, with other members during the year being John Callender, Robert Carver, Anna Cross, Daniel Meredith Jones, David Smith, Neill Thomas and Paul Thwaite. Executive Directors, other members of senior management, the Head of Internal Audit and the external auditors (PricewaterhouseCoopers (PwC)) are in attendance where appropriate, together with senior representatives of Motability the charity.

The Committee's terms of reference remain unchanged, giving delegated authority from the Board to:

- Review and recommend the annual assurance plan to the Board and receive reports from Internal Audit on progress against plan
- Oversee all assurance activity and monitor the adequacy and effectiveness of such activity
- Review audit reports and monitor management's progress against agreed actions
- Appoint and dismiss the external auditors
- Monitor the objectivity, independence and effectiveness of the external auditors, including the sanction of non-audit work
- Oversee the operation of the risk management framework, including the risks identified in the corporate risk register
- Receive and review periodic reports from the Financial Risk Management Committee and Risk Policy & Compliance Committee
- Review key areas of management judgement which may have a material bearing on the financial statements including, but not limited to, the periodic revaluation of residual values, the assessment of the adequacy of MORL's insurance reserves and other accounting estimates such as maintenance accruals and end-of-contract payments
- Receive periodic reports from MORL's Audit & Risk, Underwriting and Investment Committees to ensure that risk management within the subsidiary is managed in a manner consistent with Group policies
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee internal and statutory financial reporting, recommending to the Board adoption of the half year and full year accounts.

The Committee meets quarterly in advance of meetings of the main Board, at which the Committee chairman reports. Matters considered on a regular basis during the year included:

- The Company's capital position, incorporating the evolution and quantification of major risks, including those set out in the Independent Auditors' Report, and their implication for capital requirements as recorded and measured through the risk register, to ensure capital adequacy at all times within the parameters agreed by the Board
- A treasury report covering policy and factors affecting liquidity (including ongoing Group financial performance, bank finance availability and bond market access) to ensure that satisfactory liquidity is maintained at all times, within the agreed policy
- Progress reports from the responsible Executive Director on all key aspects of the business
- Review of the outputs of and matters considered by the Financial Risk Management and the Risk Policy and Compliance Committees, presented by the responsible Executive Directors
- Internal Audit reports and issue resolution on a quarterly basis, together with the appropriate resourcing of the function. No significant issues were encountered
- Reports on any significant control failures or incidents over the previous quarter, and resolution to the satisfaction of the Committee.



### Audit Committee continued

Other matters on which the Committee focused specifically and/or at intervals during the year included:

- Regulatory and legal compliance obligations, with particular focus this year on the Group's preparation for ensuring compliance with the General Data Protection Regulation (GDPR) due to be implemented in May 2018
- The recognition of cyber risk as a separate major risk given the increasing frequency and sophistication of threats. Reports were received from management on a continued proactive programme of security initiatives, while it was reassuring to receive independent validation of an improved information security maturity assessment
- Regular reports from management and Internal Audit on the progress and status of the major IT change project (Project Apollo) together with assurance reports from Deloitte preceding the successful implementation in July
- The potential impact on residual values arising from sustained negative sentiment towards diesel vehicles and the economic uncertainty related to the UK exit from the European Union
- Presentations from the respective chairs of MO Reinsurance Limited's (MORL) Underwriting, Investment and Audit & Risk Committees. This included the smooth transition from using external consultants to using in-house actuarial expertise to calculate MORL insurance liabilities, further evidence of this activity having become business as usual activity within the Group. We have retained the external consultant to provide an independent review of reported insurance liabilities
- An independent review of the Economic Capital model used to underpin the assessment of capital adequacy to secure long-term sustainability, with the conclusion that the approach remains proportionate to the nature, scale and complexity of MO's business
- The financial statements for the half year and full year which are considered in depth at the Committee's May and December meetings respectively, with the benefit of a detailed report on the findings of the external auditors, PwC, who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2017 the auditors provided appropriate assurance and identified no matters of material concern either to themselves or to the Committee.

Significant financial reporting/judgements and changes in relation to the Group's Financial Statements considered by the Committee are set out on page 47.

As included in my report last year, in conformance with EU Mandatory Audit Firm rotation, I chaired a tender process for the appointment of the Group external auditors effective from 1 October 2018 (tender process to be completed at least 12 months before the commencement of the new assignment). This process was overseen by a selection committee with membership including representation from the Non-Executive members of the Audit Committee, the Group Finance Director and the Head of Internal Audit. The proposed appointment of KPMG, for the period commencing 1 October 2018 was agreed by the Board and their appointment will be put for formal approval at the Annual General Meeting in March 2019.

In recognition of the importance of evaluating its own effectiveness, the Committee undertook a review in 2017 covering members' experience and knowledge in the context of changing demands in the key aspects of its work. The results of this evaluation confirmed the Committee's underlying effectiveness, and provided useful insights for future challenges.



Christopher Lendrum CBE  
Audit Committee Chairman

During the year, the Committee considered the following significant financial reporting/judgements and changes in relation to the Group's financial statements and disclosures, with input from management, Internal Audit and the external auditor:

Key judgements in financial reporting	Audit Committee review and conclusions
<b>Residual values</b> <p>The estimation of the residual values of the vehicle fleet is subject to a number of economic, industry and portfolio specific factors. Volatility and/or inaccuracy in estimating residual values could have a material impact on the Group's reported financial position.</p>	<p>The estimation of residual values is identified as a key business risk and was subject to regular scrutiny and review by the Audit Committee during the year.</p> <p>The Audit Committee reviewed management's accounting estimates of residual values as part of the financial reporting cycle to understand and evaluate assumptions and estimates.</p> <p>Both Internal Audit and PWC as the external auditor provided assurance to the Audit Committee that the residual value forecasting process was undertaken in a controlled manner.</p> <p>The Audit Committee was satisfied that residual value estimations were appropriate and processes well controlled.</p>
<b>Insurance reserves</b> <p>Insurance reserves are set aside in anticipation of insurance claims where accidents in the Group's cars have occurred but are yet to be reported. The assessment of these claims results in a provision being recognised, which will affect the reported financial result. The Group's assessment of insurance reserves is based on a detailed independent actuarial assessment.</p>	<p>The Group's assessment of insurance reserves was initially reviewed by the MORL Underwriting Committee and MORL Board to consider the appropriateness of the methodology and assumptions applied.</p> <p>The approach adopted was discussed and subsequently validated by the Audit Committee.</p> <p>The Audit Committee was satisfied that the estimate of insurance reserves was appropriate and processes well controlled.</p>
<b>Other accounting estimates</b> <p>Other areas of accounting estimate include maintenance accrual and end-of-contract payments. Changes in estimates of future expenditure or payout rates may affect the reported financial result.</p>	<p>The Committee assessed accounting estimates as part of the review process for the financial statements.</p> <p>The Committee discussed the work and findings of Internal Audit and the external auditor to assess the appropriateness and robustness of estimates.</p> <p>On this basis, the Audit Committee was satisfied that estimates of other accounting estimates were appropriate and processes well controlled.</p>
<b>IT systems replacement</b> <p>During the year the Group continued to progress its systems upgrade programme. Having successfully deployed the new processing and accounting system for the Powered Wheelchair &amp; Scooter fleet during 2015, the implementation of the functionality for the car fleet was successfully concluded in July. The effectiveness of data migration processes and the ability to reconcile balances in the new system were essential to the integrity of the Group's financial statements.</p>	<p>The Committee received quarterly progress reports from management on the progress of the systems implementation, with particular focus on scope, data migration, testing and reconciliation processes.</p> <p>The Committee received an independent progress &amp; assurance report from Deloitte.</p> <p>The Committee also reviewed the plan and results of the work of the external auditors for a number of key elements of the implementation, including controls, general ledger mapping &amp; reconciliation, automated processes and system functionality.</p> <p>The Audit Committee was satisfied throughout that the financial control and risk management approach for this programme was appropriately robust to support a successful implementation.</p>

# Nomination Committee

## “ Neil Johnson OBE Chairman

The Nomination Committee comprises the Non-Executive Chairman and three Independent Non-Executive Directors. It is chaired by the Non-Executive Chairman, Neil Johnson, and the other members are Neill Thomas, John Callender and Christopher Lendrum. The Chief Executive and Corporate Services Director attend where appropriate. The Head of Human Resources acts as secretary to the Committee.

The Committee meets twice yearly and has delegated authority from the Board to:

- Review the structure, size and composition (including the skills, knowledge and experience) of the Board
- Review the leadership needs of the organisation, both executive and non-executive, to ensure the continued ability of the business to operate successfully
- Develop and review succession and retention plans for Directors and other senior managers, taking into account the challenges and opportunities facing the Company and the skills and expertise which are needed in the future
- Review proposals for any new Executive and Non-Executive Director appointments
- Identify and nominate candidates to fill Executive and Non-Executive Directors' roles (including the role of Senior Independent Director), including the reappointment of Non-Executive Directors at the end of their term. In identifying suitable candidates the Committee will use open advertising or the services of external advisers to facilitate the search. The Committee will consider candidates from a wide range of backgrounds and make decisions on the basis of merit against objective criteria

- Review annually the time required from Non-Executive Directors to fulfil their responsibilities
- Make recommendations to the Board in relation to membership of the Audit and Remuneration Committees
- Make recommendations to the Board concerning any matters relating to the termination of a Director's contract of employment or service
- Review proposals in relation to external non-executive appointments for the Executive Directors
- Review the Company's graduate programme
- Evaluate the effectiveness of the Committee every two years.

The Chairman of the Company holds meetings with the shareholders and feeds back any views, issues or concerns to the Board. There is an 'open invitation' to the Senior Independent Director to attend these meetings as appropriate.

During the year, the following matters were covered by the Nomination Committee:

- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and continue to meet business needs
- Succession plans for Non-Executive Directors were reviewed and agreed during the year
- Frank Gardner stepped down from the Group Board on 30 November 2017.

The Committee's terms of reference were reviewed and approved by the Board. In accordance with the Shareholders' Agreement, the following changes took place during the year:

- Robert Carver, Shareholder Non-Executive Director from HSBC, resigned from the Board and was succeeded by Barry O'Byrne
- Anna Cross, Shareholder Non-Executive Director from Barclays, resigned from the Board and was succeeded by Lisa Bartrip and her alternate Steve Bolton.

An exercise to evaluate the effectiveness of the Committee was carried out again in December 2017.

Neil Johnson OBE  
Chairman



# Remuneration Committee

**“ Neill Thomas**  
Remuneration Committee Chairman

## Letter from the Committee Chairman

I am pleased to present the Directors' remuneration report for the year ending September 2017.

### Changes in 2017

As outlined in last year's remuneration report, a detailed review of remuneration structures was undertaken in 2015 and reflected in a new Remuneration Policy which was applied with effect from 1 October 2015. All remuneration decisions taken during 2017 were subject to the review and scrutiny of the Remuneration Committee and made in accordance with such Remuneration Policy.

With the revised policy now established, the Committee's focus during 2017 was to monitor any changes in benchmark data. In May 2017, the Committee received and reviewed a report from our independent advisers, New Bridge Street, which set out the most up to date remuneration data from a range of companies including private entities, mutual organisations and FTSE250 companies. Motability Operations is a unique business so the Committee's approach is to use market data and any emerging policy trends to inform but not dictate its decisions on the level and components of Executive Directors' remuneration. During the May meeting the remuneration range for each Executive Director role was considered and amendments agreed where required. These remuneration ranges then set the boundaries within which the Remuneration Committee will consider the award of annual bonuses and the application of any salary increases applying during the forthcoming financial year.

### 2017 Performance

Performance is assessed across customer, cultural and financial targets, as well as against governance, risk management and strategic development goals. 2017 proved to be another year of strong performance notwithstanding the continuing challenges presented by the programme of PIP reassessments and uncertainty for the Group's main markets as the UK begins to navigate its path of exit from the EU.

Details are set out in the remuneration report below and in the Strategy section of this report (pages 16-23); however, headlines in terms of performance targets include:

- Customer: A score of 94.8% (2016 : 94.7%) overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 77.8% and a sector average (Bank & Building Societies) of 79.5%
- Culture: Business culture scores, as independently measured through Willis Towers Watson's 'High-Performing Organisations' culture survey, statistically significantly outperformed the UK 'High-Performing Organisations' Norm groups across all 11 categories (including a Customer Focus score of 96% (2016 : 95%) and Employee Engagement at 94% (2016 : 93%))
- Financial: Financial metrics in relation to capital adequacy and liquidity remain in line with target, whilst the Company's credit ratings were unchanged at A+/A1 with stable outlooks from S&P and Moody's respectively.

In addition, a number of strategic initiatives were successfully delivered – most notably a significant systems upgrade – the details of which are set out in the 'Strategy in action and performance' section of this report (pages 16-23).

### Implementation in 2017

Following the Remuneration Committee's review of Company performance, it was agreed to release bonus awards for Group Executive Directors, with individual awards directly linked to Company and individual performance criteria. Details of the awards for Group Executive Directors are set out in the remuneration report over the following pages.

The Committee also considered the performance criteria applying to long-term incentive arrangements. Whilst the Group no longer operates a Long Term Incentive Plan, awards made in respect of previous years will continue to vest subject to satisfaction of certain conditions. In 2017 the Committee assessed the performance against these conditions and concluded that the conditions had been met in full.

Under the Remuneration Policy, 50% of an individual's bonus in any one year is deferred for three years and only released subject to certain conditions. As, however, this policy was only introduced from 1 October 2015 there are currently no such deferred bonus amounts outstanding and due for release. As a result this was not a matter that required the Remuneration Committee's consideration in 2017.

*Neill Thomas*

Neill Thomas  
Remuneration Committee Chairman



## Remuneration Committee continued

## Remuneration report

## Total remuneration under new policy

The table below summarises the total remuneration for the Group Executive Directors and Independent Non-Executive Directors of Motability Operations Group plc in line with the Remuneration Policy. Further analysis of each of the elements is set out in the pages which follow.

£'000	Salary		Benefits*		Pension**		Bonus***		Vesting of deferred bonuses****		TOTAL	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
<b>Executive Directors</b>												
Mike Betts	549	536	25	25	137	134	263	253	–	–	974	948
Matthew Hamilton-James Matthew was appointed as Group Finance Director on 1.10.2016	255	–	16	–	38	–	121	–	–	–	430	0
David Gilman David served as Group Finance Director until 30.09.2016 (included to provide year on year comparator)	–	311	–	19	–	77	–	141	–	–	–	548
<b>Independent Non-Executive Directors</b>												
Neil Johnson (Chairman)	152	164	21	20	–	–	–	–	–	–	173	184
Christopher Lendrum	73	53	–	–	–	–	–	–	–	–	73	53
John Callender	50	48	–	–	–	–	–	–	–	–	50	48
Neill Thomas	64	48	–	–	–	–	–	–	–	–	64	48
Frank Gardner	37	37	–	–	–	–	–	–	–	–	37	37
Joe Hennessy	50	40	–	–	–	–	–	–	–	–	50	40
David Smith	50	43	–	–	–	–	–	–	–	–	50	43

\* Benefits include car allowance, private medical cover and travel insurance.

\*\* Pensions benefits comprise payments made into the Company's non-contributory group personal pension (money purchase) scheme, plus payments made in lieu of pensions where the Director has opted to take taxable income instead of pension contribution entitlements.

\*\*\* Bonus reflects the 50% of the award that is paid in the current year. The remaining 50% is deferred for a period of three years.

\*\*\*\* Zero for 2015 and 2016; the first potential release of deferred bonuses under the new policy would be in 2019.

All Directors served throughout the year. Of the Board's Non-Executive Directors, only the Chairman and Independent Non-Executive Directors receive remuneration.

In addition to the above, the previous long-term incentive plan (described below) for Executive Directors will run-off over the next two years. Details of amounts vesting under this plan are summarised in Note 33.

## Executive Directors' remuneration

The remuneration of Executive Directors consists of base salary, annual performance-related pay, long-term incentive arrangements, core benefits and pension. The Group's approach to each of these elements is described below.

## Base salary

Each year the Remuneration Committee determines the salary of each Executive Director with regard to the role and responsibilities, the experience of the individual currently undertaking the role, the criticality of the role and the individual to the business, his/her performance and market comparatives. Changes are made as appropriate taking these factors into account.

### Annual performance-related pay

Annual performance-related payments are not guaranteed and are overtly linked to clear and sustainable measures of business and individual performance, both financial and non-financial, with levels of stretch incorporated to encourage and reward outstanding performance. Targets and individual objectives are set at the beginning of each year and individual performance is evaluated against these criteria when determining annual awards. For Group Executive Directors, the maximum annual performance-related payment is 100% of base salary.

For Executive Directors, 50% of the annual performance-related pay awarded is deferred for a period of three years. Performance criteria apply to the release of such deferred amounts in each year. Annual performance-related payments are subject to malus and claw-back.

### Long-term incentive arrangements

The Long Term Incentive Plan (LTIP) introduced in 2008 for the Group Executive Directors ceased with effect from December 2015. The LTIP was a three-year rolling plan so, whilst the plan is closed, the awards in the Plan will continue to vest for the years ending 30 September 2017 and 2018, with annual performance adjustments, up and down, being applied. Payments will be made in December following the end of the financial years mentioned above, subject to the annual performance criteria being met and the Company's credit rating.

A five-year Long Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. During 2015, it was agreed that any potential benefit from the LTIS would be deferred for seven years, during which period no additional allocations will be made into the Scheme and any potential benefit will continue to be linked to stretching financial performance targets. Future payments under these long-term incentive arrangements are subject to malus and claw-back.

### Core benefits

The Group provides Executive Directors with a number of core benefits including private medical insurance, life assurance, travel insurance and a company car (or cash allowance in lieu).

### Pension

The Group provides a Defined Contribution scheme for Executive Directors which is non-contributory for the employee. The Group makes contributions equivalent to 15% of base salary (other than for Executive Directors whose previous contractual contribution arrangement of 25% of salary has been 'ring-fenced'). In light of changes to the annual and life-time limits to tax-relievable pension contributions which the Government introduced in 2010, Executive Directors can reduce or cease contributions being made to the Company's pension scheme and, instead, receive a pension allowance. Where an allowance is paid, normal tax and National Insurance deductions are made.

### Performance metrics

The award of discretionary bonuses is directly linked to the delivery of stretching corporate objectives and individual performance targets. In terms of corporate objectives, performance is set with reference to customer service, business culture and financial targets as well as governance, risk management and the delivery of strategic initiatives.

Customer service is assessed against independently measured benchmarks, including both an independent customer satisfaction survey and the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI) benchmark report (January 2017), the latter comparing the Group's performance with that of the highest performing customer service providers in the UK. Similarly, business culture (including employee engagement) is measured via an independent survey (conducted by Willis Towers Watson) which benchmarks the Company's culture with high performing UK organisations.

Financial performance is measured by assessing the Group's capital adequacy, structural liquidity and credit rating, in addition to wider financial management objectives, taking into account the prevailing macro-economic and industry-specific conditions. Risk management and governance related metrics are evaluated at both Company and individual level. This evaluation includes financial, operational and reputational risk measures, compliance with legislation and Company policies and also individual performance and contribution through either chairing or membership of the Company's governance committees.

The development and delivery of strategic initiatives also forms an important part of both Company and individual performance evaluation. In relation to individual performance targets, objectives are defined each year as part of the annual planning process and include, in addition to the elements outlined above, responsibility for the delivery of divisional plans. The following charts show performance in respect of the corporate targets for the year to September 2017.

### Remuneration Committee continued

#### Customer service

The Group is targeted to deliver first-class levels of customer service and excellent value for money. Customer service is measured via an independent customer satisfaction survey and through a balance of other measures including customer renewal rates at the end of lease, which provides validation of the level of service and value that we provide in the eyes of our customers. There are also targets for the number of models available on the price list at 'nil advance payment' thereby ensuring that customers can choose from a wide range of affordable vehicles that meet their disability needs.

#### Independently measured customer satisfaction



#### Customer renewal rates at the end of lease



#### Lease affordability – Number of vehicle models at "nil advance payment"



Below target On target Excellent

#### Business culture

Business culture is independently benchmarked against a pool of UK companies with results compared against the UK National Norm group and the 'High-Performing Organisations' (HPO).

#### Customer Focus



#### Employee Engagement



#### Leadership



#### Strategic Implementation



Below national norm Above national norm Above high performing norm

#### Financial performance

Financial performance targets are in place to ensure that the Company remains robust and sustainable through the economic cycle, thereby safeguarding the future of the Scheme in the long term. Financial performance measures include the assessment of capital adequacy, liquidity and cost efficiency. Management is set targets against these measures. During the year to September 2017:

- Capital levels were successfully managed in line with policy, with closing capital levels being deemed to be adequate following an assessment of current and emerging potential risks
- Our treasury management activities ensured that we retained sufficient liquidity capacity to finance 12 months' growth plus 20% headroom
- Our overhead cost base was successfully managed within budget
- Strategic initiatives were delivered and milestones met.

#### Non-Executive Directors' remuneration

The Non-Executive Chairman's remuneration comprises an annual fee plus private medical insurance, travel insurance and a company car (or cash in lieu) and the Independent Directors receive a base annual fee which reflects time commitment and fees for chairing the Audit Committee and the Remuneration Committee. In addition, the Senior Independent Director receives a fee to reflect the role's responsibilities.

The remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors was reviewed in 2016 with recommendations subsequently approved by the Board. Changes were effective from 1 October 2016, with the exception of the Non-Executive Chairman's remuneration which was revised in April 2016.

#### Membership of the Remuneration Committee

Members of the Remuneration Committee are appointed by the Group Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The majority are Independent Non-Executive Directors. During 2017 the Committee members were Neill Thomas, who chaired the Committee, Anna Cross, Joe Hennessy, Neil Johnson, Chris Lendrum and David Smith.

The Chief Executive attends the Committee (but is absent for any discussion about his own remuneration). The Corporate Services Director acts as secretary to the Committee (but is absent for any discussion about her own remuneration) and provides subject matter expertise to the Committee as required in its consideration and application of the Company's Remuneration Policy. Individuals are not involved in any Committee discussions or decisions which directly relate to their own performance or remuneration.

#### Responsibilities of the Remuneration Committee

The Remuneration Committee has delegated authority from the Group Board to review and approve, for Motability Operations Group plc and its subsidiaries:

- The overall positioning of competitive remuneration with reference to market data
- Base salaries and increases for the Executive Directors
- The design, terms and eligibility of performance-related pay schemes including annual awards and long-term incentive arrangements

- Whether any circumstances exist which would result in the need to withhold or claw-back any element of variable pay
- The policy for pension arrangements and other benefits for the Executive Directors
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee
- Oversight of the Gender Pay Gap reporting. In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the first Gender Pay Gap report will be published by April 2018.

Following a Remuneration Committee meeting the Committee reports to the Group Board and works closely with the Audit and Nomination Committees. The terms of reference of the Remuneration Committee are reviewed annually and approved by the Group Board.

The effectiveness of the Committee is evaluated at least every three years. A review was undertaken in October 2016 with positive feedback being received from the Committee members and the Board concluding that it had full confidence in the effectiveness and thoroughness of the Committee.

### Advisers

The Committee draws on the expertise of external independent specialists for benchmarking, advice on best practice and to confirm that a thorough and well governed process is applied. New Bridge Street (part of Aon plc) is retained by the Group in this regard.

### Activities of the Remuneration Committee during the year

The Committee met four times in the financial year ending 30 September 2017 and its main activities during the year in respect of the remuneration of the Executive Directors were to:

- Review and agree any changes to base salaries
- Review and agree annual performance-related payments
- Assess performance criteria in relation to vesting units under the previous LTIP (now in run-off) and the LTIS and the application of any decrease or increase in value
- Review pension and benefits
- Evaluate the Committee's effectiveness.

## Directors' Remuneration Policy

### Executive Director Remuneration Policy

The Group's policy is to establish and maintain levels of pay and benefits which facilitate the achievement of its objectives. The Group regularly reviews its remuneration against the market to ensure that it is competitive over the long term, is able to attract talent, and incentivises and encourages retention, whilst at the same time ensuring it does not encourage inappropriate behaviours and actions. Remuneration is very clearly linked to overall business strategy, with Group targets set in the context of both annual and longer-term objectives and milestones. Individual objectives are aligned to the achievement of the Group's annual objectives (both financial and non-financial), the delivery of the strategic agenda and the demonstration of core values.

Each Executive Director receives a copy of the Strategic Review, the Annual Operating Plan (which describes corporate and divisional objectives and budgets), together with an Accountability Statement setting out expectations of their performance in respect of a range of matters including risk management, corporate governance, compliance, adherence to Group policies, diversity, employee engagement, and fraud and bribery prevention.

The Group's culture, as defined by the following core values, is regarded as central to delivering excellent performance:

- To provide excellence in customer service
- To be passionate about what we do
- To have a high-performance culture
- To think and act commercially
- To be friendly, flexible and facilitating.

The performance of the Group, its culture and the risks facing the organisation are regularly considered when the Board and the Remuneration Committee address remuneration matters.

### Leaving and joining arrangements for Executive Directors

The Chief Executive and the Corporate Services Director work with the Remuneration Committee to ensure that contractual terms on termination, and payments made, are fair to the individual and the Group and that failure is not rewarded. The remuneration for a new Executive Director (whether recruited externally or promoted from within the business) will be based on the experience of the individual and market comparatives for the role and its responsibilities and will be consistent with the Remuneration Policy when determining each element of remuneration.

### Other matters

- **Equal & fair pay** – The Group's Remuneration Policy recognises Equal Pay. The Group is also committed to paying at least at the level of the current Living Wage (as calculated by the Living Wage Foundation) for an individual's base location.
- **Employees** – One of the key underlying principles is that, as far as practicable and appropriate, decisions in relation to pay and reward for the Executive Directors should be applied consistently with the way in which these are applied to other employees.
- **Non-Executive appointments at other companies** – The Group considers that the release of Executive Directors to serve as Non-Executive Directors elsewhere can be beneficial as part of their ongoing development, enabling Executives to broaden their experience and expertise. Any potential appointments are reviewed and agreed by the Nomination Committee. Under the Group's Remuneration Policy Executive Directors may retain any fees received for Non-Executive activities.

### Basis of employment

All employees (including Executive and Independent Non-Executive Directors) are paid through payroll, with payments being subject to PAYE and National Insurance contributions as appropriate. The Group does not make use of Service Contracts.



Neill Thomas  
Remuneration Committee Chairman

## Other statutory information

### Corporate Social Responsibility

Motability Operations actively embraces its Corporate Social Responsibility obligations. This manifests in a number of ways, including:

- Through the Scheme's core objectives, we help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local associations
- We have an environmental policy which is reviewed through the Group's Health & Safety Committee. Motability Operations is also registered with the Carbon Trust
- Our HR policies allow for flexible working, including staggered and reduced working hours
- We operate a Scholarship Programme which is designed to provide financial support and work experience (through summer placements) for a number of disabled students each year.

### Other environmental, social and governance policies & statements

In addition to those set out above, MO also has the following policies in place:

- Fraud & Bribery Prevention Policy
- Information Security & Data Protection Policies
- Health & Safety Policy
- Insider Trading & Whistle-blowing Policies
- People Policy (including policies on Bullying & Harassment; Disability Confidence; Diversity & Grievances)
- Treating Customers Fairly Policy
- Modern Slavery statement.

These policies/statements are made accessible to all employees via the Company's intranet, and form part of the induction pack for all new starters.

We have also published our Tax Strategy on our corporate website.

### Customer service and complaints handling

At Motability Operations we are committed to delivering excellent customer service.

- In 2017, the UK Institute of Customer Service (UK ICS) rated Motability Operations as the highest performing organisation in the UK with regard to customer service, achieving 94.8%
- Our customer services team is UK based and can be reached via a low cost 0300 number
- 80% of calls made to our customer services team are answered within 20 seconds (KPI suspended in final quarter as new improved systems implemented and embedded)
- 86% of calls/enquiries are resolved at the first point of contact
- For issues that cannot be resolved at first point of contact, a team of account managers is ready to assist.

#### Customer interactions

- Our customer services team handled almost 1.2 million telephone calls in the year ending 30 September 2017, an increase of 9% over the previous year
- Motability Operations has a customer base of circa 629,000
- Motability Operations processed 245,390 applications to join the Scheme in the year ending 30 September 2017.

#### Our approach to complaints

Putting the customer at the heart of what we do and delivering excellent outcomes for our customers is part of our culture and working practices.

Unfortunately, sometimes things can go wrong and we encourage our customers to tell us if they feel our service has fallen below the standard they expect. We have robust processes in place to ensure we handle all complaints fairly and in a timely manner.

In the UK the Financial Conduct Authority (FCA) requires consumer credit firms with limited permissions to report on the number of FCA reportable complaints they receive on an annual basis, in line with the firms' financial reporting period. Motability Operations' financial reporting period is 1 October to 30 September.

The figure below represents the number of FCA reportable customer complaints received for the period 1 October 2016 to 30 September 2017.

Period covered	Volume of complaints
1 October 2016 to 30 September 2017	1,871

The lessons learnt from complaints are invaluable to us and we use these to inform our decision making and to improve our processes and customer service.

There are a number of ways we look to ensure that we bring about service and/or process improvements (if necessary) as a result of dealing with complaints. These include, but are not limited to:

- ensuring that we have both a proactive and reactive approach to service improvement activity
- ensuring that we can and do make process changes following individual complaints
- using our root cause analysis programme to review high volume complaint areas and look to reduce where we can/prevent where we can/educate customers where we can
- encouraging employees to suggest ideas for service or process improvement, whether linked to a complaint or not.

#### Customer satisfaction levels with our complaints handling

We use customer satisfaction surveys to ask customers how we handled their complaint. In April 2017 we contacted a representative sample of customers who had complained to us between December 2016 and February 2017. They rated us with an overall score of 9 out of 10 for our complaint handling.

44 customers asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2017. Of the 44 requests for review by customers, the FOS has found in favour of Motability Operations in relation to 29 of these, with three being found in favour of the customer and the remaining 12 being in progress.

### Charitable and political donations

During the year the Company made charitable donations of £39,959 (2016: £26,365) to support and sponsor local initiatives through our 'mycommunity' programme. In addition, the Group made a £45m charitable donation to Motability (2016: £45m donation) and a £0.3m charitable donation to Wizzybugs supporting the provision of powered wheelchairs to disabled children.

Our policy is to be non-political and, consistent with this, we have not made any political donations.

### Proposed dividend

In accordance with the Shareholders' Agreement, the ordinary shareholding carries no rights to income.

### Directors' indemnity

As permitted by the Articles of Association, the Directors have the benefit of an indemnity which is a qualifying third-party indemnity provision as defined by Section 234 of the Companies Act 2006. The indemnity was in force throughout the last financial year and is currently in force. The Company also purchased and maintained throughout the financial year Directors' and Officers' liability insurance.

## Statement of Directors' responsibilities

### Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations. Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the Group and Parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Parent Company and of the surplus or loss of the Group for that period.

In preparing these financial statements the Directors are required to:

- Select suitable accounting policies and apply them consistently
- Make judgements that are prudent and reasonable
- State whether applicable IFRSs as adopted by the European Union have been followed
- Prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors confirm that they have complied with the above requirements in preparing the financial statements. The Directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Group and to enable them to ensure that the financial statements comply with the Companies Act. They are also responsible for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

Each of the persons who is a Director at the date of approval of this report confirms that:

- Insofar as the Director is aware, there is no relevant audit information of which the Company's auditors are unaware
- The Director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Each of the Directors, whose names and functions are listed on page 43, confirm that, to the best of their knowledge:

- The Group financial statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and surplus of the Group
- The Strategic report includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

### Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis. In addition to the going concern statement, the 2017 Annual Report & Accounts includes a Viability Statement. This can be found on page 38 of this report.

### Independent auditors

The auditors, PricewaterhouseCoopers LLP (PwC), have indicated their willingness to continue in office and a resolution to reappoint them for the next financial year will be proposed at the Annual General Meeting.

### Directors

Neil Johnson, Mike Betts, John Callender, Rob Carver, Anna Cross, Frank Gardner, Matthew Hamilton-James, Joe Hennessy, Christopher Lendrum, Daniel Meredith Jones, Neill Thomas, Paul Thwaite and David Smith served as Directors throughout the year.

Peter Lord and Martin Dodd served as an alternate Director throughout the year.

Robert Carver resigned as a Non-Executive Director on 1 October 2017.

Anna Cross resigned as a Non-Executive Director on 31 October 2017.

Frank Gardner resigned as an Independent Non-Executive Director on 30 November 2017.

Barry O'Byrne was appointed as a Non-Executive Director on 1 October 2017.

Lisa Bartrip was appointed as a Non-Executive Director on 1 November 2017.

Nivedita Subramanian was re-appointed as an alternate Director on 1 October 2017 and resigned on 1 December 2017.

Steve Bolton was appointed as an alternate Director on 1 November 2017.

### Directors' interests

No Directors have any share interest in the Group, nor any material interest in any contract entered into by the Group.

Signed by order of the Board



Jo Pentland  
Group Company Secretary

13 December 2017

# Report on the financial statements

## Our opinion

In our opinion, Motability Operations Group plc's Group financial statements and Company financial statements (the 'financial statements'):

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2017 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements, included within the Annual Report and Accounts (the 'Annual Report'), which comprise: the Group and Company balance sheets as at 30 September 2017, the Group income statement, the Group statement of comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cash flows for the year then ended; the accounting policies; and the notes to the financial statements.

Our opinion is consistent with our reporting to the Audit Committee.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Independence

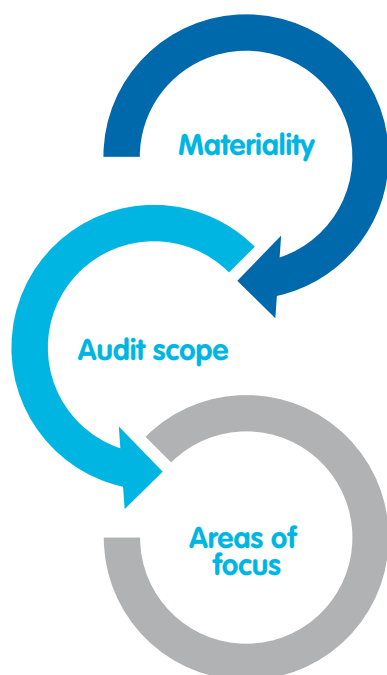
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2016 to 30 September 2017.

## Our audit approach

### Overview



### Materiality

- £20.1 million (2016: £20.6 million) – Group financial statements
- Based on 1% of rentals receivable from operating leases
- £57.6 million (2016: £46.3 million) – Company financial statements
- Based on 1% of total assets

### Audit scope

The Group has five subsidiaries as detailed in note 16. For the purposes of planning our audit, we considered each to be a separate component of the Group. Two of the identified components were considered to be financially significant and were audited as follows:

- We performed an audit of the complete financial information of Motability Operations Limited.
- In addition, under our instruction, PricewaterhouseCoopers LLC based in the Isle of Man performed an audit of the complete financial information of MO Reinsurance Limited.

### Areas of focus

Our areas of focus comprised:

- Residual values of used cars (Group)
- Maintenance deferred income (Group)
- Implementation of IT system for the car fleet (Group)

### The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

### Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
<p><b>Residual values of used cars (Group)</b></p> <p>The Group has a large fleet of cars that it leases to customers under operating leases. The cars are depreciated over the life of the operating lease down to their forecast residual values.</p> <p>Management initially estimates the residual values for the cars at the start of the lease using a forecasting model and updates these forecasts on a quarterly basis.</p> <p>Estimating residual values is highly judgemental and dependent on a number of factors including: projected supply and demand for used cars; the economic outlook; the estimated mileage; and condition of the vehicles at the end of their contracts.</p> <p>Uncertainty surrounding the terms of the UK's exit from the European Union, and the corresponding impact on the UK economy, further increases the level of judgement required when estimating the future economic outlook.</p> <p>Increased scrutiny over the environmental impact of diesel vehicles also adds a further level of uncertainty when estimating residual values for the diesel portion of the car fleet.</p> <p>If the forecasted residual values are inaccurate it will impact the depreciation charge and profits recorded in the period as follows:</p> <ul style="list-style-type: none"> <li>• If residual value estimates are too high, depreciation charges are likely to be too low, resulting in losses when vehicles are sold at the end of operating leases.</li> <li>• If residual value estimates are too low, depreciation charges are likely to be too high, resulting in gains when vehicles are sold.</li> </ul>	<p>We understood and evaluated management's controls over the estimation of residual values, including:</p> <ul style="list-style-type: none"> <li>• controls over inputs to the model used to forecast residual values, such as the benchmarking of the Group's economic forecasts to external data;</li> <li>• controls over the model used to forecast residual values, including the review of changes to the model by third-party experts; and</li> <li>• controls over the output from the model used to forecast residual values, including comparison of estimated residual values to estimates from third-party sources widely used in the automotive industry.</li> </ul> <p>We attended two of the Residual Value forum meetings, in which management review the forecast three-year residual used-car values as part of their price setting process. We also attended two of the Fleet Valuation forum meetings in which management review the residual values of the current car fleet and tested that the final residual values determined through these forum meetings were accurately updated in the general ledger.</p> <p>In understanding the residual value model and assumptions, we also considered whether all relevant factors were reflected, and where not, whether overlays to modelled calculations appropriately reflected those factors.</p> <p>We tested a sample of inputs used to estimate residual values, including the economic outlook projections, by comparing to external data that is publicly available.</p> <p>With the continued uncertainty over the terms of the UK's exit from the European Union, and the corresponding potential future impact on the UK economy, management continues to assess the implications for future residual values. We assessed the basis and reasonableness of the estimates made to adjust future residual values in response to this continued uncertainty.</p> <p>The impact of diesel vehicles on the environment is now receiving increased scrutiny. We consequently understood and evaluated the adjustments to residual value estimates made to reflect the potential impact on used-car values of negative public sentiment towards diesel vehicles.</p> <p>We compared previous estimates of residual values to recent Group sales data and third-party data sources to test that residual values calculated by management were reasonable.</p> <p>Based on the audit evidence obtained through the combination of controls and substantive testing outlined above, we determined that the assumptions used by management in the estimation of residual values were reasonable and supportable.</p>

Key audit matter	How our audit addressed the key audit matter
<p><b>Maintenance deferred income (Group)</b></p> <p>Vehicle lease prices incorporate an estimate of the future costs of maintenance over the lease period. The Group defers a portion of revenues and releases amounts in the period in which maintenance activity takes place.</p> <p>In order to calculate the amount of revenue to be deferred and released, management estimates projected maintenance expenditure prior to the commencement of leases and monitors actual expenditure. Actual costs are used to update forecasts of maintenance expenditure for each vehicle tranche.</p> <p>Inaccurate estimates of forecast total maintenance expense could result in revenues being over or under reported in a given reporting period. Errors in the computation would also lead to inaccurate deferred revenue balances being recorded at the period end.</p> <p>Estimating the maintenance expenditure and related deferral of revenue is judgemental and dependent on a number of factors including vehicle mileage and usage, part costs, servicing costs and servicing schedules.</p>	<p>We understood the maintenance budgeting and cost evaluation processes, including how revenue was deferred and subsequently released in the period in which the maintenance activity took place. We checked that this accounting was in line with the Group's accounting policies.</p> <p>We attended the year end Service, Maintenance and Repair (SMR) forum in which management, on a quarterly basis, review the estimated maintenance costs.</p> <p>We tested that maintenance budgets, actual expenditure and forecast remaining cost are accurately updated in the calculation of deferred revenue.</p> <p>We obtained the forecasting model used to calculate the estimated maintenance costs from year end to termination date of the leases. We tested the key inputs into the computation of deferred maintenance revenue balances, namely actual costs to date, forecast maintenance costs and the length of leases, by testing data inputs, assumptions and calculations, including agreeing part costs and servicing costs to invoices received. We assessed the suitability of the calculations used to build the spend curves used in reforecasting the SMR expenditure.</p> <p>Based on the audit evidence obtained through the combination of controls and substantive testing outlined above, we concluded that the assumptions used by management in the calculation of deferred income were reasonable and supportable.</p>
<p><b>Implementation of IT system for the car fleet (Group)</b></p> <p>During the period, the Alfa leasing system was implemented for the car fleet.</p> <p>Alfa obtains car lease agreement data from the front-end system (OLA) and retains that data through the life of the lease. Alfa uses that data to generate the accounting entries for each lease throughout its life, including: the initial recognition of vehicles purchased; the recognition and deferral of revenue; the recognition of depreciation on vehicles held; the change in the classification of the vehicle from "assets held under operating leases" to "inventory" upon the expiry of the lease; and the disposal of the vehicle. These accounting entries are then automatically posted to the Oracle General Ledger.</p> <p>The implementation took place in July when the migration of the car fleet data, from SAP to Alfa, was completed.</p> <p>The inaccurate or incomplete migration of data from SAP to Alfa could result in incorrect data being used to generate the financial reporting entries described above.</p> <p>Ineffective operation of the Alfa system could also result in incorrect generation of those financial reporting entries.</p> <p>Due to the importance of Alfa to the financial reporting process we treated the implementation of Alfa as a Key Audit Matter.</p>	<p>We understood management's end-to-end process for the migration of the car fleet data from SAP to Alfa and independently tested the design and operating effectiveness of management's internal controls over the completeness and accuracy of the data migration. As part of our audit procedures, we:</p> <ul style="list-style-type: none"> <li>inspected the access to SAP source data to confirm it was restricted to appropriate IT personnel;</li> <li>inspected the code used to transform and load data from SAP to Alfa to ensure it was appropriately mapped;</li> <li>inspected Alfa 'go-live' documentation, including both approvals and User Acceptance Testing (UAT) undertaken by management;</li> <li>tested end-to-end reconciliation controls including re-performing the SAP to Alfa reconciliation for a sample of general ledger accounts and understanding and evaluating the resolution of a sample of breaks;</li> <li>tested automated systems functionality within the SAP and Alfa systems in-scope for the audit (e.g. depreciation calculation); and</li> <li>tested IT General Computer Controls (ITGCs) over both the SAP and Alfa systems, specifically focusing on the review of change management to system functionality, user access management and IT operations.</li> </ul> <p>We also selected a sample of lease agreements and traced key financial data fields from Alfa to SAP to test that they had been appropriately migrated.</p> <p>Based on the audit evidence obtained through a combination of controls and substantive testing we were satisfied that the risk arising from the migration of the car fleet from SAP to Alfa was appropriately mitigated.</p>

### How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's operations and supporting accounting functions are based in London, Bristol and the Isle of Man. Further details of how the Motability Car and Powered Wheelchair & Scooter Scheme operate are detailed on pages 4 to 7.

The Group has five subsidiaries as detailed in note 16. For the purposes of planning our audit, we considered each to be a separate component in the Group, being entities for which the Group prepares financial information.

In establishing our overall approach to audit the Group, we considered the significance of these components to the financial statements. We also separately considered our assessment of risk within each component, the overall audit coverage of our procedures across the Group, as well as the risk associated with less significant components not brought into the normal scope of our audit.

We determined the type of work that needed to be performed for each component by us in relation to components within the UK, or by other PwC network firms operating under our instruction in relation to components outside the UK. Where the work was performed by other firms, we determined the level of involvement we needed to have in the audit work of those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

Of the five components, we performed an audit of the complete financial information of Motability Operations Limited. In addition, we instructed PricewaterhouseCoopers LLC based in the Isle of Man to perform full-scope audit procedures for the complete financial information of MO Reinsurance Limited. These components were selected due to their size and risk characteristics. We visited the Isle of Man to meet with MO Reinsurance Limited local management and the PricewaterhouseCoopers LLC audit team to review their audit working papers.

In aggregate these components' financial statement line items accounted for 100% of total revenue, 100% of adjusted revenue and 99% of total assets. This work gave us the evidence we needed for our opinion on the Group financial statements as a whole.

### Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate, on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

<b>Overall Group materiality</b>	£20.1 million (2016: £20.6 million).
<b>How we determined it</b>	1% of rentals receivable from operating leases. We exclude the proceeds from the disposal of operating assets as well as other smaller revenue items.
<b>Rationale for benchmark applied</b>	We believe that rentals receivable from operating leases provides a consistent year-on-year basis for determining materiality. Revenue relating to the disposal of operating lease assets is likely to fluctuate and management assesses core business revenue performance excluding these proceeds.
<b>Overall Company materiality</b>	£57.6 million (2016: £46.3 million).
<b>How we determined it</b>	1% of total assets.
<b>Rationale for benchmark applied</b>	We believe that total assets provides the most appropriate basis for determining materiality as the primary operation of the entity is as a holding company for the underlying Group operations.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £19.3 million to £9.1 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 million (Group audit) (2016: £1 million) and £1 million (Company audit) (2016: £1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least 12 months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

### Reporting on other information

The other information comprises all of the information in the Annual Report and Accounts other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

### Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2017 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Parent Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report.

### Responsibilities for the financial statements and the audit

#### Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 55, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

### Auditors' responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit

conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditors' report.

### Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, 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.

### Other required reporting

#### Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

### Appointment

Following the recommendation of the Audit Committee, we were appointed by the Chairman's committee on 2 February 1995 to audit the financial statements for the year ended 30 September 1995 and then annually re-appointed by the Board and at the AGMs for subsequent financial periods. The period of total uninterrupted engagement is 23 years, covering the years ended 30 September 1995 to 30 September 2017.



Jeff Picton (Senior Statutory Auditor)  
for and on behalf of PricewaterhouseCoopers LLP  
Chartered Accountants and Statutory Auditors  
London

13 December 2017

# Income statement

For the year ended 30 September 2017

	Note	2017 Group £m	2016 Group £m
Revenue	4	4,221.7	4,151.8
Net operating costs excluding charitable donations		(3,706.6)	(3,793.7)
Charitable donations		(45.3)	(45.0)
Net operating costs	6	(3,751.9)	(3,838.7)
<b>Profit from operations</b>		<b>469.8</b>	<b>313.1</b>
Finance costs	9	(211.8)	(187.2)
<b>Profit before tax</b>		<b>258.0</b>	<b>125.9</b>
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	10	(50.6)	(26.7)
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	10	5.3	30.4
<b>Profit for the financial year</b>		<b>212.7</b>	<b>129.6</b>

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the Company income statement and statement of comprehensive income. The Company's profit for the financial year was £4.5m (2016: £37.2m).

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

# Statement of comprehensive income

For the year ended 30 September 2017

	Note	2017 Group £m	2016 Group £m
<b>Profit for the financial year</b>		<b>212.7</b>	<b>129.6</b>
<b>Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss</b>			
Gains on movements in fair value of cash flow hedging derivatives	24	20.0	204.9
Losses on foreign currency translation	24	(24.8)	(204.0)
Tax relating to components of other comprehensive income		0.9	(0.1)
<b>Other comprehensive (expense)/income for the year, net of tax</b>		<b>(3.9)</b>	<b>0.8</b>
<b>Total comprehensive income for the year</b>		<b>208.8</b>	<b>130.4</b>

# Balance sheets

As at 30 September 2017

	Note	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
<b>Assets</b>					
<b>Non-current assets</b>					
Intangible assets	11	45.7	29.6	–	–
Property, plant and equipment	12	17.3	18.2	–	–
Assets held for use in operating leases	13	6,413.2	6,323.4	–	–
Held to maturity investments	15	46.0	74.1	–	–
Investment in subsidiaries	16	–	–	113.5	113.5
Loans to Group companies	16	–	–	4,537.4	4,037.5
Trade and other receivables	19	20.6	18.6	4.9	3.8
Derivative financial instruments	25	110.2	107.2	110.2	107.2
		6,653.0	6,571.1	4,766.0	4,262.0
<b>Current assets</b>					
Inventories	14	86.1	114.9	–	–
Held to maturity investments	15	56.3	27.5	–	–
Cash and bank balances	17	1,168.3	493.3	965.4	356.9
Insurance receivables	18	225.2	137.1	–	–
Trade and other receivables	19	278.9	288.7	13.6	14.6
Derivative financial instruments	25	16.0	–	16.0	–
		1,830.8	1,061.5	995.0	371.5
<b>Total assets</b>		<b>8,483.8</b>	<b>7,632.6</b>	<b>5,761.0</b>	<b>4,633.5</b>
<b>Liabilities</b>					
<b>Current liabilities</b>					
Corporation tax payable		(15.6)	(26.3)	(12.1)	(5.7)
Deferred rental income	20	(183.8)	(177.9)	–	–
Insurance payables	21	(65.8)	(43.9)	–	–
Trade and other payables	22	(250.4)	(200.0)	(961.0)	(356.9)
General insurance provisions	23	(272.1)	(186.5)	–	–
Financial liabilities	24	(502.7)	(108.3)	(492.7)	(55.7)
Derivative financial instruments	25	(0.1)	(0.3)	(0.1)	(0.3)
		(1,290.5)	(743.2)	(1,465.9)	(418.6)
<b>Net current assets/(liabilities)</b>		<b>540.3</b>	<b>318.3</b>	<b>(470.9)</b>	<b>(47.1)</b>
<b>Non-current liabilities</b>					
Deferred rental income	20	(213.8)	(205.0)	–	–
Financial liabilities	24	(4,196.5)	(4,115.1)	(4,196.5)	(4,115.1)
Derivative financial instruments	25	–	(0.8)	–	(0.8)
Deferred tax liabilities	26	(349.8)	(344.1)	(0.5)	(1.5)
		(4,760.1)	(4,665.0)	(4,197.0)	(4,117.4)
<b>Total liabilities</b>		<b>(6,050.6)</b>	<b>(5,408.2)</b>	<b>(5,662.9)</b>	<b>(4,536.0)</b>
<b>Net assets</b>		<b>2,433.2</b>	<b>2,224.4</b>	<b>98.1</b>	<b>97.5</b>
<b>Equity</b>					
Ordinary share capital	27	0.1	0.1	0.1	0.1
Hedging reserve		2.2	6.1	2.2	6.1
Restricted reserves*		2,430.9	2,218.2	95.8	91.3
<b>Total equity</b>		<b>2,433.2</b>	<b>2,224.4</b>	<b>98.1</b>	<b>97.5</b>

\*Restricted reserves are retained for the benefit of the Scheme. As regards ordinary shareholders, there is no dividend entitlement. A reserves 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 61 to 104 were approved by the Board of Directors on 13 December 2017 and signed on behalf of the Board.



**Mike Betts**  
Chief Executive

Motability Operations Group plc  
Registered number 6541091

The notes on pages 65 to 104 form an integral part of these financial statements

# Statements of changes in equity

For the year ended 30 September 2017

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2015	0.1	5.3	2,088.6	2,094.0
<b>Comprehensive income</b>				
Profit for the year	–	–	129.6	129.6
<b>Other comprehensive income – items that may be reclassified subsequently to profit or loss</b>				
Gains on movements in fair value of cash flow hedging derivatives	–	204.9	–	204.9
Losses on foreign currency translation	–	(204.0)	–	(204.0)
Tax relating to components of other comprehensive income	–	(0.1)	–	(0.1)
<b>Total comprehensive income</b>	–	0.8	129.6	130.4
At 1 October 2016	0.1	6.1	2,218.2	2,224.4
<b>Comprehensive income</b>				
Profit for the year	–	–	212.7	212.7
<b>Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss</b>				
Gains on movements in fair value of cash flow hedging derivatives	–	20.0	–	20.0
Losses on foreign currency translation	–	(24.8)	–	(24.8)
Tax relating to components of other comprehensive income	–	0.9	–	0.9
<b>Total comprehensive (expense)/income</b>	–	(3.9)	212.7	208.8
At 30 September 2017	0.1	2.2	2,430.9	2,433.2

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2015	0.1	5.3	54.1	59.5
<b>Comprehensive income</b>				
Profit for the year	–	–	37.2	37.2
<b>Other comprehensive income – items that may be reclassified subsequently to profit or loss</b>				
Gains on movements in fair value of cash flow hedging derivatives	–	204.9	–	204.9
Losses on foreign currency translation	–	(204.0)	–	(204.0)
Tax relating to components of other comprehensive income	–	(0.1)	–	(0.1)
<b>Total comprehensive income</b>	–	0.8	37.2	38.0
At 1 October 2016	0.1	6.1	91.3	97.5
<b>Comprehensive income</b>				
Profit for the year	–	–	4.5	4.5
<b>Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss</b>				
Gains on movements in fair value of cash flow hedging derivatives	–	20.0	–	20.0
Losses on foreign currency translation	–	(24.8)	–	(24.8)
Tax relating to components of other comprehensive income	–	0.9	–	0.9
<b>Total comprehensive (expense)/income</b>	–	(3.9)	4.5	0.6
At 30 September 2017	0.1	2.2	95.8	98.1

# Statements of cash flows

For the year ended 30 September 2017

	Note	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
<b>Cash flows from operating activities</b>					
Cash generated from/(used in) operations	28	507.2	274.4	105.7	(61.2)
Interest (paid)/received		(211.0)	(181.5)	15.6	16.6
Income tax paid		(49.4)	(43.9)	(5.7)	–
<b>Net cash generated from/(used in) operating activities</b>		<b>246.8</b>	<b>49.0</b>	<b>115.6</b>	<b>(44.6)</b>
<b>Cash flows from investing activities</b>					
Disposal of subsidiary	16	–	–	–	0.3
Purchase of intangible assets	11	(19.3)	(14.5)	–	–
Purchase of corporate property, plant and equipment	12	(2.7)	(2.3)	–	–
Proceeds from sale of corporate property, plant and equipment	12	0.6	0.3	–	–
Investment in held to maturity financial assets	15	(0.7)	(76.7)	–	–
<b>Net cash (used in)/generated from investing activities</b>		<b>(22.1)</b>	<b>(93.2)</b>	<b>–</b>	<b>0.3</b>
<b>Cash flows from financing activities</b>					
Bank loans raised	24	–	398.8	–	398.8
Bank loan costs and repayments		(0.3)	(400.0)	(0.3)	(400.0)
Bonds issued	24	777.0	588.0	777.0	588.0
Bonds redeemed		(283.8)	(300.0)	(283.8)	(300.0)
<b>Net cash generated from financing activities</b>		<b>492.9</b>	<b>286.8</b>	<b>492.9</b>	<b>286.8</b>
<b>Net increase in cash and cash equivalents</b>		<b>717.6</b>	<b>242.6</b>	<b>608.5</b>	<b>242.5</b>
Cash and cash equivalents at beginning of year		440.7	198.1	356.9	114.4
<b>Cash and cash equivalents at end of year</b>	17	<b>1,158.3</b>	<b>440.7</b>	<b>965.4</b>	<b>356.9</b>

The notes on pages 65 to 104 form an integral part of these financial statements

# Notes to the 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. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 4 to 5 and the Group's shareholders are detailed in the Operational review on page 28.

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

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

### Accounting convention

The financial statements have been prepared under the historical cost convention, except 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

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRSs) and IFRS Interpretations Committee (IFRSIC) interpretations endorsed by the European Union (EU) and with those parts of the Companies Act 2006 applicable to companies reporting under IFRSs. A summary of the more important accounting policies is set out below, together with an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the year.

The preparation of financial statements in conformity with IFRSs requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Although these estimates are based on the Directors' best knowledge of the amount, event or actions, actual results ultimately may differ from those estimates. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in note 3.

Except as described below, the accounting policies have been applied consistently to the years 2017 and 2016.

### Adoption of new or revised standards

The following new and revised standards and interpretations have been adopted in these financial statements. Their adoption has not had any significant impact on the amounts reported.

Amendments to IFRS 7	<i>Financial Instruments: Disclosures</i>
Amendments to IFRS 10	<i>Consolidated Financial Statements</i>
Amendments to IAS 1	<i>Presentation of Financial Statements</i>
Amendments to IAS 16	<i>Property, Plant and Equipment</i>
Amendments to IAS 27	<i>Consolidated and Separate Financial Statements</i>
Amendments to IAS 28	<i>Investments in Associates</i>
Amendments to IAS 34	<i>Interim Financial Reporting</i>
Amendments to IAS 38	<i>Intangible Assets</i>
Annual improvements to IFRSs	<i>2012-2014 Cycle</i>

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 4	<i>Insurance Contracts</i>
IFRS 9	<i>Financial Instruments</i>
Amendments to IFRS 12	<i>Disclosure of Interests in Other Entities</i>
IFRS 14	<i>Regulatory Deferral Accounts</i>
IFRS 15	<i>Revenue from Contracts with Customers</i>
IFRS 16	<i>Leases</i>
IFRS 17	<i>Insurance Contracts</i>
Amendments to IAS 7	<i>Statement of Cash Flows</i>
Amendments to IAS 12	<i>Income Taxes</i>
Annual improvements to IFRSs	<i>2014-2016 Cycle</i>

### Notes to the financial statements continued

#### 2. Significant accounting policies continued

##### Adoption of new or revised standards continued

##### IFRS 9 – Financial Instruments

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting. The standard must be applied for financial years commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019.

The Group is assessing the impact of the adoption of IFRS 9 and expectations are that whilst it may require changes to the classification of certain financial assets and liabilities and related disclosures, it should have no material impact on the Group's reported profits. The financial assets of the Group include debt instruments currently classified as held-to-maturity and measured at amortised cost, and these instruments also appear to meet the conditions for classification at amortised cost under IFRS 9. The Group's current hedging relationships also appear to qualify as continuing hedges under IFRS 9, and the Group's financial liabilities should not be impacted.

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

##### IFRS 15 – Revenue from Contracts with Customers

IFRS 15 must be implemented for accounting periods commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019 (with comparative figures for the previous year also affected). Although leasing revenue and insurance revenue is out of scope for IFRS 15, the Group will be applying the standard to the bundle of services provided along with the vehicle itself within each of our contracts with customers. The new standard is based on the principle that revenue is recognised when services are delivered to customers in settlement of performance obligations in the contract. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management is currently assessing the effects of applying the new standard on the Group's financial statements and has identified the following affected areas:

- the Group's rental receivable from operating leases will be split into three main elements: leasing the vehicle (to be covered under IFRS 16), providing insurance cover (initially under IFRS 4 but eventually covered by IFRS 17) and providing other services relating to keeping the vehicle on the road (under IFRS 15);
- the other services consist of the provision of routine vehicle maintenance (including replacement tyres) and roadside breakdown assistance;
- given the standard nature of our leasing contract and the size of the fleet, the Group will apply the standard to portfolios of contracts based on their start date, as this will best reflect the way performance obligations regarding these services will be met over time (by arranging for insurance cover, vehicle maintenance, tyres and roadside assistance at a portfolio level) and will not differ materially from applying the standard to the individual contracts within the portfolio; and
- the Group will adopt a fully retrospective approach upon transition as the Group's contracts with customers are of relatively short duration and standard in form.

There may be an immaterial reduction in the Group's restricted reserves as margins assigned to the service elements are deferred to future periods on transition to the new standard.

This will not have any material impact on Motability Operations Group plc's individual Company financial statements.

##### IFRS 16 – Leases

IFRS 16 must be applied for financial years commencing on or after 1 January 2019, so for the Group the first period of adoption will be the year ending 30 September 2020. The Group has undertaken an initial assessment of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors, and the only material impact on the Group as a lessee will arise through the recognition of leased premises on the balance sheet. This will result in an increase in the Group's "property, plant and equipment" assets (representing the right to use the premises) and a substantially identical increase in financial liabilities (representing the commitment to pay rentals).

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

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, and do not plan to apply any of the new IFRSs in advance of their required dates.

##### IFRS 17 – Insurance Contracts

IFRS 17 was issued on 18 May 2017 with an implementation date of accounting periods commencing on or after 1 January 2021, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2022 (with comparative figures for the previous accounting period also affected). The Group is assessing the impact of the changes for the reporting of the fleet reinsurance segment and has no plans to apply the requirements of the standard earlier than the required date.

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

## 2. Significant accounting policies continued

### Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 15 to 23. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 24 to 27. In addition, note 35 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

The Group has considerable financial resources together with a long-term contract with Motability to operate the 'Motability Scheme'. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

After making enquiries, 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 the Annual Report and Accounts.

### Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The net assets and results of acquired businesses are included in the consolidated financial statements from their respective dates of acquisition, being the date on which the Group obtains control.

The Group and its subsidiaries apply uniform accounting policies and the financial statements of subsidiaries are prepared for the same reporting year as the Parent Company.

All intra-Group transactions, balances, income and expenses are eliminated on consolidation.

### Investment in subsidiaries

The Company's investments in its subsidiaries are stated at cost less any provision for impairment in the Parent Company's balance sheet. Impairment provisions are charged to the income statement.

### Intangible assets

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and includes capitalised internal labour where appropriate. These costs are amortised on a straight-line basis over their estimated useful lives, between three and seven years.

### Property, plant and equipment

Property, plant and equipment are stated at historical cost less accumulated depreciation and provision for any impairment in value. Cost includes the original purchase price of the asset and the costs attributable to bringing the asset to its working condition for its intended use. The carrying values of all property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. Residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Depreciation is calculated to write down assets, on a straight-line basis, over the estimated useful life of the assets as follows:

Motor vehicles (company cars)	Four years
Leasehold improvements	Remaining term of lease
Fixtures, fittings and office equipment	Three years

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within net operating costs in the income statement.

### Assets held for use in operating leases

Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating lease assets are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are reviewed at the balance sheet date against revised projections of used-car prices at the end of the lease term and the resulting changes of estimate are accounted for as a recalibration of depreciation for the year and remaining lease term.

### Inventories

Operating lease assets are transferred to inventories at their carrying amount when they cease to be leased and become held for sale. Inventories are subsequently measured at the lower of their transfer value and net realisable value.

### Notes to the financial statements continued

#### 2. Significant accounting policies continued

##### Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services.

Rental revenue from operating leases is recognised on a straight-line basis over the lease term.

Revenue comprises both advance rentals payable directly by lessees and periodic rentals receivable from lessees by means of mandated payments of either: the Higher Rate Mobility Component of the Disability Living Allowance, the War Pensioners' Mobility Supplement, the Enhanced Rate of the Mobility Component of the Personal Independence Payment, or the Armed Forces Independence Payment.

Proceeds from disposal of operating lease assets are recognised when the significant risks and rewards of ownership of the assets have been transferred to the buyer.

##### Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities. See note 20.

##### Deferred income – vehicle condition

Rental income is deferred on a straight-line basis over the life of the lease to the extent that it is expected to be repaid to lessees for returning leased assets in good condition. See note 20.

##### Leasing obligations

The costs of operating leases are charged to the income statement on a straight-line basis.

##### Net operating costs

Net operating costs comprise net book value of disposed operating lease assets, depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance, charitable donations and other Scheme-related costs including the Motability levy (see note 32) and overheads. An analysis is provided in note 6.

The Group's insurance costs are presented net of a "profit sharing" arrangement with the fronting insurer. These premium rebates are recognised by the Group once loss ratios are determined with reasonable certainty. On the basis of current loss development patterns, reasonable certainty is deemed to be 18 months after the last exposure date of each tranche.

Overheads include the cost to the Group of the Directors' long-term incentives, recognised on an accruals basis over the period to which the performance criteria relate, adjusted for changes in the probability of performance criteria being met or conditional awards lapsing.

##### Finance costs

Finance costs are recognised as an expense on an accruals basis, using the effective interest rate method.

##### Retirement benefit costs

Company pension contributions are calculated as a fixed percentage of the pensionable salaries of eligible employees. These contributions are charged in the period to which the salary relates. The Company pension scheme is a defined contribution scheme. The Group has no further payment obligations once the contributions have been paid.

##### Taxation

Taxation on the profit for the year comprises both current and deferred tax as well as adjustments in respect of prior years. Taxation is recognised in the income statement, except to the extent it relates to items recognised in other comprehensive income or directly in equity, in which case the tax is also recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the profit for the period, using tax rates enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all temporary differences between the carrying value of assets and liabilities for reporting purposes and the amounts charged or credited for tax purposes. Deferred tax is calculated at the rate of tax expected to apply when the liability is settled or the asset is realised using tax rates enacted or substantively enacted by the balance sheet date. A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the asset can be utilised.

##### Long-term incentive arrangements

Payments falling due under long-term incentive arrangements depend upon length of service and performance criteria (see note 33). The cost is recognised during the years in which services are rendered subject to meeting specific performance requirements.

##### Share capital

Ordinary share capital is classified as equity. The Group's preference shares are classified as debt, with the associated dividend being recognised on an amortised cost basis in the income statement as a finance cost. As regards ordinary shareholders, there is no dividend entitlement. A reserves management policy has been established to ensure that the business and the customer proposition are sustainable throughout the economic cycle.

##### Financial instruments

Financial assets and liabilities are recognised in the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets and liabilities comprise trade and other receivables, cash and cash equivalents, trade and other payables, preference shares and derivative instruments.

## 2. Significant accounting policies continued

### Foreign currency translation

The Company has issued fixed-rate Eurobonds and at the same time entered into cross-currency interest rate swap arrangements to hedge its foreign exchange risk. The Company's overall foreign exchange risk management strategy is to translate all new issued foreign denominated debt into the Company's functional currency of Sterling.

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange prevailing on the dates of the transactions. Individual transactions denominated in foreign currencies are translated into Sterling at the exchange rates prevailing on the dates payment takes place. Gains and losses arising on retranslation are, with the exception of the effective portion of foreign exchange gains or losses on debt instruments designated as hedging instruments in a cash flow hedge relationship, included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them. The Group hedged all its foreign exchange risks on the Eurobonds and does not have any other monetary assets or liabilities in foreign currencies.

### Financial assets

#### Trade and other receivables

Trade and other receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods and services directly.

Trade receivables do not carry any interest and are stated at their nominal value, which approximates to the fair value because of their short maturities, as reduced by appropriate provisions for estimated irrecoverable amounts. These provisions are established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables based on past experience of default or delinquency in payments.

#### Insurance receivables

Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the overall impairment review of receivables. Insurance receivables relate to insurance premium debtors and amounts recoverable on reinsurance policies where claims reported have exceeded the Group's retentions.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and bank overdrafts. Cash and bank balances comprise cash held by the Group, cash in the course of transmission and collection, and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

#### Held to maturity investments

Held to maturity investments (fixed-income bonds) are financial assets that the Group has the positive intent and ability to hold until their maturity date.

Held to maturity investments are recognised initially at fair value, including any directly attributable transaction costs. Subsequent to initial recognition, held to maturity financial assets are measured at amortised cost using the effective interest method, less any impairment.

### Financial liabilities including trade and other payables

#### Trade and other payables

Trade and other payables are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation, and reliable estimates of the amount of obligation can be made.

Trade and other payables are short-term financial liabilities which do not carry any interest and are stated at nominal value, which approximates to the fair value because of their short maturities.

#### Financial liabilities

Financial liabilities are recognised initially at fair value, net of transaction costs. They are subsequently held at amortised cost. Any difference between the amount on initial recognition and the redemption value is recognised in the income statement using the effective interest method.

Short-term financial liabilities, such as bank overdrafts, are measured at nominal value, which approximates to the fair value because of their short maturities.

#### Insurance payables

Payables arising from insurance contracts are classified in this category. They are stated at nominal value which approximates to their fair value. Such amounts relate to reinsurance premiums payable, claims payment reimbursements due and commissions payable.

#### Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 24 to the financial statements.

### Notes to the financial statements continued

#### 2. Significant accounting policies continued

Financial liabilities including trade and other payables continued

##### Derivative financial instruments continued

Derivatives are initially recognised at fair value at the date a derivative contract is entered into, and are subsequently remeasured to their fair value at each balance sheet date. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

##### Insurance contracts

Insurance contracts are those contracts that transfer significant insurance risk. Such contracts may also transfer financial risks.

##### Recognition and measurement

Insurance and reinsurance claims and loss adjustment expenses are charged and credited to the income statement as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The measurement of insurance liabilities and reinsurance recoveries is described in more detail in note 22.

Liabilities for unpaid claims are estimated using the input of data for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, including an estimate of the impact on claims that may be affected by external factors (such as court decisions).

The provisions for claims outstanding and related reinsurance recoveries are discounted where there is a particularly long period from the incident claims settlement or when nominal interest rates are high and where there exists a suitable claims payment pattern from which to calculate the discount. Claims with a long period from incident to claims settlement are those claims where the expected period of settlement is six years or more. The discount rate used is based upon an investment return expected to be earned by assets, which are appropriate in magnitude and nature to cover the provisions for losses and loss adjustment expenses being discounted during the period necessary for the payment of such claims.

##### Hedge accounting

The Group designates hedging instruments, mainly interest rate and cross-currency swaps, as cash flow hedges. Hedges of interest rate risk on firm commitments are accounted for as cash flow hedges.

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether or not the hedging instrument that is used in a hedging relationship is effective in offsetting changes in cash flows of the hedged item.

Note 24 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

##### Cash flow hedge

Changes in the fair value of the derivative financial instruments that are designated and effective as hedges of future cash flows are recognised directly in other comprehensive income and the ineffective portion is recognised immediately in the income statement.

Amounts accumulated in equity are reclassified to profit or loss in the period when the hedged item is recognised in profit or loss. The gain/loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within finance costs. Any gain or loss relating to the ineffective portion would be recognised in the income statement as other gains (losses).

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated or exercised or no longer qualifies for hedge accounting. Any cumulative gain or loss deferred in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is recognised immediately in profit or loss.

#### 3. Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in note 2, 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.

### 3. Critical accounting judgements and key sources of estimation uncertainty continued

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 13.

#### 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 13). As at 30 September 2017, if the future value of the net sale 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 £48.3m (2016: £48.2m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases, from the start of the current accounting year, 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 23.

### 4. Revenue

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

	2017 £m	2016 £m
Rentals receivable from operating leases	2,007.0	2,061.1
Proceeds from disposal of operating lease assets	2,179.1	2,059.9
Insurance reimbursements from disposal of operating lease assets	30.2	23.7
Finance income	3.4	3.3
Other income	1.6	2.4
Hire purchase earnings	–	0.7
Contingent rentals	0.4	0.7
<b>Total revenue</b>	<b>4,221.7</b>	<b>4,151.8</b>

Contingent rentals relate to variable charges for excess mileage on operating leases.

Reinsurance premiums earned by the Group's insurance captive of £266.7m (2016: £222.1m) 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.

#### Scheme Operations

The main responsibilities of the Scheme Operations segment are:

- buying and selling assets for use in operating leases;
- arranging the funds to purchase the assets;
- leasing the assets to customers along with the associated costs; and
- providing customers the 'worry-free' service package.

The two main sources of income for this segment are proceeds from disposal of operating lease assets and rentals receivable from operating leases.

#### Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

- providing motor quota-share reinsurance to the Scheme fronting insurer; and
- arranging reinsurance cover to limit the Group's exposure to the motor quota-share reinsurance.

The main source of income for the operating segment is inter-segment insurance premium income.

#### Segmental performance

Information on the segmental performance is reported to and reviewed by the Executive Committee on a monthly basis. Management monitors the operating results of its operating segments separately for the purpose of making decisions about allocating resources and assessing performance. Segment performance is measured based on profit after tax.

## Notes to the financial statements continued

### 5. Segmental analysis continued

Inter segment revenues comprise insurance premiums from Scheme Operations to Fleet Reinsurance and insurance reimbursements from Fleet Reinsurance to Scheme Operations, and are eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 30 September 2017 and 30 September 2016.

#### Year ended 30 September 2017

	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	2,007.0	–	–	2,007.0
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,247.5	–	(38.2)	2,209.3
Inter-segment proceeds	–	–	–	–
Insurance income	–	266.7	(266.7)	–
Other revenue	4.1	1.3	–	5.4
<b>Total revenue</b>	<b>4,258.6</b>	<b>268.0</b>	<b>(304.9)</b>	<b>4,221.7</b>
Net book value of disposed operating lease assets	(2,118.4)	–	–	(2,118.4)
Fleet operating costs	(649.9)	–	266.7	(383.2)
Insurance claims and commission costs	–	(205.5)	38.2	(167.3)
Depreciation on assets used in operating leases	(812.5)	–	–	(812.5)
Other operating costs	(224.5)	(0.7)	–	(225.2)
Charitable donations	(45.3)	–	–	(45.3)
<b>Net operating costs</b>	<b>(3,850.6)</b>	<b>(206.2)</b>	<b>304.9</b>	<b>(3,751.9)</b>
<b>Profit from operations</b>	<b>408.0</b>	<b>61.8</b>	<b>–</b>	<b>469.8</b>
Finance costs	(211.8)	–	–	(211.8)
<b>Profit before tax</b>	<b>196.2</b>	<b>61.8</b>	<b>–</b>	<b>258.0</b>
Taxation	(33.0)	(12.3)	–	(45.3)
<b>Profit for the year</b>	<b>163.2</b>	<b>49.5</b>	<b>–</b>	<b>212.7</b>

PPE & intangible assets	63.0	–	–	63.0
Assets held for use in operating leases (including inventories)	6,499.3	–	–	6,499.3
Derivative financial instruments	126.2	–	–	126.2
Insurance receivables	–	188.4	36.8	225.2
Trade and other receivables	299.5	–	–	299.5
Financial assets	1,067.4	304.6	(101.3)	1,270.7
<b>Total assets</b>	<b>8,055.4</b>	<b>493.0</b>	<b>(64.5)</b>	<b>8,483.9</b>
Deferred income	(397.6)	–	–	(397.6)
Insurance payables	–	(65.8)	–	(65.8)
Trade and other payables	(250.2)	(0.2)	–	(250.4)
Corporation tax payable	(15.6)	–	–	(15.6)
Financial liabilities	(4,699.3)	–	–	(4,699.3)
Deferred taxation	(349.8)	–	–	(349.8)
General insurance business provisions	–	(235.3)	(36.8)	(272.1)
Derivative financial instruments	(0.1)	–	–	(0.1)
<b>Total liabilities</b>	<b>(5,712.6)</b>	<b>(301.3)</b>	<b>(36.8)</b>	<b>(6,050.7)</b>
<b>Net assets</b>	<b>2,342.8</b>	<b>191.7</b>	<b>(101.3)</b>	<b>2,433.2</b>

Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	2.2	–	–	2.2
Restricted reserves	2,340.5	90.4	–	2,430.9
<b>Total equity</b>	<b>2,342.8</b>	<b>191.7</b>	<b>(101.3)</b>	<b>2,433.2</b>

## 5. Segmental analysis continued

Year ended 30 September 2016

	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	2,061.1	–	–	2,061.1
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,083.6	–	–	2,083.6
Inter-segment proceeds	31.4	–	(31.4)	–
Insurance income	–	222.1	(222.1)	–
Other revenue	5.8	1.3	–	7.1
<b>Total revenue</b>	<b>4,181.9</b>	<b>223.4</b>	<b>(253.5)</b>	<b>4,151.8</b>
Net book value of disposed operating lease assets	(2,042.5)	–	–	(2,042.5)
Fleet operating costs	(673.7)	–	222.1	(451.6)
Insurance claims and commission costs	–	(191.9)	31.4	(160.5)
Depreciation on assets used in operating leases	(923.4)	–	–	(923.4)
Other operating costs	(215.2)	(0.5)	–	(215.7)
Charitable donations	(45.0)	–	–	(45.0)
<b>Net operating costs</b>	<b>(3,899.8)</b>	<b>(192.4)</b>	<b>253.5</b>	<b>(3,838.7)</b>
<b>Profit from operations</b>	<b>282.1</b>	<b>31.0</b>	<b>–</b>	<b>313.1</b>
Finance costs	(187.2)	–	–	(187.2)
<b>Profit before tax</b>	<b>94.9</b>	<b>31.0</b>	<b>–</b>	<b>125.9</b>
Taxation	9.9	(6.2)	–	3.7
<b>Profit for the year</b>	<b>104.8</b>	<b>24.8</b>	<b>–</b>	<b>129.6</b>
PPE & intangible assets	47.8	–	–	47.8
Assets held for use in operating leases (including inventories)	6,438.3	–	–	6,438.3
Derivative financial instruments	107.2	–	–	107.2
Insurance receivables	–	102.9	34.2	137.1
Trade and other receivables	307.3	–	–	307.3
Financial assets	472.9	223.3	(101.3)	594.9
<b>Total assets</b>	<b>7,373.5</b>	<b>326.2</b>	<b>(67.1)</b>	<b>7,632.6</b>
Deferred income	(382.9)	–	–	(382.9)
Insurance payables	–	(43.9)	–	(43.9)
Trade and other payables	(199.8)	(0.2)	–	(200.0)
Corporation tax payable	(26.3)	–	–	(26.3)
Financial liabilities	(4,223.4)	–	–	(4,223.4)
Deferred taxation	(344.1)	–	–	(344.1)
General insurance business provisions	–	(152.3)	(34.2)	(186.5)
Derivative financial instruments	(1.1)	–	–	(1.1)
<b>Total liabilities</b>	<b>(5,177.6)</b>	<b>(196.4)</b>	<b>(34.2)</b>	<b>(5,408.2)</b>
<b>Net assets</b>	<b>2,195.9</b>	<b>129.8</b>	<b>(101.3)</b>	<b>2,224.4</b>
Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	6.1	–	–	6.1
Restricted reserves	2,189.7	28.5	–	2,218.2
<b>Total equity</b>	<b>2,195.9</b>	<b>129.8</b>	<b>(101.3)</b>	<b>2,224.4</b>

## Notes to the financial statements continued

### 6. Net operating costs

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

	2017 £m	2016 £m
Net book value of disposed operating lease assets	2,060.0	1,995.4
Net book value of operating lease assets derecognised as insurance write-offs	58.4	47.1
Fleet operating costs including insurance, maintenance and roadside assistance costs*	383.2	451.6
Insurance claims expense	167.3	160.5
Other operating costs	67.2	61.8
Other product costs including continuous mobility costs, adaptations support, communications	65.8	64.2
Employee costs	49.9	50.1
Charitable donations	45.3	45.0
Legal and professional fees	19.4	16.3
Motability levy and rebates	11.2	11.0
Bad debt charges and movement in bad debt provisions	4.5	6.0
Management fees	0.8	0.8
<b>Net operating costs before depreciation and amortisation</b>	<b>2,933.0</b>	<b>2,909.8</b>
Depreciation on assets used in operating leases	812.5	923.4
Depreciation and amortisation of property, plant and equipment and intangible assets	6.4	5.5
<b>Net operating costs</b>	<b>3,751.9</b>	<b>3,838.7</b>

\*These costs are presented net of insurance premium rebates in line with the accounting policy in note 2.

The depreciation charge on assets used in operating leases includes a £72.0m charge (2016: £151.5m charge) relating to the change in estimate during the year of future residual values (see note 13).

### 7. Auditors' remuneration

	2017	2016
Auditors' remuneration: Audit fees for Group and Parent Company financial statements	£222,400	£146,000
<b>Total audit fees</b>	<b>£222,400</b>	<b>£146,000</b>
Audit fees paid on behalf of subsidiaries	£136,500	£132,700
Audit-related assurance services	£68,800	£66,900
Tax compliance services	£0	£0
Tax advisory services	£0	£0
Internal audit services	£0	£0
Other assurance services	£42,800	£42,200
Corporate finance services	£0	£0
<b>Total other fees payable to auditors</b>	<b>£248,100</b>	<b>£241,800</b>

### 8. Employee costs

The average monthly number of persons employed on a full time equivalent basis (including Executive Directors) was:

#### Group

	2017	2016
Administrative staff	858	834

	2017 £m	2016 £m
The breakdown of staff costs is as follows:		
Wages and salaries	41.6	42.0
Social security costs	4.5	4.8
Other pension costs	3.8	3.3
<b>Total employee costs</b>	<b>49.9</b>	<b>50.1</b>

## 9. Finance costs

	2017 £m	2016 £m
Interest and charges on bank loans and overdrafts	9.1	13.9
Interest on debt issued under the Euro Medium Term Note Programme	168.1	172.6
Cost of early redemption of debt issued under the Euro Medium Term Note Programme	33.9	–
Preference dividends	0.7	0.7
<b>Total finance costs</b>	<b>211.8</b>	<b>187.2</b>

## 10. Taxation

The major components of the Group tax expense are:

	2017 £m	2016 £m
<b>Current tax</b>		
Charge for the year	38.5	56.2
Adjustment in respect of prior years	0.1	1.1
<b>Total</b>	<b>38.6</b>	<b>57.3</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	12.1	(31.2)
Utilisation of pre-trading losses brought forward	–	0.5
Adjustments recognised in the current year in relation to the current tax of prior years	(0.1)	0.1
Impact of change in UK tax rate	(5.3)	(30.4)
<b>Total</b>	<b>6.7</b>	<b>(61.0)</b>
<b>Tax on profit</b>	<b>45.3</b>	<b>(3.7)</b>

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profit of the consolidated entities as follows:

	2017 £m	2016 £m
Profit before taxation	258.0	125.9
Tax calculated at appropriate tax rates applicable to profit	50.3	25.2
Expenses not deductible for tax purposes	0.3	0.3
Adjustment relating to prior year's deferred tax	(0.1)	0.1
Adjustments recognised in the current year in relation to the current tax of prior years	0.1	1.1
Taxation excluding the impact of future changes in the UK corporation tax rate	50.6	26.7
<b>Non-recurring items</b>		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	(5.3)	(30.4)
<b>Total tax on profit</b>	<b>45.3</b>	<b>(3.7)</b>

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, surpluses are taxed at 19.5% for this accounting period (2016: 20%).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 19.6% (2016: 20.3%). This is marginally higher than the standard rate due to non-deductible expenses consisting predominantly of depreciation on leasehold improvements and preference dividends payable.

The Group's effective tax rate for next year is expected to be 19.1% as next year's standard rate will be 19% for the whole year (no rate changes are due on 1 April 2018).

### Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments become payable during the year with the remaining two being payable after the year end. During 2017, the Group paid £23m towards the current year tax charge of £36m (2016: £31m towards a tax charge of £57m). The balance of £13m (2016: £26m) is shown as corporation tax payable at the year end. The Group also paid the opening corporation tax payable of £26m during the year, giving a total tax payment of £49m for 2017.

### Prior year adjustments

The minor prior year adjustments relate to finalisation of capital allowance calculations when submitting the final tax return for 2016.

An analysis of the impact of the change in UK tax rates is disclosed in note 26.

## Notes to the financial statements continued

### 11. Intangible assets

#### Group

Cost	Total £m
At 1 October 2015	33.8
Additions	14.5
At 1 October 2016	48.3
Additions	19.3
<b>At 30 September 2017</b>	<b>67.6</b>

#### Accumulated amortisation and impairment

At 1 October 2015	16.6
Amortisation charge for the year	2.1
At 1 October 2016	18.7
Amortisation charge for the year	3.2
<b>At 30 September 2017</b>	<b>21.9</b>

#### Carrying amount

At 1 October 2015	17.2
Additions	14.5
Amortisation	(2.1)
At 1 October 2016	29.6
Additions	19.3
Amortisation	(3.2)
<b>At 30 September 2017</b>	<b>45.7</b>

The intangible assets relate to IT projects held by the Company's wholly owned subsidiary Motability Operations Limited.

At 30 September 2017, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £nil (2016: £3.2m). These amounts relate to the IT system replacement project.

## 12. Property, plant and equipment

### Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2015	2.3	25.7	16.0	44.0
Additions	1.0	–	1.3	2.3
Disposals	(0.7)	(3.6)	(6.2)	(10.5)
At 1 October 2016	2.6	22.1	11.1	35.8
Additions	1.1	–	1.6	2.7
Disposals	(1.0)	–	–	(1.0)
<b>At 30 September 2017</b>	<b>2.7</b>	<b>22.1</b>	<b>12.7</b>	<b>37.5</b>

#### Accumulated depreciation

At 1 October 2015	0.8	9.2	14.4	24.4
Charge for the year	0.5	1.5	1.4	3.4
Eliminated on disposals	(0.4)	(3.6)	(6.2)	(10.2)
At 1 October 2016	0.9	7.1	9.6	17.6
Charge for the year	0.6	1.6	1.0	3.2
Eliminated on disposals	(0.6)	–	–	(0.6)
<b>At 30 September 2017</b>	<b>0.9</b>	<b>8.7</b>	<b>10.6</b>	<b>20.2</b>

#### Carrying amount

At 1 October 2015	1.5	16.5	1.6	19.6
Additions	1.0	–	1.3	2.3
Disposals	(0.3)	–	–	(0.3)
Depreciation	(0.5)	(1.5)	(1.4)	(3.4)
At 1 October 2016	1.7	15.0	1.5	18.2
Additions	1.1	–	1.6	2.7
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.6)	(1.6)	(1.0)	(3.2)
<b>At 30 September 2017</b>	<b>1.8</b>	<b>13.4</b>	<b>2.1</b>	<b>17.3</b>

At 30 September 2017, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £nil (2016: £nil).

Notes to the financial statements continued

**13. Assets held for use in operating leases**

Group

Cost	Motor vehicle assets £m
At 1 October 2015	7,659.8
Additions	3,039.4
Transfer to inventory	(2,825.9)
At 1 October 2016	7,873.3
Additions	2,991.9
Transfer to inventory	(2,932.9)
<b>At 30 September 2017</b>	<b>7,932.3</b>

**Accumulated depreciation**

At 1 October 2015	1,404.9
Charge for the year	923.4
Eliminated on transfer to inventory	(778.4)
At 1 October 2016	1,549.9
Charge for the year	812.5
Eliminated on transfer to inventory	(843.3)
<b>At 30 September 2017</b>	<b>1,519.1</b>

**Carrying amount**

At 1 October 2015	6,254.9
Additions	3,039.4
Depreciation	(923.4)
Transfer to inventory (note 14)	(2,047.5)
At 1 October 2016	6,323.4
Additions	2,991.9
Depreciation	(812.5)
Transfer to inventory (note 14)	(2,089.6)
<b>At 30 September 2017</b>	<b>6,413.2</b>

**Residual values**

Residual values represent the estimated net sale proceeds expected from the sale of assets 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**

	2017 £m	2016 £m
No later than one year	1,441.1	1,429.9
Later than one year and no later than two years	1,524.6	1,454.8
Later than two years and no later than three years	1,792.7	1,870.9
Later than three years and no later than four years	29.6	29.4
Later than four years and no later than five years	39.6	32.7
<b>Total exposure</b>	<b>4,827.6</b>	<b>4,817.7</b>

### 13. Assets held for use in operating leases continued

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 timing of the effects on the income statement.

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

	2017 £m	2016 £m
Prior years	(148.7)	(107.9)
Current year	(72.0)	(151.5)
Amounts carried at 30 September	(220.7)	(259.4)
Amounts to be charged in future years	(230.7)	(190.3)
<b>Total decrease in estimated residual value</b>	<b>(451.4)</b>	<b>(449.7)</b>

#### The Group and Company 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:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
No later than one year	1,510.7	1,504.6	–	–
Later than one year and no later than two years	868.3	841.7	–	–
Later than two years and no later than three years	305.3	292.7	–	–
Later than three years and no later than four years	19.0	16.2	–	–
Later than four years and no later than five years	6.4	5.1	–	–
<b>Total</b>	<b>2,709.7</b>	<b>2,660.3</b>	<b>–</b>	<b>–</b>

### 14. Inventories

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Ex-operating lease assets held for sale	86.1	114.9	–	–
Provisions	–	–	–	–
<b>Ex-operating lease assets held for sale (net)</b>	<b>86.1</b>	<b>114.9</b>	<b>–</b>	<b>–</b>

Inventories represent the operating lease assets previously held for rental to others 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 (2016: £nil). During the year there was no movement in provision and £nil written off (2016: £nil movement in provision and £nil written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £2,118.4m (2016: £2,042.5m).

The movements of the inventories in 2017 and 2016 are as follows:

	£m
At 1 October 2015	109.9
Transfer from operating lease assets (note 13)	2,047.5
Disposals (including insurance write-offs)	(2,042.5)
At 1 October 2016	114.9
Transfer from operating lease assets (note 13)	2,089.6
Disposals (including insurance write-offs)	(2,118.4)
<b>At 30 September 2017</b>	<b>86.1</b>

Notes to the financial statements continued

15. Held to maturity investments

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Current	56.3	27.5	–	–
Non-current	46.0	74.1	–	–
<b>Total held to maturity investments</b>	<b>102.3</b>	<b>101.6</b>	<b>–</b>	<b>–</b>

The following table details the contractual maturity of the Group's held to maturity investments:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
On demand or no later than one year	56.3	27.5	–	–
Later than one year and no later than two years	30.5	56.1	–	–
Later than two years and no later than five years	15.5	18.0	–	–
Later than five years	–	–	–	–
<b>Total</b>	<b>102.3</b>	<b>101.6</b>	<b>–</b>	<b>–</b>

There were no disposals or allowances for impairment on held to maturity investments during the year.

The Group's held to maturity investments comprise investments in quoted debt securities (fixed-income bonds), the majority of which are issued by institutions within the European Union. The bonds are rated A- or better by Standard and Poor's or A3 or better with Moody's. The average effective interest rate of the quoted debt securities is 2.32% per annum (2016: 2.36%), with coupon rates ranging from 0.50% to 6.25% per annum (2016: 0.72% to 6.25%). The held to maturity investments are denominated in Sterling, which is the functional currency of the Group.

The carrying amounts and fair value of the investments are as follows:

	2017 Group carrying amount £m	2017 Group fair value £m	2017 Company carrying amount £m	2017 Company fair value £m
Current held to maturity investments	56.3	56.3	–	–
Non-current held to maturity investments	46.0	46.0	–	–
<b>Total</b>	<b>102.3</b>	<b>102.3</b>	<b>–</b>	<b>–</b>

	2016 Group carrying amount £m	2016 Group fair value £m	2016 Company carrying amount £m	2016 Company fair value £m
Current held to maturity investments	27.5	27.5	–	–
Non-current held to maturity investments	74.1	74.6	–	–
<b>Total</b>	<b>101.6</b>	<b>102.1</b>	<b>–</b>	<b>–</b>

## 16. Investment in subsidiaries

	2017 £m	2016 £m
Investment in subsidiaries at 30 September	113.5	113.5

The Company's subsidiaries are set out below:

Directly owned	Registered office	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	I	100%	Operation of the Scheme
Route2mobility Limited	I	100%	Dormant
MO Reinsurance Limited	II	100%	Provision of Scheme reinsurance arrangements
Indirectly owned			
Motability Hire Purchase Limited	I	100%	No longer trading
Motability Leasing Limited	I	100%	No longer trading

I City Gate House, 22 Southwark Bridge Road, London, England, SE1 9HB

II Third Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE

All of the above subsidiaries are incorporated in Great Britain, with the exception of MO Reinsurance Limited which is incorporated in the Isle of Man. The Directors consider that the carrying amount of the loans to Group companies approximates to their fair value.

### Loans to Group companies

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Motability Operations Limited	–	–	4,537.4	4,037.5
<b>Total</b>	–	–	4,537.4	4,037.5

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Loans to Group companies – non-current	–	–	4,537.4	4,037.5
<b>Total</b>	–	–	4,537.4	4,037.5

The loans to Group companies were entered into on an arm's length basis and do not have a defined maturity (see note 35).

During the year the Company received interest payments of £226.3m (2016: £197.8m) in respect of loans to Group companies.

The Directors consider that the carrying amount investment in subsidiaries approximates to their fair value.

## 17. Cash and cash equivalents

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Cleared balances	1,168.1	478.8	965.4	356.9
Cash in the course of collection	0.2	14.5	–	–
<b>Cash and bank balances</b>	<b>1,168.3</b>	<b>493.3</b>	<b>965.4</b>	<b>356.9</b>

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Cleared balances	–	–	–	–
Cash in the course of transmission	(10.0)	(52.6)	–	–
<b>Bank overdrafts</b>	<b>(10.0)</b>	<b>(52.6)</b>	<b>–</b>	<b>–</b>

Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate to their fair value.

For the purposes of the statements of cash flows, cash and cash equivalents are as follows:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Cash and bank balances	1,168.3	493.3	965.4	356.9
Bank overdrafts	(10.0)	(52.6)	–	–
<b>Cash and cash equivalents</b>	<b>1,158.3</b>	<b>440.7</b>	<b>965.4</b>	<b>356.9</b>

## Notes to the financial statements continued

### 18. Insurance receivables

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Insurance premium debtor	36.0	26.6	–	–
Claims recoveries and rebates	44.9	41.4	–	–
Reinsurance claims recoveries and commissions receivable	144.3	69.1	–	–
<b>Total insurance receivables</b>	<b>225.2</b>	<b>137.1</b>	<b>–</b>	<b>–</b>

The carrying value of insurance receivables approximates to fair value.

### 19. Trade and other receivables

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Trade receivables	116.4	112.7	–	–
Other receivables	74.9	78.5	–	–
Prepayments and accrued income	108.2	116.1	18.5	18.4
<b>Total</b>	<b>299.5</b>	<b>307.3</b>	<b>18.5</b>	<b>18.4</b>
Included in current assets	278.9	288.7	13.6	14.6
Included in non-current assets	20.6	18.6	4.9	3.8
<b>Total</b>	<b>299.5</b>	<b>307.3</b>	<b>18.5</b>	<b>18.4</b>

Trade receivables include an allowance for estimated irrecoverable amounts of £1.5m (2016: £8.3m). This allowance has been made by reference to past default experience. During the year there was a £6.8m decrease in provision and £15.2m of receivables were written off (2016: £13.3m increase in provision and £11.8m written off). The average receivable days' period is nine days (2016: 10 days).

The Directors consider that the carrying value of trade and other receivables approximates to their fair value. All balances are non-interest bearing and denominated in Sterling.

The Group's principal source of rental income is from customers who assign their allowances to the Group via the Department for Work and Pensions ('DWP') in order to access the Scheme. This process of assigning allowances ensures that the Group's rental income flows directly from the DWP to the Group and hence rental credit risk is very low. A small residual credit risk arises from miscellaneous customer billings and monies due from dealers, auction houses and vehicle manufacturers. The Group's management carries out regular credit assessments of the limits set for auction houses, manufacturers and dealers.

Included in the Group's trade receivables balance are receivables with a carrying value of £31.8m (2016: £4.7m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is two days (2016: four days).

Ageing of past due but not impaired receivables:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Past due by 1-30 days	30.2	4.6	–	–
Past due by 31-60 days	1.4	0.1	–	–
Past due by 61-90 days	0.1	–	–	–
Past due by 91-120 days	–	–	–	–
Past due by more than 120 days	0.1	–	–	–
<b>Total</b>	<b>31.8</b>	<b>4.7</b>	<b>–</b>	<b>–</b>

## 20. Deferred rental income

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Customers' advance payments*	126.3	117.0	–	–
Vehicle maintenance income	15.1	13.3	–	–
Vehicle insurance income	–	5.4	–	–
Customers' end of contract bonuses	42.4	42.2	–	–
<b>Total current</b>	<b>183.8</b>	<b>177.9</b>	<b>–</b>	<b>–</b>
Customers' advance payments*	131.6	118.3	–	–
Vehicle maintenance income	41.5	44.0	–	–
Vehicle insurance income	11.2	13.7	–	–
Customers' end of contract bonuses	29.5	29.0	–	–
<b>Total non-current</b>	<b>213.8</b>	<b>205.0</b>	<b>–</b>	<b>–</b>
<b>Total</b>	<b>397.6</b>	<b>382.9</b>	<b>–</b>	<b>–</b>

\*Customers may choose a leased vehicle where the price exceeds the mobility allowance. In such cases they make an advance payment which is recognised on a straight-line basis over the life of the lease.

## 21. Insurance payables

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Reinsurance premiums payable	15.0	7.3	–	–
Commissions and administration fee payable	24.7	13.1	–	–
Claims reimbursements payable	26.1	23.5	–	–
<b>Total insurance payables</b>	<b>65.8</b>	<b>43.9</b>	<b>–</b>	<b>–</b>

The carrying value of insurance payables approximates to fair value.

## 22. Trade and other payables

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Trade payables	110.0	62.4	–	–
Social security and other taxes	1.5	1.3	–	–
Accruals	134.9	131.5	–	–
Other payables	0.4	0.1	961.0	356.9
Advance payments received from DWP	3.6	4.7	–	–
<b>Total</b>	<b>250.4</b>	<b>200.0</b>	<b>961.0</b>	<b>356.9</b>

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs.

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2016: 30 days).

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

### Notes to the financial statements continued

#### 23. General insurance provisions and insurance risk management

##### Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and 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 provides 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 mitigates 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.

##### 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 (2016: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2016: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 119.3% (2016: 116.2%) of the Group's net earned premium income or £302,450,000 (2016: £240,742,000) in the aggregate, whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 129.2% (2016: 126.4%) of net premium earned or £25,030,000 (2016: £21,015,000) 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 only select 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.

## 23. General insurance provisions and insurance risk management continued

### General insurance provisions

General insurance provisions are specific claims reserves including adjustments for insurance claims incurred but not reported ('IBNR').

#### Claims reserves including IBNR

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.

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
<b>Motor quota-share reinsurance</b>				
Claims reserves including IBNR	272.1	186.5	–	–
Third-party recoveries reserve	(36.8)	(34.1)	–	–
Reinsurance recoveries reserve	(140.7)	(67.8)	–	–
<b>Total net retained</b>	<b>94.6</b>	<b>84.6</b>	<b>–</b>	<b>–</b>

The Board utilises the Group actuary to undertake an actuarial study of the motor quota-share reinsurance claims reserves. The Group 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).

#### 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 Group actuary, the report of the independently appointed 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.

	Underwriting year 2014 £m	Underwriting year 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Total £m
<b>Estimate of ultimate claims cost</b>					
At end of reporting year	52.0	157.2	220.5	251.3	
One year later	51.7	153.6	221.3	–	
Two years later	49.3	154.1	–	–	
Three years later	53.4	–	–	–	
Current estimate of cumulative claims	53.4	154.1	221.3	251.3	680.1
Cumulative payments to date	(44.5)	(126.1)	(156.7)	(137.6)	(464.9)
Rebates	4.1	12.9	20.5	25.0	62.5
<b>Total liability included in balance sheet</b>	<b>13.0</b>	<b>40.9</b>	<b>85.1</b>	<b>138.7</b>	<b>277.7</b>

## Notes to the financial statements continued

**23. General insurance provisions and insurance risk management continued**

## Motor quota-share reinsurance continued

	Underwriting year 2014 £m	Underwriting year 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Total £m
<b>Estimate of ultimate claims cost net of reinsurance</b>					
At end of reporting year	39.1	118.2	163.9	167.8	
One year later	40.2	122.9	162.4	–	
Two years later	40.3	115.7	–	–	
Three years later	39.4	–	–	–	
Current estimate of cumulative claims	39.4	115.7	162.4	167.8	<b>485.3</b>
Cumulative payments to date	(42.0)	(121.0)	(153.3)	(136.9)	<b>(453.2)</b>
Rebates	4.1	12.9	20.5	25.0	<b>62.5</b>
<b>Total liability net of reinsurance included in balance sheet</b>	<b>1.5</b>	<b>7.6</b>	<b>29.6</b>	<b>55.9</b>	<b>94.6</b>
<b>Comprises:</b>					
Specific claims reserves including IBNR					<b>272.1</b>
Third-party recoveries reserve					<b>(36.8)</b>
Reinsurance recoveries reserve					<b>(140.7)</b>
<b>Total</b>					<b>94.6</b>

Included within cumulative payments to date are amounts received relating to volume, referral and wholesale discounts from trade partners, which have reduced the cost of claims to the Group.

## Movements in insurance liabilities

	2017			2016		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
<b>Claims</b>						
Notified claims including IBNR	216.9	(98.2)	118.7	119.3	(44.8)	74.5
Notified claims recoveries	(34.1)	–	(34.1)	(20.7)	–	(20.7)
<b>Total at beginning of year</b>	<b>182.8</b>	<b>(98.2)</b>	<b>84.6</b>	<b>98.6</b>	<b>(44.8)</b>	<b>53.8</b>
<b>Cash paid for claims settled</b>						
In the year	(161.8)	7.6	(154.2)	(130.4)	3.2	(127.2)
<b>Movement in liabilities</b>						
Current year claims including IBNR	251.3	(75.1)	176.2	220.5	(57.5)	163.0
Prior year claims	5.4	(17.4)	(12.0)	(5.9)	0.9	(5.0)
<b>Total at end of year</b>	<b>277.7</b>	<b>(183.1)</b>	<b>94.6</b>	<b>182.8</b>	<b>(98.2)</b>	<b>84.6</b>
Notified claims including IBNR	314.5	(183.1)	131.4	216.9	(98.2)	118.7
Notified claims recoveries	(36.8)	–	(36.8)	(34.1)	–	(34.1)
<b>Total at end of year</b>	<b>277.7</b>	<b>(183.1)</b>	<b>94.6</b>	<b>182.8</b>	<b>(98.2)</b>	<b>84.6</b>

Notified claims recoveries and reinsurance on notified claims are included within insurance receivables.

## 24. Financial liabilities

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
<b>Current</b>				
Accrued interest and coupon	51.9	55.7	51.9	55.7
Bank overdrafts	10.0	52.6	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	440.8	–	440.8	–
<b>Total current</b>	<b>502.7</b>	<b>108.3</b>	<b>492.7</b>	<b>55.7</b>
<b>Non-current</b>				
Bank loans	398.7	398.8	398.7	398.8
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	3,787.8	3,706.3	3,787.8	3,706.3
Preference shares	10.0	10.0	10.0	10.0
<b>Total non-current</b>	<b>4,196.5</b>	<b>4,115.1</b>	<b>4,196.5</b>	<b>4,115.1</b>
<b>Total</b>	<b>4,699.2</b>	<b>4,223.4</b>	<b>4,689.2</b>	<b>4,170.8</b>

The financial liabilities are repayable as follows:

On demand or no later than one year	502.7	108.3	492.7	55.7
Later than one year and no later than two years	343.5	432.5	343.5	432.5
Later than two years and no later than five years	1,096.3	1,323.6	1,096.3	1,323.6
Later than five years	2,756.7	2,359.0	2,756.7	2,359.0
<b>Total</b>	<b>4,699.2</b>	<b>4,223.4</b>	<b>4,689.2</b>	<b>4,170.8</b>

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

### Bank borrowings

All bank borrowings as at 30 September 2017 and 2016 are at floating rates.

As at 30 September 2017 the Group has the following principal bank loans:

- A five-year term loan of £0.4 billion taken out on 28 September 2016, extended for one year effective 28 September 2017 (2016: five-year term loan of £0.4 billion taken out on 28 September 2016). The loan repayment date is 28 September 2022 (2016: 28 September 2021).
- A five-year revolving credit facility of £1.5 billion taken out on 28 September 2016 (2016: five-year revolving credit facility of £1.5 billion taken out on 28 September 2016) of which £nil was drawn as at 30 September 2017 (2016: £nil). The facility repayment date is 28 September 2022 (2016: 28 September 2021).

All bank borrowings carry LIBOR interest rates plus bank margins at a market rate.

## Notes to the financial statements continued

### 24. Financial liabilities continued

#### 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:

	30 September 2017 £m	30 September 2016 £m
3.750% Eurobond due 2017 (I)	440.8	432.5
3.250% Eurobond due 2018 (II) (V)	343.5	475.7
6.625% Sterling bond due 2019 (VI)	299.5	449.0
5.375% Sterling bond due 2022	398.0	397.6
1.625% Eurobond due 2023 (III)	481.0	471.8
0.875% Eurobond due 2025 (IV)	440.4	–
3.750% Sterling bond due 2026	297.5	297.2
4.375% Sterling bond due 2027	296.4	296.0
5.625% Sterling bond due 2030	298.5	298.3
2.375% Sterling bond due 2032	344.1	–
3.625% Sterling bond due 2036	588.9	588.3
	<b>4,228.6</b>	<b>3,706.4</b>

- (I) The repayment obligation in respect of the Eurobonds of €500m (£440.9m) is hedged by cross-currency swap contracts (note 26) 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 €389.9m (£343.8m) is hedged by cross-currency swap contracts (note 26) for the purchase of €389.9m and for the sale of £326.0m 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 (£485.0) is hedged by cross-currency swap contracts (note 26) 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) The repayment obligation in respect of the Eurobonds of €500m (£440.9m) is hedged by cross-currency swap contracts (note 16) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
- (V) On 14 March 2017 the Company redeemed €160.1m (£133.8m) of the 3.250% €550m Eurobond bond due 2018.
- (VI) On 14 March 2017 the Company redeemed £150m of the 6.625% £450m Eurobond bond due 2019.

The Company has a £5 billion Euro Medium Term Note Programme with minimum denominations of EUR 100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £5 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 year ended 30 September and the previous two financial years the Group has issued the following bonds:

- a £350m Sterling bond with a rate of 2.375% issued on 14 March 2017 and expiring on 14 March 2032;
- a €500m Eurobond with a rate of 0.875% issued on 14 March 2017 and expiring on 14 March 2025;
- a £600m Sterling bond with a rate of 3.625% issued on 10 March 2016 and expiring on 10 March 2036; and
- a €550m Eurobond with a rate of 1.625% issued on 9 June 2015 and expiring on 9 June 2023.

#### Other comprehensive income and hedging reserve

Repayment obligations under Eurobonds and floating rate term loans are 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 30 September 2017, the Eurobond debt liability was increased by £123.4m (2016: increased by £98.6m). This change in valuation of £24.8m is a result of Sterling weakening against the Euro. The associated asset relating to derivatives at 30 September 2017 was £126.1m (2016: asset of £106.1m) – an increase of £20.0m (see note 25). The net valuation difference at 30 September 2017 is therefore an asset of £2.7m which, after tax at 19.0%, leads to a hedging reserve of £2.2m.

## 24. Financial liabilities continued

### 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 30 September 2017 and 30 September 2016 were as follows:

	2017 Group %	2016 Group %	2017 Company %	2016 Company %
Current bank loans and overdrafts	1.2	1.2	–	–
Non-current bank loans	1.0	1.0	1.0	1.0
Non-current debt issued under the Euro Medium Term Note Programme	4.0	4.4	4.0	4.4
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2017 and 30 September 2016, the Group had the following undrawn committed borrowing facilities:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Working capital facility	100.0	100.0	95.0*	95.0*
Revolving credit facility	1,500.0	1,500.0	1,500.0	1,500.0
<b>Total</b>	<b>1,600.0</b>	<b>1,600.0</b>	<b>1,595.0</b>	<b>1,595.0</b>

\*Working capital facilities of the Group are cross-guaranteed between Group companies Motability Operations Limited and Motability Operations Group plc.

Undrawn committed facilities expire as follows:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
No later than one year	5.0	5.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,595.0	1,595.0	1,595.0	1,595.0
<b>Total</b>	<b>1,600.0</b>	<b>1,600.0</b>	<b>1,595.0</b>	<b>1,595.0</b>

## 25. Derivative financial instruments

	Group 2017		Company 2017	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
<b>Cash flow hedges</b>				
Cross-currency swaps	125.7	1,587.4	125.7	1,587.4
Interest rate swaps	0.4	300.0	0.4	300.0
<b>Total</b>	<b>126.1</b>	<b>1,887.4</b>	<b>126.1</b>	<b>1,887.4</b>
Included in current liabilities	(0.1)	100.0	(0.1)	100.0
<b>Derivative financial instrument liabilities</b>	<b>(0.1)</b>	<b>100.0</b>	<b>(0.1)</b>	<b>100.0</b>
Included in non-current assets	110.2	1,362.2	110.2	1,362.2
Included in current assets	16.0	425.2	16.0	425.2
<b>Derivative financial instrument assets</b>	<b>126.2</b>	<b>1,787.4</b>	<b>126.2</b>	<b>1,787.4</b>

## Notes to the financial statements continued

## 25. Derivative financial instruments continued

	Group 2016		Company 2016	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
<b>Cash flow hedges</b>				
Cross-currency swaps	107.2	1,287.5	107.2	1,287.5
Interest rate swaps	(1.1)	300.0	(1.1)	300.0
<b>Total</b>	<b>106.1</b>	<b>1,587.5</b>	<b>106.1</b>	<b>1,587.5</b>
Included in non-current liabilities	(0.8)	100.0	(0.8)	100.0
Included in current liabilities	(0.3)	200.0	(0.3)	200.0
<b>Derivative financial instrument liabilities</b>	<b>(1.1)</b>	<b>300.0</b>	<b>(1.1)</b>	<b>300.0</b>
Included in non-current assets	107.2	1,287.5	107.2	1,287.5
<b>Derivative financial instrument assets</b>	<b>107.2</b>	<b>1,287.5</b>	<b>107.2</b>	<b>1,287.5</b>

**Cross-currency swaps**

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

On 8 February 2012, the Group 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 3.25% is fully swapped into the GBP rate of 3.664%. On 14 March 2017 the Company part-redeemed its 3.25% Eurobonds and unwound the cross-currency swap arrangements to a nominal value of €389.9m.

On 9 June 2015, the Group 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 2.998%.

On 14 March 2017, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 0.875% is fully swapped into the GBP rate of 2.061%.

**Interest rate swaps**

At 30 September 2017, the fixed interest rates varied from 0.409% to 0.8195% (2016: the fixed interest rates varied from 0.8195% 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 30 September 2017 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.

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
No later than one year	(5.0)	(10.3)	(5.0)	(10.3)
Later than one year and no later than three years	(16.5)	0.2	(16.5)	0.2
Later than three years and no later than five years	(21.4)	(11.1)	(21.4)	(11.1)
Later than five years	(16.5)	(11.1)	(16.5)	(11.1)
<b>Total</b>	<b>(59.4)</b>	<b>(32.3)</b>	<b>(59.4)</b>	<b>(32.3)</b>

Further details of derivative financial instruments are provided in note 35.

## 26. Deferred tax

The following are the deferred tax liabilities and assets recognised by the Group and Company and movements thereon during the current and prior reporting years.

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
<b>Net at 1 October 2015</b>	404.9	(0.8)	1.3	(0.5)	404.9
Credit to income	(31.0)	(0.2)	–	–	(31.2)
(Credit)/charge to income due to change in UK tax rate	(30.5)	0.1	–	–	(30.4)
Charge to equity	–	–	0.2	–	0.2
Controlled foreign company loss carried forward	–	–	–	0.5	0.5
Adjustment in respect of prior years	0.1	–	–	–	0.1
<b>Net at 1 October 2016</b>	343.5	(0.9)	1.5	–	344.1
Charge to income	12.1	–	–	–	12.1
(Credit)/charge to income due to change in UK tax rate	(5.4)	0.1	–	–	(5.3)
Credit to equity	–	–	(1.0)	–	(1.0)
Controlled foreign company loss carried forward	–	–	–	–	–
Adjustment in respect of prior years	(0.1)	–	–	–	(0.1)
<b>Net at 30 September 2017</b>	<b>350.1</b>	<b>(0.8)</b>	<b>0.5</b>	<b>–</b>	<b>349.8</b>

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities (as the deferred taxes relate to the same fiscal authority). The presentation of the deferred tax on the balance sheet is as follows:

	2017 £m	2016 £m
Deferred tax assets	–	–
Deferred tax liabilities	349.8	344.1
<b>Net at 30 September</b>	<b>349.8</b>	<b>344.1</b>

On 26 October 2015 Finance Bill No.2 2015 was substantively enacted, reducing the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. This latter rate was then superseded and replaced with a 17% rate (also with effect from 1 April 2020) by the substantive enactment on 6 September 2016 of Finance Act 2016.

With both of these enactments falling within the same accounting period, there was a significant release (£30.4m) of deferred tax liabilities during 2016 as a credit to the tax line for the year. A further release (£5.3m) has occurred in 2017 as a result of the re-estimation of liabilities using the latest live fleet value and the tax rates expected to apply when the related deferred tax liabilities fall due.

The temporary differences arise because capital allowances for fleet vehicles are received at a higher rate than accounting depreciation charged under IFRSs. At the balance sheet date these differences amounted to £1.93bn. If measured to unwind at 19.5%, this would represent a deferred tax liability of £375m. Using the best estimate of the timing of the unwinding of the temporary differences the liability has been estimated to be £350m – a blended rate of 18.1%.

As new vehicles are added to the fleet and ex-lease vehicles are sold this balance will be re-measured each year for the next three years until September 2020 when the timing differences will all be measured at 17%.

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
<b>At 1 October 2015</b>	–	–	1.3	0.5	1.8
Credit to equity	–	–	0.2	–	0.2
Controlled foreign company loss carried forward	–	–	–	(0.5)	(0.5)
<b>At 1 October 2016</b>	–	–	1.5	–	1.5
Charge to equity	–	–	(1.0)	–	(1.0)
Controlled foreign company loss carried forward	–	–	–	–	–
<b>At 30 September 2017</b>	<b>–</b>	<b>–</b>	<b>0.5</b>	<b>–</b>	<b>0.5</b>

## Financial statements

### Notes to the financial statements continued

#### 27. Ordinary share capital

The Company has one class of ordinary shares, which carry no rights to income.

	2017	2016
Authorised:		
100,000 (2016: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2016: 50,000) Ordinary shares of £1 each	£50,000	£50,000

In accordance with the Shareholders' Agreement, the ordinary shareholders will not procure a dividend and, in the event of a winding-up, all reserves surplus to the redeeming ordinary and preference share capital at par and outstanding dividends on the preference shares will be covenanted to Motability, the Charity.

The Company has 10,900,000 authorised 7% redeemable cumulative preference shares of £1 each, classified as a liability, of which 9,950,000 are in issue. These shares do not carry voting rights. Further details are provided in note 24.

#### 28. Cash generated from/(used in) operations

Reconciliation of profit to net cash flow from operating activities:

	2017 Group £m	2016 Group £m	2017 Company £m	2016 Company £m
Profit before tax	258.0	125.9	16.5	43.4
Adjustments for:				
Depreciation and amortisation charge on corporate assets	6.4	5.5	–	–
Depreciation charge on operating lease assets	812.5	923.4	–	–
Finance costs	211.8	187.2	(14.9)	(11.0)
Gains on disposal of operating lease assets	(119.0)	(64.5)	–	–
Losses on operating lease assets written off through insurance	28.1	23.4	–	–
Gains on disposal of corporate assets	(0.2)	(0.1)	–	–
Decrease in debt provisions	(6.8)	(3.8)	–	–
<b>Operating cash flows before movements in working capital</b>	<b>1,190.8</b>	<b>1,197.0</b>	<b>1.6</b>	<b>32.4</b>
Purchase of assets held for use in operating leases	(2,991.9)	(3,039.4)	–	–
Proceeds from sale of assets held for use in operating leases	2,179.0	2,059.9	–	–
Proceeds from insurance reimbursements of operating lease assets written off	30.3	23.7	–	–
Decrease in hire purchase receivables	–	6.1	–	–
Increase in insurance receivables	(88.1)	(61.4)	–	–
Decrease/(increase) in other receivables	14.6	(41.8)	(0.1)	(2.0)
Increase in loans to and investment in subsidiaries	–	–	(499.9)	(300.0)
Increase in deferred rental income	14.6	0.3	–	–
Increase in general insurance provisions	85.6	79.7	–	–
Increase in insurance payables	21.9	13.1	–	–
Increase in payables	50.4	37.2	604.1	208.4
<b>Cash generated from/(used in) operations</b>	<b>507.2</b>	<b>274.4</b>	<b>105.7</b>	<b>(61.2)</b>

## 29. Analysis of changes in net debt

Group	At 1 October 2016 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2017 £m
Cash and bank balances	493.3	675.0	–	–	1,168.3
Bank overdrafts	(52.6)	42.6	–	–	(10.0)
<b>Cash and cash equivalents</b>	<b>440.7</b>	<b>717.6</b>	<b>–</b>	<b>–</b>	<b>1,158.3</b>
Borrowings due after one year	(398.8)	0.3	–	(0.2)	(398.7)
Debt issued under the Euro Medium Term Note Programme	(3,706.3)	(493.2)	(24.8)	(4.3)	(4,228.6)
Preference shares	(10.0)	–	–	–	(10.0)
<b>Financing activities</b>	<b>(4,115.1)</b>	<b>(492.9)</b>	<b>(24.8)</b>	<b>(4.5)</b>	<b>(4,637.3)</b>
<b>Total net debt</b>	<b>(3,674.4)</b>	<b>224.7</b>	<b>(24.8)</b>	<b>(4.5)</b>	<b>(3,479.0)</b>

	At 1 October 2015 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2016 £m
Cash and bank balances	267.2	226.1	–	–	493.3
Bank overdrafts	(69.1)	16.5	–	–	(52.6)
<b>Cash and cash equivalents</b>	<b>198.1</b>	<b>242.6</b>	<b>–</b>	<b>–</b>	<b>440.7</b>
Borrowings due after one year	(398.7)	1.2	–	(1.3)	(398.8)
Debt issued under the Euro Medium Term Note Programme	(3,210.6)	(288.0)	(204.0)	(3.7)	(3,706.3)
Preference shares	(10.0)	–	–	–	(10.0)
<b>Financing activities</b>	<b>(3,619.3)</b>	<b>(286.8)</b>	<b>(204.0)</b>	<b>(5.0)</b>	<b>(4,115.1)</b>
<b>Total net debt</b>	<b>(3,421.2)</b>	<b>(44.2)</b>	<b>(204.0)</b>	<b>(5.0)</b>	<b>(3,674.4)</b>

	2017 Group £m	2016 Group £m
Cash and bank balances	1,168.3	493.3
Current financial liabilities	(502.7)	(108.3)
Non-current financial liabilities	(4,196.5)	(4,115.1)
<b>Total</b>	<b>(3,530.9)</b>	<b>(3,730.1)</b>
Less interest accruals included in financial liabilities	51.9	55.7
<b>Total net debt</b>	<b>(3,479.0)</b>	<b>(3,674.4)</b>

## 30. Operating lease arrangements

The Group as lessee

	2017 Group £m	2016 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	3.1	3.1

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2017 Group £m	2016 Group £m
No later than one year	3.6	3.6
Later than one year and no later than five years	13.9	13.9
Later than five years	17.3	17.3
<b>Total</b>	<b>34.8</b>	<b>34.8</b>

Operating lease payments represent rentals payable by the Group for use of office properties. Leases are negotiated for an average term of nine years and rentals fixed for an average of four years.

### Notes to the financial statements continued

#### 31. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2017 amounted to £3,780,623 (2016: £3,338,109). Net contributions due at the balance sheet date were £453,882 (2016: £3,911).

#### 32. 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. The Group's corporate and finance structures are set out in the Strategic report on pages 4 to 32.

Related parties comprise Directors (and their close families and service companies), the Motability Charity ('Motability'), 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 Company to the Motability Charity is set out on pages 4 and 5 of the Strategic report.

#### Transactions

During the year the Group paid Motability £9.2m (2016: £9.3m) relating to its administration costs (the 'Motability levy').

In addition, £2.0m (2016: £1.8m) 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. The Group donated £nil (2016: £3,360) to Motability's charitable funds during the year.

During the year the Group made a charitable donation of £45.0m (2016: £45.0m) 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 and the Company through bank loans is provided by the shareholder banks on commercial terms (see note 9 for details of financing costs on bank loans; £0.4m (2016: £0.3m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2016: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the year the Group made preference share dividend payments of £0.7m to the shareholder banks (2016: £0.7m).

At 30 September 2017 £115.8m of cash and cash equivalents were held with shareholder banks (30 September 2016: £139.5m). During the year the Group received interest payments on these cash deposits totalling £0.1m (2016: £0.3m).

The Group's bond issuances, under the Euro Medium Note Term Programme (see note 24), are arranged by the shareholder banks. During the year the Group has paid fees of £2.9m (2016: £2.7m) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 25) with the shareholder banks to mitigate its exposure in interest rate risk and foreign exchange risk as part of its financial risk management policy (as described in note 35). During the year the Group made a net payment of £1.1m (2016: net payment of £1.1m) in respect of interest rate swaps, and a net payment of £4.9m (2016: net payment of £9.8m) in respect of cross-currency swaps.

#### Subsidiary, parent and ultimate controlling party

The Group is controlled by Motability Operations Group plc, the ultimate parent, which is registered in England and Wales. Details of principal subsidiary undertakings and their registered offices can be found in note 16.

#### Remuneration of key management personnel

The remuneration of the key management personnel who are the Directors of the Company and the Directors of the principal operating subsidiary (Motability Operations Limited) is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	2017 £m	2016 £m
Short-term employee benefits	4.9	4.3
Post-employment benefits	0.1	0.1
Other long-term benefits	2.5	3.4
<b>Total</b>	<b>7.5</b>	<b>7.8</b>

### 33. Directors' remuneration

During the year there was one Executive Director (2016: none) accruing benefits under a money purchase pension scheme.

	2017	2016
<b>Highest-paid Director</b>		
Salary	£549,258	£536,367
Performance-related payments	£262,624	£252,758
Payments in lieu of pension*	£137,314	£134,092
Benefits	£25,057	£25,077
Aggregate emoluments in respect of qualifying services	£974,253	£948,294
Pension contributions under money purchase pension schemes	£nil	£nil
<b>All Directors</b>		
Salary	£1,279,533	£1,280,223
Performance-related payments	£383,749	£393,851
Payments in lieu of pension*	£165,564	£211,756
Benefits	£61,996	£63,729
Aggregate emoluments in respect of qualifying services	£1,890,842	£1,949,559
Pension contributions under money purchase pension schemes	£10,000	£nil

\*Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee has agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

#### Long-term incentive arrangements

In addition to the above, historic long-term incentive arrangements apply to the Executive Directors. There are two programmes in place:

##### Long Term Incentive Plan (LTIP)

Any payments in respect of amounts vesting under the run-off of the previous Long Term Incentive Plan (LTIP) continue to be linked to the Group's long-term objectives of maintenance of sufficient reserves, high levels of customer satisfaction and renewal levels, lease affordability and excellent business culture. Any payment is also determined by reference to the Company's external credit rating. The final units awarded in this plan were made to the Group Executive Directors in December 2015.

Performance criteria are designed so that units allocated into the Plan can both increase and decrease in value. The main features of the LTIP have been:

- The notional value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years;
- Potential payouts are deferred for three years;
- The value of any potential payout is determined by annual assessment against specific performance requirements in respect of the level of customer service, customer retention, lease affordability, reserves adequacy and business culture; and
- Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released. During the year to 30 September 2017 £726,617 was released to the highest-paid Director. This constituted the total amount released to the Group Executive Directors in the current year. (In the prior year, £1,141,827 was released to the Group Executive Directors including £726,617 for the highest-paid Director.)

##### Long Term Incentive Scheme (LTIS)

A five-year Long Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. During 2016, it was agreed that any potential benefit would be deferred for seven years, during which period no additional payments will be made into the new Scheme and any potential benefit will continue to be linked to stretching financial performance targets.

During the reported year to September 2017, no payments have been made (2016: £nil).

## Notes to the financial statements continued

### 34. Events after the reporting year

There have been no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2017.

### 35. Funding and financial risk management

#### Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 24, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

The Group's debt funding is provided through the Company via bank loans and debt issuance.

The objective of the Group's capital and reserves management policy is to ensure that the Group maintains adequate levels of equity capital and reserves to:

- Maintain the sustainability and longevity of the business through having adequate reserves to withstand the impact of potential macro-economic, industry and Company-specific shock events;
- Provide relative stability of pricing and affordability to customers; and
- Provide confidence to lenders and credit rating agencies that allows the Group to raise sufficient funding at competitive rates.

As part of the capital and reserves management policy of the Group, any profits that arise in the Group are reinvested back into the Scheme for the benefit of disabled customers. The banks as owners of the Group cannot access reserves (the ordinary shares do not carry any entitlement to dividends).

The Risk Management Committee reviews the capital structure and particularly the level of restricted reserves on a regular basis. The Group operates an Economic Capital methodology to determine the level of capital required in the business. The Group aims to hold capital at a level that is considered at least adequate to ensure that it can withstand potential market or economic shock events.

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the adjusted Total Group Assets: Total Net Debt ratio is targeted to be no less than 1.25:1. At 30 September 2017 the ratio was 1.90:1, and the Group has complied with the terms of the covenant throughout the year. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

#### Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

#### Categories of financial instruments

	2017 Group carrying value £m	2016 Group carrying value £m	2017 Company carrying value £m	2016 Company carrying value £m
<b>Non-derivative financial assets</b>				
Held to maturity investments	102.3	101.6	–	–
Trade and other receivables	116.6	112.9	–	–
Loans to other Group companies	–	–	4,537.4	4,037.5
Cash and bank balances	1,168.3	493.3	965.4	356.9
<b>Total non-derivative financial assets</b>	<b>1,387.2</b>	<b>707.8</b>	<b>5,502.8</b>	<b>4,394.4</b>
<b>Non-derivative financial liabilities</b>				
Trade and other payables	(248.9)	(198.7)	(961.0)	(356.9)
Financial liabilities	(4,699.2)	(4,223.4)	(4,689.2)	(4,170.8)
<b>Total non-derivative financial liabilities</b>	<b>(4,948.1)</b>	<b>(4,422.1)</b>	<b>(5,650.2)</b>	<b>(4,527.7)</b>
<b>Net non-derivative financial instruments</b>	<b>(3,560.9)</b>	<b>(3,714.3)</b>	<b>(147.4)</b>	<b>(133.3)</b>
<b>Derivative financial instruments</b>				
Interest rate swaps	0.4	(1.1)	0.4	(1.1)
Cross-currency swaps	125.7	107.2	125.7	107.2
<b>Total derivative financial instruments</b>	<b>126.1</b>	<b>106.1</b>	<b>126.1</b>	<b>106.1</b>
<b>Total financial instruments</b>	<b>(3,434.8)</b>	<b>(3,608.2)</b>	<b>(21.4)</b>	<b>(27.2)</b>

### 35. Funding and financial risk management continued

#### Fair value of financial instruments

		2017 Group carrying value £m	2017 Group fair value £m	2016 Group carrying value £m	2016 Group fair value £m
Cash and bank balances	I	1,168.3	1,168.3	493.3	493.3
Trade and other receivables	II	116.6	107.2	112.9	112.9
Held to maturity investments	III	102.3	102.2	101.6	102.1
Trade and other payables	II	(248.9)	(248.9)	(198.7)	(198.7)
Bank loans including bank overdrafts – current	IV	(61.9)	(61.9)	(108.3)	(108.3)
Bank loans – non-current	IV	(398.7)	(398.7)	(398.8)	(398.8)
Debt issued under the Euro Medium Term Note Programme*	III	(4,228.6)	(4,692.5)	(3,706.3)	(4,478.8)
Redeemable preference share liabilities	III	(10.0)	(13.8)	(10.0)	(14.3)
<b>Net non-derivative financial instruments</b>		<b>(3,560.9)</b>	<b>(4,038.1)</b>	<b>(3,714.3)</b>	<b>(4,490.6)</b>
Interest rate swap – cash flow hedge		0.4	0.4	(1.1)	(1.1)
Cross-currency swap – cash flow hedge		125.7	125.7	107.2	107.2
<b>Total</b>		<b>(3,434.8)</b>	<b>(3,912.0)</b>	<b>(3,608.2)</b>	<b>(4,384.5)</b>

\* 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 and money market funds

II Non-interest bearing

III Bearing interest at fixed rate

IV Bearing interest at floating rate

		2017 Company carrying value £m	2017 Company fair value £m	2016 Company carrying value £m	2016 Company fair value £m
Cash and bank balances	I	965.4	965.4	356.9	356.9
Loans to other Group companies	IV	4,537.4	4,537.4	4,037.5	4,037.5
Trade and other payables – current	II	(961.0)	(961.0)	(356.9)	(356.9)
Financial liabilities – current	IV	(51.9)	(51.9)	(55.7)	(55.7)
Bank loans – non-current	IV	(398.7)	(398.7)	(398.8)	(398.8)
Debt issued under the Euro Medium Term Note Programme*	III	(4,228.6)	(4,692.5)	(3,706.3)	(4,478.8)
Redeemable preference share liabilities	III	(10.0)	(13.8)	(10.0)	(14.3)
<b>Net non-derivative financial instruments</b>		<b>(147.4)</b>	<b>(615.1)</b>	<b>(133.3)</b>	<b>(910.1)</b>
Interest rate swap – cash flow hedge		0.4	0.4	(1.1)	(1.1)
Cross-currency swap – cash flow hedge		125.7	125.7	107.2	107.2
<b>Total</b>		<b>(21.3)</b>	<b>(489.0)</b>	<b>(27.2)</b>	<b>(804.0)</b>

\* 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 and money market funds

II Non-interest bearing

III Bearing interest at fixed rate

IV Bearing interest at floating rate

## Notes to the financial statements continued

### 35. Funding and financial risk management continued

#### Fair value of financial instruments continued

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 provision 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 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.

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).

#### Group

	2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Non-derivative financial assets</b>				
Held to maturity investments	102.2	–	–	102.2
	102.2	–	–	102.2
<b>Non-derivative financial liabilities</b>				
Financial liabilities	–	(4,706.3)	–	(4,706.3)
	–	(4,706.3)	–	(4,706.3)
<b>Derivative financial instruments</b>				
Interest rate swaps	–	0.4	–	0.4
Cross-currency swaps	–	125.7	–	125.7
	–	126.1	–	126.1
<b>Total</b>	<b>102.2</b>	<b>(4,580.2)</b>	<b>–</b>	<b>(4,478.0)</b>

#### Group

	2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
<b>Non-derivative financial assets</b>				
Held to maturity investments	102.1	–	–	102.1
	102.1	–	–	102.1
<b>Non-derivative financial liabilities</b>				
Financial liabilities	–	(4,493.1)	–	(4,493.1)
	–	(4,493.1)	–	(4,493.1)
<b>Derivative financial instruments</b>				
Interest rate swaps	–	(1.1)	–	(1.1)
Cross-currency swaps	–	107.2	–	107.2
	–	106.1	–	106.1
<b>Total</b>	<b>102.1</b>	<b>(4,387.0)</b>	<b>–</b>	<b>(4,284.9)</b>

### 35. Funding and financial risk management continued

#### Fair value of financial instruments continued

##### Company

	2017			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Non-derivative financial liabilities</b>				
Financial liabilities	–	(4,706.3)	–	(4,706.3)
	–	(4,706.3)	–	(4,706.3)
<b>Derivative financial instruments</b>				
Interest rate swaps	–	0.4	–	0.4
Cross-currency swaps	–	125.7	–	125.7
	–	126.1	–	126.1
<b>Total</b>	–	(4,580.2)	–	(4,580.2)

##### Company

	2016			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
<b>Non-derivative financial liabilities</b>				
Financial liabilities	–	(4,493.1)	–	(4,493.1)
	–	(4,493.1)	–	(4,493.1)
<b>Derivative financial instruments</b>				
Interest rate swaps	–	(1.1)	–	(1.1)
Cross-currency swaps	–	107.2	–	107.2
	–	106.1	–	106.1
<b>Total</b>	–	(4,387.0)	–	(4,387.0)

#### Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset & Liability Management Committee.

The Group's treasury function, operating under the control of the Asset & Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The treasury policy of the Group and the principles set out by the policy are endorsed by the Board and applied through delegated authority by the Chief Executive Officer operating through the Executive Committee and the Asset & Liability Management Committee. The treasury policy and treasury control framework are overseen by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's activities expose it to the financial risks of changes in interest rates. The Group enters into interest rate swaps and issues fixed-rate bonds to mitigate the risk of movements in interest rates. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

## Notes to the financial statements continued

**35. Funding and financial risk management continued****Interest rate risk management**

The Group's revenues arise primarily from operating lease rentals and proceeds from disposal of operating lease assets – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN Programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings; variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2017 of £399m (2016: £399m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2017 of £4,229m (2016: £3,706m).

The Group and the Company have interest rate swaps of £100m maturing on 29 December 2017 and £200m maturing on 28 December 2018 (2016: £200m maturing on 29 December 2016 and £100m maturing on 29 December 2017). Under these swaps the Group and the Company pay an average fixed rate of 0.55% (2016: 0.84%).

**Foreign exchange risk**

The Group is exposed to foreign exchange risk due to the issue of Euro-denominated fixed-rate bonds. This risk has been managed by the use of cross-currency swaps to fix the exchange rate on all coupon and principal cash flows from the outset of the bonds. In the event of any change in foreign exchange rates, there would be no material effect on the reserves of the Group and the Company.

**Interest rate sensitivity analysis**

The sensitivity analysis stated below is based on exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

In the event of any change in interest rates, there would be no material effect on the reserves of the Group and the Company. Although an increase in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year.

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax profit decrease of approximately £1.0m as at 30 September 2017 (2016: £1.0m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

**Interest rate swap contracts**

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on future cash flows on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using a GBP market yield curve; the results are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

All interest rate swap contracts are designated as cash flow hedges in order to reduce the Group and the Company's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and floating rate borrowings re-fix and settle on the same day each month thereby minimising interest rate exposure further. Interest rate swaps settle net on a monthly basis.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2017 Average contract fixed interest rate %	2016 Average contract fixed interest rate %	2017 Nominal principal amount £m	2016 Nominal principal amount £m	2017 Fair value £m	2016 Fair value £m
No later than one year	0.8	0.8	100.0	200.0	(0.1)	(0.3)
Later than one year and no later than two years	0.4	0.8	200.0	100.0	0.5	(0.8)
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
<b>Total</b>			<b>300.0</b>	<b>300.0</b>	<b>0.4</b>	<b>(1.1)</b>

### 35. Funding and financial risk management continued

#### Cross-currency swap contracts

Under the cross-currency swap contracts, the Group and the Company agree to exchange Euro and Sterling amounts of the principals and fixed interest amounts calculated on the principals. These contracts enable the Group and the Company to eliminate the risk of changing exchange rates on future cash flows on the foreign currency debt issued. The fair value of the cross-currency swaps at the reporting date is determined by discounting the future cash flows using foreign currency spot rates; the results are disclosed below.

The cross-currency swap contracts are designated as cash flow hedges and reduce the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swaps eliminate all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2017 Contract fixed GBP interest rate %	2016 Contract fixed GBP interest rate %	2017 Nominal principal amount £m	2016 Nominal principal amount £m	2017 Fair value £m	2016 Fair value £m
No later than one year	4.2	–	425.2	–	16.0	–
Later than one year and no later than two years	3.7	4.2	326.0	425.2	21.4	9.3
Later than two years and no later than five years	–	3.7	–	459.8	–	22.1
Later than five years	2.5	3.0	836.2	402.5	88.3	75.8
<b>Total</b>			<b>1,587.4</b>	<b>1,287.5</b>	<b>125.7</b>	<b>107.2</b>

#### Credit risk management

Credit risk is managed using an established process encompassing credit limits, credit approvals, control of exposures and the monitoring and reporting of exposures. Credit risk may arise from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposures to customers.

The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low. A small residual credit risk arises from miscellaneous customer billings and monies due from dealers, auction houses and vehicle manufacturers. Group management regularly carries out credit assessments of the limits set for auction houses, manufacturers and dealers.

For banks and financial institutions, only independently rated institutions with a minimum 'A' rating are accepted. All new proposed counterparties are subject to internal credit approval and Asset & Liability Management Committee ratification prior to entering into any transaction. Credit limits for non-derivative financial assets and credit reporting thresholds for derivative financial assets are set by the treasury function and are subject to approval by the Asset & Liability Management Committee.

For the year under review the following figures represent the Group's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2017 and 2016 attributable to banks/financial institutions.

	2017 Total limit £m	2017 Maximum utilisation £m	Balance as at 30 September 2017 £m	2016 Total limit £m	2016 Maximum utilisation £m	Balance as at 30 September 2016 £m
Counterparty credit limit	1,340.0	1,255.6	1,167.5	700.0	771.5	463.1

No counterparty credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. During the year ended 2016 credit limits were temporarily increased to £900m to accommodate temporary surplus liquidity arising from the March 2016 £600m bond issuance.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

## Notes to the financial statements continued

### 35. Funding and financial risk management continued

#### Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The treasury policy has an appropriate liquidity risk management framework for the management of the Group and the Company's short, medium and long-term funding.

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has a five-year bank term loan with 5.0 years until maturity and a five-year revolving credit facility with 5.0 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed-rate bonds. The bonds, with average weighted maturities of nine years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 24 is a description of additional undrawn facilities that the Group has at its disposal.

The following tables detail the contractual maturity of the Group and the Company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities. The tables include liabilities for both principal and interest.

#### Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(4.1)	(8.7)	(411.2)	–	(424.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.0	(579.8)	(889.7)	(627.6)	(3,340.5)	(5,437.6)
Financial liabilities – bank overdrafts and short-term borrowings	1.2	(10.0)	–	–	–	(10.0)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(248.9)	–	–	–	(248.9)
<b>Total</b>		<b>(843.5)</b>	<b>(899.8)</b>	<b>(1,040.2)</b>	<b>(3,351.8)</b>	<b>(6,135.3)</b>

\*The preference shares 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.

#### Group

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Financial liabilities – bank loans – variable interest rate	1.0	(3.9)	(7.5)	(409.1)	–	(420.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.4	(143.7)	(1,189.2)	(658.2)	(2,952.2)	(4,943.3)
Financial liabilities – bank overdrafts and short-term borrowings	1.2	(52.6)	–	–	–	(52.6)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(198.7)	–	–	–	(198.7)
<b>Total</b>		<b>(399.6)</b>	<b>(1,198.1)</b>	<b>(1,068.7)</b>	<b>(2,963.5)</b>	<b>(5,629.9)</b>

\*The preference shares 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.

### 35. Funding and financial risk management continued

#### Liquidity risk management continued

##### Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(4.1)	(8.7)	(411.2)	–	(424.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.0	(579.8)	(889.7)	(627.6)	(3,340.5)	(5,437.6)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(961.0)	–	–	–	(961.0)
<b>Total</b>		<b>(1,545.6)</b>	<b>(899.8)</b>	<b>(1,040.2)</b>	<b>(3,351.8)</b>	<b>(6,837.4)</b>

\*The preference shares of the Company 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.

##### Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Financial liabilities – bank loans – variable interest rate	1.0	(3.9)	(7.5)	(409.1)	–	(420.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.4	(143.7)	(1,189.2)	(658.2)	(2,952.2)	(4,943.3)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(356.9)	–	–	–	(356.9)
<b>Total</b>		<b>(505.2)</b>	<b>(1,198.1)</b>	<b>(1,068.7)</b>	<b>(2,963.5)</b>	<b>(5,735.5)</b>

\*The preference shares of the Company 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 following tables detail the contractual maturity of the Group and the Company's interest rate and cross-currency swap liabilities. The cash flows are settled on a net basis.

The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities.

##### Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Interest rate swaps	0.5	0.2	0.2	–	–	0.4
Cross-currency swaps	3.2	(5.2)	(16.7)	(21.4)	(16.5)	(59.8)

##### Group

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Interest rate swaps	0.8	(0.9)	(0.2)	–	–	(1.1)
Cross-currency swaps	3.6	(9.4)	0.4	(11.1)	(11.1)	(31.2)

## Financial statements

### Notes to the financial statements continued

#### 35. Funding and financial risk management continued

##### Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Interest rate swaps	0.5	0.2	0.2	–	–	0.4
Cross-currency swaps	3.2	(5.2)	(16.7)	(21.4)	(16.5)	(59.8)

##### Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Interest rate swaps	0.8	(0.9)	(0.2)	–	–	(1.1)
Cross-currency swaps	3.6	(9.4)	0.4	(11.1)	(11.1)	(31.2)

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets, except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from held to maturity investments and loans to Group companies, the non-derivative financial assets are anticipated to mature within one year.

##### Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Held to maturity investments – fixed interest rate	2.3	56.3	34.6	11.4	–	102.3
Trade and other receivables – non-interest bearing	–	116.6	–	–	–	116.6
Cash and bank balances – non-interest bearing	–	1,168.3	–	–	–	1,168.3
<b>Total</b>		<b>1,341.2</b>	<b>34.6</b>	<b>11.4</b>	<b>–</b>	<b>1,387.2</b>

##### Group

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Held to maturity investments – fixed interest rate	2.4	27.5	74.1	–	–	101.6
Trade and other receivables – non-interest bearing	–	112.9	–	–	–	112.9
Cash and bank balances – non-interest bearing	–	493.3	–	–	–	493.3
<b>Total</b>		<b>633.7</b>	<b>74.1</b>	<b>–</b>	<b>–</b>	<b>707.8</b>

##### Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Loans to other Group companies	3.1	184.9	349.0	335.6	4,856.2	5,725.7

##### Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Loans to other Group companies	3.6	190.2	342.4	261.0	4,273.9	5,067.5

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