

Motability
Operations | Group plc



Delivering when it matters most

Half Year Report 2021
For the six months ended 31 March 2021

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Statement of Directors' responsibilities

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

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

By order of the Board



Andrew Miller
Chief Executive
21 May 2021



Matthew Hamilton-James
Finance Director
21 May 2021

We're here to provide our customers access to affordable, worry-free mobility.

Motability Operations was established in 1978 to deliver the Motability Scheme, under contract to Motability the national charity (which is responsible for oversight of the Scheme). We provide mobility to over 640,000 customers with a wide range of different disabilities, providing an opportunity to achieve freedom and independence.

As we do not pay shareholder dividends we can focus purely on delivering for our customers, with profits available for reinvestment to support their current and future needs. In addition, we may also donate to Motability (the Charity) supporting their broader aim to enhance the lives of disabled people with transportation solutions.

Delivering when it matters most

No matter what, supporting our customers is our number one priority. This clear purpose underpinned our response to and management through the Covid-19 pandemic to support customers, employees and the Scheme proposition.



Our customers

We're here for our customers when they need us. We're proud to have remained operational throughout the challenges brought about by the Covid-19 pandemic, offering increased flexibility and support when our customers have needed it most.

At the beginning of the pandemic, and through the national lockdowns, customers have been given the option to remain in their current vehicle for an extended period, removing any worry or concern about needing to renew their lease.

When the pandemic hit we issued a £50 insurance rebate to all customers. We have since approved an additional £50 rebate to be paid over the summer of 2021.

97%

Overall customer satisfaction (independently measured)



Our people

Looking after the health and well-being of our employees will always be a top priority.

Throughout the Covid-19 pandemic, we have continued to support and reassure our employees. When the pandemic struck we harnessed the reliance built into our system infrastructure to enable home-working, which remains a viable option for all employees.

We invest in and support our employees, whether continuing to work from home or gradually returning to the office. Our office spaces are Covid secure, ensuring that when employees re-enter the office they are as safe as possible.

96%

Employee engagement (measured during lockdown)



Our partners

Working ever more closely with our partners, through challenging times, to ensure our customers continue to receive the highest levels of service.

Our Scheme partners are fundamental to ensuring we continue to provide our customers with the highest levels of service possible throughout their lease.

We continue to work closely with our partners and, throughout the Covid pandemic, provided enhanced levels of flexibility and support, such as accelerated billing profiles, to assist with cash flow through these difficult times.

As we gradually exit the lockdown we work closely with our partners to ensure a Covid secure service whilst continuing to deliver for our customers.

>32,000

Jobs linked to the Scheme

How we deliver the Scheme

Motability Operations is contracted to Motability to deliver the scheme, in doing so we provide mobility to over 640,000 customers, all of whom have chosen to assign the Government's mobility allowance to access the scheme. Through integration of manufacturers, dealers and other suppliers, we deliver customers with worry-free, affordable mobility to meet their individual needs.



The Motability Scheme enables disabled people to use their higher rate mobility allowances to lease a car, powered wheelchair or scooter. Motability's Trustees are duty bound by Royal Charter to ensure that the Scheme is run in the best interests of disabled people, and to protect the Scheme's sustainability and reputation.

Further detail regarding Motability's oversight responsibilities and the Charity's wider role and objectives can be found in Motability's Annual Report and Accounts:

www.motability.org.uk/Motability_Annual_Report.pdf

The Government's role



Mobility allowance

Government decides who should receive mobility allowances. Thereafter customers may choose to use their mobility allowance to lease a car, powered wheelchair or scooter

Motability Operations' role



Funding

In operating the Scheme, we are required to source the financing of our £8bn vehicle fleet. Our capital reserves are fully reinvested into our fleet; this reduces the amount we have to borrow and therefore the cost of customer leases. The balance of our financing is provided by debt in the form of bonds issued in the debt capital markets and bank facilities

Suppliers

Provide servicing, breakdown assistance, insurance, and tyre and windscreen replacement



Scheme customers

As we do not pay shareholder dividends we can focus purely on delivering affordable and worry-free mobility through a wide choice of vehicle solutions to meet individual customer needs



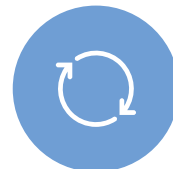
Delivering the Scheme

Cars, powered wheelchairs and scooters are delivered through partnerships with manufacturers, dealers and other suppliers



End of lease

At the end of lease (typically three years), vehicles are returned to us. More than 91% of customers choose to renew their lease

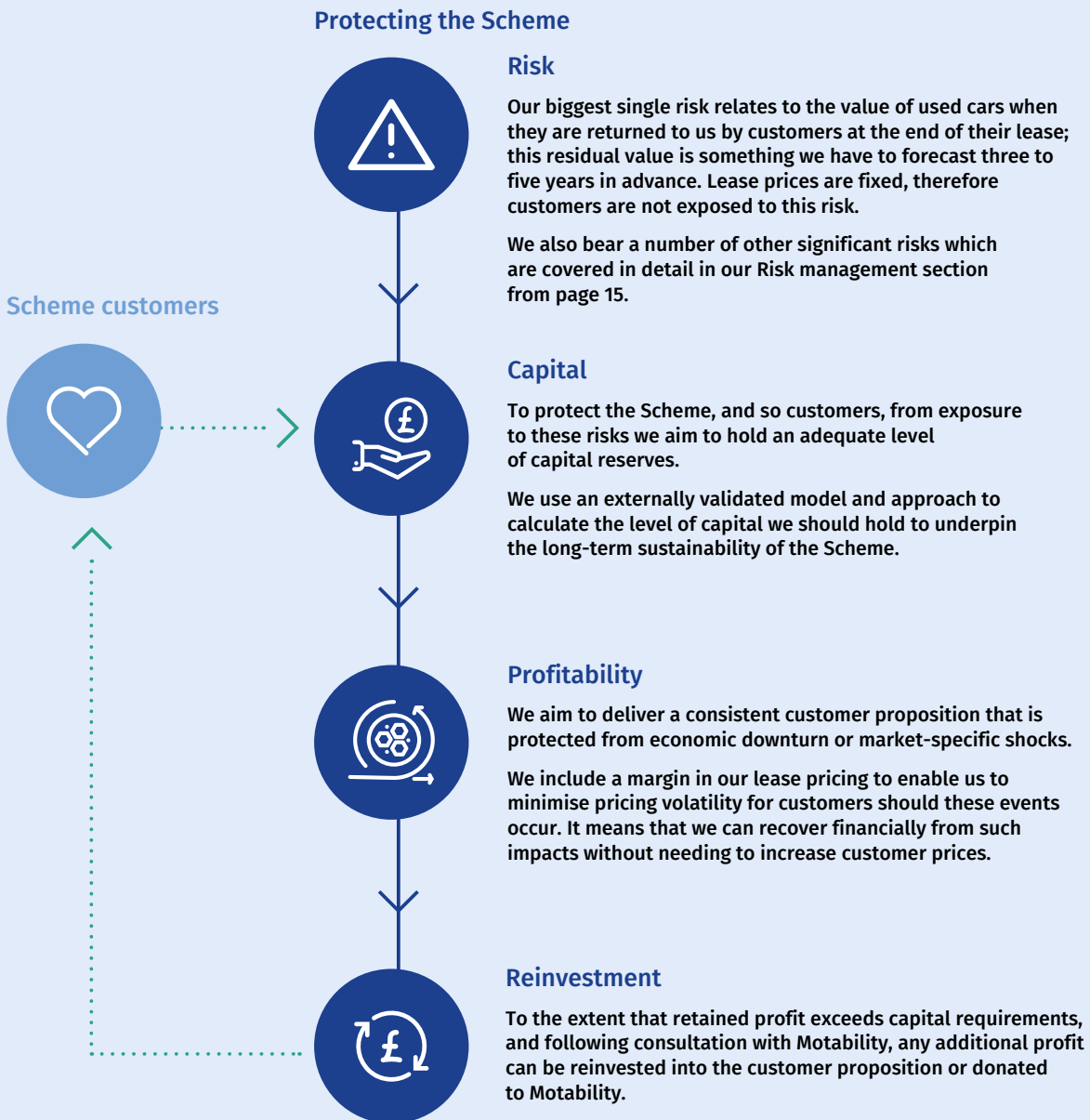


Remarketing

Used cars are resold into the used-car market through our market-leading online channel 'mfdirect' and our national auction programme

How we protect the Scheme

As operators of the Motability Scheme, we bear a number of significant risks which could, if not carefully managed, undermine the long-term sustainability of the customer proposition.



Focused on our stakeholders

Our objectives underpin the core Scheme proposition, ensuring that through our people and our partners, we meet the needs of today's and tomorrow's customers.



How we add value

Our customers

- We provide a universal offering across the UK and aim to deliver value and an excellent service for customers by providing an affordable, consistent, worry-free leasing proposition.
- Our proposition is delivered in a sustainable manner to ensure that we meet the needs of today's and tomorrow's customers.

Our people

- The way we work is central to delivering and meeting the needs of our customers.
- Our employees believe passionately in what we do, underpinned by a strong and supportive culture.
- We aim to recruit and retain the talent needed to maintain our strong performance over the long term.

Our partners

- Working with our key partners we provide worry-free mobility offering: servicing, breakdown assistance, insurance, tyre and windscreen replacement.
- We have developed strategic relationships with mainstream car manufacturers and support specialist training across the UK dealership network.

Protecting our customers and people



“Motability Operations Group plc remains financially and operationally resilient. We are well placed to continue to offer our customers affordable, worry-free mobility.”

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

As I prepare this half year statement, there is every reason to look ahead with a level of optimism in 2021. All being well, Covid-19 restrictions are expected to be lifted in coming months, and with dealerships in many parts of the UK now open, we are already seeing the impact of renewed confidence in increased Scheme applications.

Like others, we experienced an extremely challenging year in 2020, rounded off by the tough winter, and the second, extensive, national lockdown. Alongside this, we have faced the uncertainties posed by Brexit. Prudent management of the business has meant we were in good shape to address these challenges. The financially and operationally robust nature of the business has allowed us to remain open for our customers throughout the pandemic, with no requirement to utilise any of the government support schemes, such as, the furlough scheme.

Thanks to the hard work and dedication of our employees, many working from home for extended periods, and the unflagging support of business partners, we have come through this turbulent period in good shape. We expect that the second half of the year will continue to see activity picking up, providing an increasing number of customers with seamless access to affordable, worry free mobility.

The past six months have seen a period of change, as well as challenge, for Motability Operations. On 1 January, we welcomed the Company's new CEO, Andrew Miller, to the helm. Andrew was previously Chief Executive Officer at Guardian Media Group and before that, Chief Financial Officer at Autotrader. His experience covers strategic, operational and finance roles at a number of major international companies, including PepsiCo, Bass and Procter & Gamble. Andrew is also a Non-Executive Director at Channel 4.

As CEO, Andrew is responsible for formulating strategy and driving performance across all aspects of the business. His introduction to Motability Operations has, inevitably, had some

logistical challenges, with the workforce currently remaining largely home-based.

However, Andrew has now been able to get round the business, at least virtually in some cases, and I am very much looking forward to continuing to work with and support him as he takes the organisation forward. We are all focused on ensuring the Scheme is in the right shape and sustains its high level of performance as it heads towards its 50th anniversary in 2028.

I'd also like to express the Board's deep appreciation to Matthew Hamilton-James, who stepped in as interim CEO in 2020. Matthew did a truly magnificent job. Now reverted to his position as Finance Director, on behalf of the Company and all our stakeholders and customers I acknowledge Matthew's calm leadership and clear-sighted, wise stewardship during this most difficult time.

Additionally, I want to thank Charles Manby MBE and the governors of Motability (the Charity) for their support and continued confidence. The Scheme is strengthened by the open and strong working relationship between the two organisations involved in its delivery.

Customer service is central to our business, and this has shown consistent levels of satisfaction of 9.7 out of 10. We measure this through our customer satisfaction survey, now carried out by Ipsos MORI, with the latest results due in late May.

As the country first went into lockdown in spring 2020, we took decisive action to protect customers, automatically extending leases which were coming to their scheduled end. All customers received an insurance refund of £50, and we accelerated payment of the £600 Good Condition Bonus to nearly 17k customers in need who requested it. These measures continued through further lockdown restrictions applied over the last six months, although 'click and collect' arrangements meant that this time, a level of vehicle sales could take place.

Supporting customers through the pandemic

- Supported continuous mobility by offering automatic lease extensions and increased our investment in hirecar and taxi service provisioning
- Provided every customer with a £50 insurance rebate in 2020, and have recently approved a further rebate of £50 to be paid shortly
- Option to receive accelerated GCB payments for customers facing exceptional financial need
- Through the pandemic call volumes have been high and our people largely home based, however we are proud to have answered 80% of customer calls within 20 seconds

I am pleased to say that owing to the lower levels of insurance claims seen during lockdown, the Board has now approved a further rebate of £50 to be provided to every customer. This payment will reach customers over the summer months.

Covid-19 disruption did not hold back our dedication to consistent improvement in customer service. We used what we have learnt from lockdown to accelerate our programme to transform online services, which remains a priority. Harnessing digital tools to increase flexibility and contact channels is key to engaging with a new generation of customers.

Late in 2020 we opened our first online customer account, and more than 80,000 customers are now taking advantage of this to check their application progress, change their details, or access a payment through bank transfer.

Our services would not be possible without the support of business partners, including Royal & SunAlliance Motability, RAC and Kwik Fit, and the leading car manufacturers and dealers. Keeping these front-line services up to date has been vitally important to maintaining service excellence, and we have been able to sustain engagement throughout lockdown by transferring dealer training from the classroom, to online environments.

The past six months have also seen Motability Operations deliver a robust level of financial performance, with profit at the half year ahead of plan. The favourable position of £123m reflects a positive movement in our fleet revaluation, including the unwinding of the Brexit Stress Overlay, reflected in the September 2020 revaluation, in light of the potential for significant impact on used-car values should we have experienced a disorderly departure from the EU.

As the motoring industry reopens after lockdown, we are seeing a strong vehicle remarketing performance, reflecting a high level of demand in the used-car market.

Motability Operations is funded via a combination of capital market (bonds) and bank finance, and we have developed a competitive and well-diversified profile of borrowing.

I am pleased to report that we successfully approached the debt market in January, raising almost £800m via two social bonds. The social bond framework is now a mainstream financial instrument, and it allows us to reach out to a wider range of investors.

Since the Scheme was established over 40 years ago it has been making a vast difference to the lives of people living with disabilities and their families, enabling them to become mobile, to fully participate in family life and enabling significantly increased access to education, services and employment opportunities; these benefits make the Scheme a natural fit for our newly established social bond framework. As a pure-play social issuer, we fully expect all future bonds to be issued under this framework, with enhanced reporting and impact analysis demonstrating the benefit these bring.

Importantly, our credit rating has been reaffirmed as A1 and A by Moody's and S&P respectively, both with stable outlooks.

Customers are often entirely reliant on the Scheme for their mobility, so we plan carefully to ensure they are best protected in the face of the inevitable risks and changes of context in which we operate. Of course, lockdown is not the only thing we need to consider. Other matters remaining front of mind include the environmental agenda and how we can support the increased adoption and availability of affordable of electric vehicles on the Scheme; the continuing counter-cyclical buoyancy of the used-car market; and the further anticipated decline in demand for diesel vehicles.

Risk therefore continues to be a key focus. A consultative assessment of risks is undertaken to balance mitigating steps with the interests of the stability of the Scheme.

We are committed to ensuring that business's capital reserves remain at an appropriate level. It remains vital that these are kept at a level sufficient to ensure our continued operation. The primary purpose of these reserves is to provide a "shock absorber" against a substantial fall in used-car values, or other risks which could threaten the sustainability of the Scheme. These capital reserves are used actively in meeting over a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

In considering the appropriate level of reserves, we reflect on credit rating implications and investor perspectives. Our ability to secure liquidity is of primary importance and investor confidence is essential. The Board is also aware of the increased financing costs associated with operating with a lower level of capital (and so higher level of debt) that would ultimately be borne by customers. That said, the Board also understands the implications of holding capital which could be deployed by Motability (the Charity) in delivering its broader

Wates Principles

Since 2020, Motability Operations has applied the Wates Corporate Governance Principles for Large Private Companies and has successfully reported against Principles 1 to 6. Motability Operations is committed to establishing and maintaining a framework of corporate governance that facilitates management in making decisions within an appropriate framework of control that promotes high standards of business conduct and upholds accountability and transparency with our different stakeholders.

Our reporting against the Wates Principles can be found on pages 57 to 64 of our 2020 Annual Report.

“Thanks to the hard work and dedication of our employees, many working from home for extended periods, and the unflinching support of business partners, we have come through this turbulent period in good shape.”

mandate of enhancing the lives of disabled people in general. It is in the context of these considerations that the Board will consider the scope of any future charitable donations. At 31 March 2021, capital reserves stood at £2,444.7m (March 2020: £2,249.1m), providing us with adequate headroom above our target; a reassuring position given the ongoing uncertainty as the longer-term economic effects of Covid-19 continue to unfold.

As previously reported, we have fully implemented the two recommendations from the 2018 National Audit Office (NAO) report; namely to provide enhanced remuneration disclosure and to undertake a review of our forecasting methodology.

In line with NAO recommendations, the Charity initiated an external review from Oliver Wyman, to examine our capital modelling methodology and our applied risk appetite and confidence levels, and to benchmark our capital reserve levels against near-comparable companies. This initial review, completed in 2019, confirmed the appropriateness of Motability Operations' economic capital approach and supported the Group's application of a 99.99% confidence level (or one in ten thousand loss event), given Motability Operations' unique risk profile. The recommendations stemming from the 2019 review have now been implemented, with a follow-up review by Oliver Wyman (completed in early 2021) noting that “the overall quality of the economic capital framework has materially improved as a result of its revision”. Motability Operations remains committed to ensuring the ongoing development and refinement of the economic capital approach and methodology, including consideration of the recommendations made in Oliver Wyman's 2021 review.

Despite the many challenges facing all companies, Motability Operations Group plc remains financially and operationally resilient. These positive half-year results gives us confidence that we are strongly placed to continue to offer our customers affordable, worry-free, mobility.

The future remains highly uncertain and the challenges considerable. But we have remained agile in our approach as both the new and used-car markets recommence activity. We have continued to extend leases as we manage our path out of lockdown, balancing the needs of customers, suppliers and other stakeholders, whilst ensuring that we maintain appropriate liquidity headroom and capital. We will continue to do what we do well, while looking at ways in which the Scheme can help even more people, remain relevant and easily accessible and intensify as well as broaden the services it offers to people living with disabilities and their families.



Rt. Hon. Sir Stephen O'Brien KBE
Chairman



Support for our employees continues to be a key priority, and we regularly assess issues such as well-being and mental health, which have been recognised lockdown challenges. Based on employee feedback, we have undertaken a range of initiatives and introduced additional communication and practical support, including online webinars, to help people feel more connected.

Although in future we expect our offices to remain central to the business, we are also developing new ways of working which will lead to a blended approach, balancing a level of office and home-based working, from the autumn.

For more information about our people, visit our website www.motabilityoperations.co.uk

An exciting future for our business

“Since joining Motability Operations I’ve been extremely impressed with the hard work, professionalism and commitment to our customers from each individual employee, even through the most challenging of times.”

Andrew Miller
Chief Executive Officer



I was delighted to join Motability Operations in January as the Company’s new CEO. It’s been a great start, and my first impressions were that this is clearly a very well-run business with professional, dedicated employees, who are passionate about doing the right thing for our customers.

I must also echo the Chairman’s thanks to Matthew Hamilton-James for the great job he has done as interim CEO, as well as his engagement and wise counsel during the onboarding process. I am similarly grateful for the support of Sir Stephen O’Brien and members of the Motability Operations Board, who have helped me understand the opportunities and challenges the business faces.

I really appreciate the warm welcome I’ve been given by colleagues, despite the rather strange circumstances of lockdown that we find ourselves in. I have spent much of my first months getting to know the business, and meeting teams responsible for delivering all aspects of the Scheme.

I am very pleased to see a strong set of results for the first half of the year, with our excellent performance across our full range of metrics providing a sound position moving forward. There continues to be uncertainty in the industry as a result of Covid-19, with the potential to affect both vehicle supply and consumer confidence, however, we will continue to minimise these impacts on our customers.

We offer first-class customer service, a market-leading vehicle sales operation, and have invested in a technical platform which provides a sound base for future digital development. All this provides an opportunity – the chance for us to refresh our strategy and invest to remain strong over the next 10 years.

We can never stand still. The market within which the Scheme operates is always changing, and to maintain our critical role in providing affordable, worry-free services to our customers, we continually review our proposition to ensure it meets the needs of our customers today and tomorrow.

It’s vital that we recognise and respond to the significant changes happening across all areas in which we operate, including shifts in the car market and consumer behaviour.

Our Scheme partners are fundamental to ensuring we continue to provide our customers with the highest levels of service possible today and in the future. I would like to thank all our partners for the incredible levels of service which have been maintained through the pandemic.

The Charity’s oversight role remains invaluable in helping the Company deliver the Scheme to the highest possible standards for our customers, and we will develop our thinking in close engagement with Motability colleagues.

Our employees are very much key to our future success. Our people have performed valiantly during lockdown. They remain passionate about our business, and their engagement is one of our most important measures.

I am also convinced there remains scope to grow the Scheme further. This year sees our first large-scale, integrated marketing campaign to increase awareness amongst potentially eligible customers who might benefit from participating in the Scheme. I am very pleased to have arrived at this exciting company at such an interesting time. Motability Operations is vital to the success of a Scheme which has transformed services to disabled people over the past 43 years.

At the same time, no one can sit on their laurels, and this is the perfect time to refresh our long-term goals. I look forward to working with the business and Board to ensure we continue to provide our customers with the best levels of service and affordability for as long as they need us.

A handwritten signature of Andrew Miller in black ink.

Andrew Miller
Chief Executive Officer

Sustainable for our customers

Performance

Overview

We have delivered a strong set of results for the first six-months of the year across a range of financial and non-financial measures.

Financial performance reflects stable fleet volumes, with customers selecting to extend their leases where appropriate to their circumstances, and strong remarketing performance within a resilient used-car market. Performance also benefits from the release of a 'no deal' Brexit residual value adjustment (as disclosed in the FY2020 Annual Report) of which £69m had been charged (by way of recalibrated depreciation) in FY2020.

A successful dual-tranche EUR and GBP bond issuance in January was used to pay-down temporary drawing on a £1.5bn revolving credit facility (net £400m drawn as at September 2020) and provides sufficient liquidity to fund expected customer renewals and new business through the remainder of the financial year.

Last summer we issued a £50 insurance rebate paid to every customer to recognise the beneficial impact on claim volumes from reduced traffic levels due to the national lockdown measures. As Covid-19 restrictions have continued to reduce road traffic we intend to provide our customers an additional £50 insurance payment this year. The customer payments, around £32m in aggregate, will be processed over the summer with the impact (revenue reduction) included within our financial position as at the half year.

Operational performance is driven by our dedicated employees and partners and their commitment to provide consistently excellent service for all customers whilst also responding empathetically to individual needs. We continue to offer an accelerated payment of customer end of contract bonuses where requested by customers, this being £600 for standard three-year contracts.

We set out to ensure that at least 200 cars are available at 'nil advance payment' (where the customer's allowance alone is enough to fund all lease costs), including a wide choice of automatics and vehicles with a lower impact on the environment. We have seen continued pressure on vehicle availability at this price point due to increasing new car prices and manufacturer range rationalisation programmes in order to achieve their emission targets. However, we have worked effectively with manufacturers to deliver an affordable price-list with a minimum of 208 vehicles available in the first six months of the year.

Customer satisfaction is measured independently. We included the results of our most recent survey in our FY2020 Annual Report, showing that overall customer satisfaction was considered excellent by our customers who rated us at 97%. This result is further validated in the Institute of Customer Services' UK Customer Satisfaction Index, in which Motability Operations' customer service scored 94.4%, compared to a sector average of 79.5%.

The ultimate validation of our performance is our customer renewal rate and it is pleasing to report that this remains consistently high at over 90%. In addition, we have also seen strong demand from brand-new customers with almost 40,000 applications being received in the first half of the year supporting an increase in overall customer numbers to 641k (September 2020: 635k).



“It’s wonderful to just get in my car and do the things I used to do.”

Lorraine
Customer

Due to her condition, fibromyalgia, Lorraine has difficulty walking long distances. Without her Motability Scheme car, Lorraine says “I’d be housebound.”

The car has enabled Lorraine to lead a relatively normal life, going shopping and being out and about doing the things she used to do. Her husband Alan shares her enthusiasm saying “it’s allowed us to explore the local countryside and go on holidays.”

Today more than 640,000 customers and their families put their trust in the Motability Scheme. It provides more than just a car, Wheelchair Accessible Vehicle, scooter or powered wheelchair, it aims at offering its customers all the freedom that comes with a truly worry-free lease.

Visit the Motability website to hear from Lorraine and other customers what the scheme has meant to them.



For the full video
news.motability.co.uk/inspiration/lorraines-story/

“Operational performance is driven by our dedicated employees and partners and their commitment to provide consistently excellent service for all customers.”



“We have continued to focus on delivering great service to our customers.”

Matthew Hamilton-James
Finance Director

We remain committed to offering customers a broad and affordable range of vehicles and anticipate a continued increase in demand for alternatively fuelled vehicles.

Half Year Highlights 2021

£123m

Post tax profit

A1/A

Credit Rating with stable outlook

97%

Customer Satisfaction (Independently measured)

91%

Renewal rate at end of lease

96%

Employee Engagement

>208

available at 'nil advance payment'

Financial performance

Revenue in the six months to March 2021 increased 3% to £2,169m (2020: £2,107m) reflecting a marginal increase in customer volume and VRM disposals offset by a £32m revenue reduction following the Board decision to provide all customers with a further £50 insurance rebate over the summer.

Profit for the period was £123.2m, representing a 2.5% return on assets (above our long-term target of 1.5%). As mentioned above, financial performance includes the release of previously booked depreciation in relation to a Brexit overlay in place at the year-end, manifesting both as a depreciation credit and through vehicle remarketing profit where previously written down vehicles were not revalued prior to disposal.

The £123.2m profit includes a gain of £78.4m from vehicle sales (2020: £104.6m), reflecting a strong performance from our vehicle remarketing operation, with 76% of vehicles sold through our online channels, alongside reduced residual values for a portion of disposals impacted by previous Brexit overlay adjustments. The result also includes a £61.6m depreciation credit reflecting the outputs of the March 2021 fleet revaluation exercise (March 2020: £16.0m release) and release of the previous Brexit overlay.

It should be noted that, consistent with our position at the year-end (September 2020), we continue to hold a residual value adjustment for potential economic downside, in excess of our central view, in relation to Covid-19. The total net reduction on the projected value of the unguaranteed residual value of the fleet from this overlay is £107m. (March 2020: £0.0m).

The result for the first six months of trading takes restricted reserves on the balance sheet, which we use operationally to purchase vehicles, to £2,444.7m (March 2020: £2,249.1m) providing adequate headroom above our target position.

Assets and residual values

The carrying value of operating lease assets has increased 4.8% since September 2020, to £8,184.1m (March 2020: £7,748m). Exposure to unexpected movements in residual value represents the Groups single largest financial exposure.

At March 2021, the estimated residual value of the fleet versus the priced position reflected a projected net gain of £197.7m (March 2020: £139.6m). This projected improvement is credited to the income statement over the term of the respective leases. At the balance sheet date, £91.0m of this gain (March 2020: £102.3m) had been recognised through the income statement, with the balance to be charged across the next three financial years.

Financing and liquidity

The Group continues to pursue a strategy aimed at diversifying sources of funding, protecting structural liquidity and maintaining a well-laddered debt maturity profile. A dual tranche bond issue was successfully completed in January under a new social bond framework, raising €500m and £350m across the two bonds.

Of the Group's £437.8m Cash and Cash Equivalents balance reported at 31 March 2021 (March 2020: £287.2m), £149.5m is ring-fenced (March 2020: £63.7m) in respect of insurance liabilities in MO Reinsurance Ltd.

The Group retains a £1.5bn Revolving Credit Facility to provide liquidity headroom which was undrawn at 31 March 2021.

Our corporate credit ratings (A/A1, both with a Stable outlook; S&P and Moody's respectively) remain an important enabler of our access to financing at competitive rates from the debt capital markets.

Insurance

Through our insurance arrangements with RSA Insurance Group (RSA), 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.

Following an independent review of our actuarial assessment of the reserving position, MORL reported a £14.7m post-tax profit for the six months to March 2021 (March 2020 £4.5m), this result reflecting continued benefit from reduced road usage related to Covid-19.

Outlook

The impact of Covid-19 has been challenging and we will maintain our focus on supporting the well-being of our dedicated teams and partners who continue to provide an excellent service to our customers.

Our financial result reflects the benefit of securing a trade deal between the UK and the European Union whilst the vaccination roll-out across the UK will hopefully support a pathway to safely unlocking the economy in the coming months. However, as witnessed in the most recent wave of Covid-19 infections throughout the UK, there remains a significant economic uncertainty on how markets will re-open and the potential for further spikes in infection rates.

Our most significant risk relates to unforeseen movements in the market of second-hand vehicles and our fleet revaluation continues to include a Covid-19 overlay based on our assessment of the potential downside impact from an economic downturn beyond our central forecast. The impact of this adjustment to our central forecast reduces the estimated residual value of the fleet by £107m (March 2020: £0.0m).

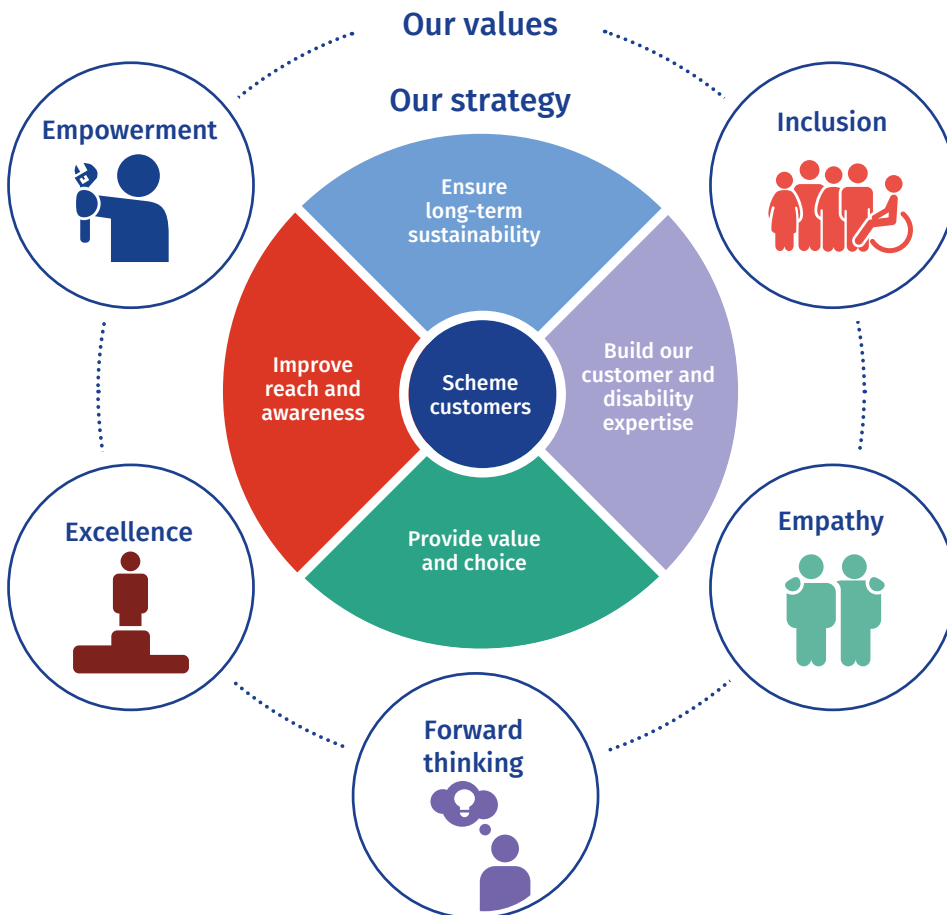
In due course we anticipate an increase in product availability as manufacturers launch new models aligned to emission targets, though it's likely pressure will remain on our target to provide at least 200 cars at nil advance payment for the remainder of the financial year. Notwithstanding this pressure we remain committed to offering customers a broad and affordable range of vehicles and anticipate a continued increase in demand for alternatively fuelled vehicles.

We have strong liquidity as at 31 March 2021 and a further £1.5bn available through our revolving credit facility. Furthermore, there are no bond maturities in the near term with the next maturity being June 2022 (£400m).

Notwithstanding the enduring and uncertain challenges related to Covid-19, we consider the Group's closing capital position to provide adequate coverage given the current and emerging potential risks faced by the Scheme.

Our strategic framework

Our values help us deliver our strategy



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.

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.

People and culture

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

Performance

We track performance through a range of contractual and internal 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.

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.

Strategy in action

Building 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

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.

KPI's



97%

Overall customer satisfaction
Target of >92%



80%

Calls answered within 20 seconds
Target of >80%



38.5 min

Roadside assistance av. response time
Target of <42 min

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

Initiatives

Continued investment in our front-line customer services team to address more complex customer needs, arising from our changing customer base and the Covid-19 pandemic. An essential part of this remains resolving customer queries during the first point of contact, ensuring customers only have to speak to one of our team, and the query is resolved quickly and efficiently.

Speech analytics helps to support and enhance our immediate understanding of customer needs, allowing us to adapt quickly to any changing requirements.

Continually expanding our digital offering, with over 80k customers registering for an online account in the first half of the year, allowing management of the application process and preferences on receiving any payments from MO.

Continuous Mobility programme aims to ensure customers can continue with their day-to-day lives in the event their vehicles are off the road.

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.

KPI's



>208

Affordable vehicle choice at 'nil advance payment'
Target of >200



>44%

Cheaper than alternative



76%

Of vehicles sold online at the end of lease
Target of >70%

Objectives

- Provide stability in pricing and choice throughout the economic cycle and 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
- Retain our market leadership for vehicle remarketing

Initiatives

Worked with car manufacturers to maintain choice and affordability for customers with more than 208 cars available at no more than the allowance. This was achieved despite significant challenges presented to manufacturers over a challenging period for the industry.

Provided a large selection of vehicles available at less than the customer's full allowance, with on average 79 cars available through the first half of the year.

Continued to develop our processes of residual value forecasting, to ensure customer pricing is based on a fair and reasonable assessment of future market values.

Further enhanced the customer WAV proposition with the roll out of familiarisation visits, and annual checks, to make sure customers are comfortable with their vehicle, and the technical aspects remain sound.

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 better-inform potential customers who are well-positioned to evaluate its benefits. The loyalty and trust of our existing customers is of fundamental importance, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.

KPI's



98%

Trust in Mobility
Target of >85%



91%

Customer renewal rate at the end of lease
Target of >85%



98%

Customer advocacy
Target of >85%

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 Motability dealers to promote the Scheme in line with our brand**

Initiatives

Provided operational and disability confidence training for several thousand dealer Motability specialists, all through an online platform which was developed rapidly to replace our usual classroom environment. Our training courses are being adapted to further enhance our services and align them to a multi-channel approach.

Continued improvements to the Scheme website, offering users a simpler, cleaner journey in line with our updated branding and redesigning the way key information is ordered and displayed.

Developing an online 'self-service' portal, further broadening the opportunities for customers to contact us and to tailor their package to their own specific requirements.

Continued to work with Family Fund, the UK's largest charity providing grants for low-income families raising disabled or seriously ill children and young people, to deliver a pilot scheme providing vehicles to families with children under the age of three.

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

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.

KPI's



96%

Employee engagement
Target to benchmark 84%



A/A1

Credit rating
Both ratings reaffirmed with a stable outlook



8.44 yrs

Debt maturity profile

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**
- **Ensure that our premises and information technology infrastructure are robust and future-proof**
- **Attract and retain quality people**
- **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 and emissions**

Initiatives

The first half of the year delivered an excellent financial result, driven largely by the continued buoyancy of the used car market despite the second national lockdown being announced in January 2021.

Continued development aligned to our strategic IT roadmap that will secure systems sustainability (replacing aged legacy systems) with linked benefits flowing across business operations.

Given the high-performance levels expected of individuals who work to deliver the Scheme we have invested resources to ensure we maintain and develop an appropriate environment that supports their needs and that recognises and embraces the benefits of a diverse workforce.

Ensured a good range of lower-emission, higher-MPG vehicle choices is available across vehicle categories and featured green choices in our promotional mailings. During the first half of the year we were able to offer 47 different models of alternatively fuelled vehicles to customers.

Our dynamic and robust approach

Through our comprehensive risk management processes we identify and assess the potential risks that we face. Having understood the nature of these risks, we ensure that we have effective mitigations 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 financial, reputational and operational shocks to the business.

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 is enshrined within our day-to-day activities and our governance framework, which is overseen and managed by our Risk Management Committees.

We have a Director with specific responsibility for risk, as well as a dedicated Risk Management function. The business's appetite for risk is managed through a comprehensive and independently verified Risk Appetite Framework.

We make certain that, through our policies, our approach and our activities, we meet standards of behaviour that fall within boundaries that are consistent with our agreed 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 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. The responsibility for managing the risks and control activities sits firmly within the first line responsibilities.

We regularly review our risk management framework to ensure that it remains appropriate to the business and its strategy. 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.

The framework is designed to identify and mitigate risks to the business and its operation, which has been proven through an unprecedented year.

Risk management framework

We have designed our risk management framework around the 'three lines Model' approach to risk governance.

<p>1st line Primary risk management</p>	<ul style="list-style-type: none"> • Controls designed into processes and procedures • Control Risk Self-Assessments and control action plans 	<ul style="list-style-type: none"> • Project risk identification and management processes • Directors' Risk Assessments
<p>2nd line Risk control</p>	<ul style="list-style-type: none"> • Risk department activities • Policies and procedures, e.g. Authorities Manual • Company Performance Report and KPIs • Directors' and Heads of Function Annual Accountability Statements 	<ul style="list-style-type: none"> • Company Performance Report and KPIs • Activities of the Board and Committees
<p>3rd line Assurance</p>	<ul style="list-style-type: none"> • Follow-up of agreed recommendations against implementation deadlines and subsequent reporting 	<ul style="list-style-type: none"> • Internal audit reviews

Risk Appetite Framework

Our risk management approach is supported by the use of a clear Risk Appetite Framework (RAF) within which we have formalised risk reporting to provide effective line of sight to management.

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 is subject to periodic internal and external review.

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 comprehensive Risk Appetite Framework ensures that there is a clear linkage between our strategic planning, business model, performance monitoring and risk management activities.

High level

High-level enterprise-wide risk appetite statement, measures and limits

Directional

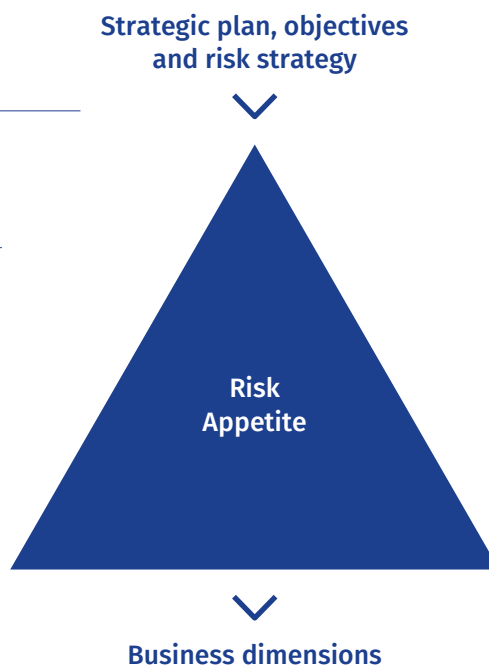
Key Risk Driver and related risk appetite statements, measures and limits

Specific

Principles and policies to operationalise risk appetite

Detailed

Detailed risk appetite measures and limits



- | | |
|--|---|
| <ul style="list-style-type: none"> ✓ Based upon a top-down hierarchy derived from the strategic plan and objectives and risk strategy | <ul style="list-style-type: none"> ✓ Documentation of specific minimum standards; principles and 'dos and don'ts' for inclusion in the business policy and risk assessment documentation |
| <ul style="list-style-type: none"> ✓ Articulation of high-level statements and limits aligned to strategic risk objectives such as earnings volatility, embedded value, financial strength, infrastructure, reputation etc. | <ul style="list-style-type: none"> ✓ Mapping of directional limits to detailed business management information so as to tie together the top-down and bottom-up |
| <ul style="list-style-type: none"> ✓ Analysis of high-level limits to identify and set limits against key risk drivers so as to give directional steer to business | <ul style="list-style-type: none"> ✓ The framework is then used to inform the key business dimensions including business model, customer profile, control measures, concentrations, competitive position, and financials |

Summary of our key risks and mitigations

	1	2	3	4
	<p>Residual values Unexpected movements in used car values, failure to achieve market value on disposal</p>	<p>Insurance Exposure to insurance claims that exceed expectations or supplier failure</p>	<p>Treasury Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk</p>	<p>Supplier failure Failure of key manufacturer or other key Scheme supplier</p>
Potential impact	<ul style="list-style-type: none"> Volatility in profitability, reserves and pricing. Potential impact on affordability and choice 	<ul style="list-style-type: none"> Financial impact of claims exceeding priced expectations Failure of a reinsurer could transfer risk back to Motability Operations Legislative changes (e.g. Ogden rate changes) 	<ul style="list-style-type: none"> Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding 	<ul style="list-style-type: none"> Compromised customer service provision and potential financial impact of securing alternative supplier In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties
Mitigation	<ul style="list-style-type: none"> Sophisticated in-house residual value-setting and forecasting process Risk capital management for asset risk using Economic Capital principles Market-leading remarketing approach 	<ul style="list-style-type: none"> Conservatively placed reinsurance programme effectively limits the Group's net risk Risk capital in place to cover net risk Access to extensive expertise Diversification of supply across highly rated reinsurers 	<ul style="list-style-type: none"> Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps Balanced portfolio of funding maturities and diversification into bond market Maintenance of strong credit rating Robust treasury system, controls and governance 	<ul style="list-style-type: none"> Strong supplier relationships and communication Active monitoring of credit ratings and market announcements Diversification of supply Diversified portfolio Temporary revision of payment terms through Covid-19 to support key suppliers
Link to strategy	<ul style="list-style-type: none"> The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology) 	<ul style="list-style-type: none"> Our insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term 	<ul style="list-style-type: none"> The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk averse 	<ul style="list-style-type: none"> Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs
	5	6	7	8
	<p>Operational Risk of failure of key systems, controls or processes</p>	<p>Cyber risk and information security The loss or harm related to unauthorised access to infrastructure or data</p>	<p>Credit Risk of default of key income streams and exposure to bad debt</p>	<p>Business continuity Exposure to natural and physical disasters resulting in major and sustained disruption to business activities</p>
Potential impact	<ul style="list-style-type: none"> Potential financial and reputational risk Risk of business disruption 	<ul style="list-style-type: none"> Potential impacts to customer and stakeholder confidence Potential financial and reputational risk Risk of business disruption 	<ul style="list-style-type: none"> Potential impact on cash inflows and consequent write-off to income statement 	<ul style="list-style-type: none"> The impact of a continuity event could have severe operational, financial and reputational effects on our ability to operate the Scheme
Mitigation	<ul style="list-style-type: none"> Robust control environment Active monitoring and testing of Business Continuity and Disaster Recovery plans Focus and investment in IT infrastructure providing a stable and resilient operating platform Controlled and governed process changes to support the business through Covid-19 	<ul style="list-style-type: none"> Information security framework aligned to best practice and industry standards Designated data protection officer Ongoing employee awareness programme Cyber Insurance and Incident Response plan in place 	<ul style="list-style-type: none"> Principal income stream received directly from DWP – therefore minimal credit risk Residual credit risks are managed through credit assessments and an effective credit control function 	<ul style="list-style-type: none"> Well-established continuity response plans including home-working, system resilience and disaster recovery Dedicated cross-functional Business Continuity Committee in place Controlled and governed process changes to support the business through continuity events
Link to strategy	<ul style="list-style-type: none"> We ensure that we make appropriate strategic investments in our infrastructure, systems and processes 	<ul style="list-style-type: none"> Customer confidence in the Scheme underpins our strategy The strategic pillar of ensuring long-term sustainability ensuring compliance with key regulation 	<ul style="list-style-type: none"> The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme 	<ul style="list-style-type: none"> Investment in our infrastructure ensures the effective and efficient operation of the Scheme and long-term sustainability in providing excellent customer service.

Independent review report to Motability Operations Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half year financial report for the six months ended 31 March 2021 which comprises consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 31 March 2021 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half year financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

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

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year financial report in accordance with the DTR of the UK FCA.

As disclosed in note 1, the latest annual financial statements of the Group were prepared in accordance with International Financial Reporting Standards as adopted by the EU and the next annual financial statements will be prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The directors are responsible for preparing the condensed set of financial statements included in the half year financial report in accordance with IAS 34 adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half year financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.



Simon Clark
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
14 June 2021

Consolidated income statement

For the six months ended 31 March 2021

	Note	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Revenue	4	2,169.0	2,107.0
Net operating costs excluding charitable donations		(1,935.2)	(1,896.3)
Charitable donations		–	–
Net operating costs	6	(1,935.2)	(1,896.3)
Profit from operations		233.8	210.7
Finance costs	7	(81.7)	(84.3)
Profit before tax		152.1	126.4
Taxation			
Taxation excluding the impact of changes in the UK corporation tax rate	8	(28.9)	(24.0)
Re-measurement of deferred tax due to changes in the UK corporation tax rate	8	–	(25.0)
Profit for the period		123.2	77.4

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

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

Consolidated statement of comprehensive income

For the six months ended 31 March 2021

	Note	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Profit for the period		123.2	77.4
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	14	(95.7)	(20.9)
Gains/(losses) on cash flow hedges reclassified to the income statement	14	112.2	(2.0)
Tax relating to components of other comprehensive income		(3.1)	4.3
Other comprehensive income for the period, net of tax		13.4	(18.6)
Total comprehensive income for the period		136.6	58.8

The notes on pages 23 to 49 form part of these financial statements

Consolidated balance sheet

As at 31 March 2021

	Note	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Assets				
Non-current assets				
Intangible assets		85.7	78.4	72.8
Property, plant and equipment		67.3	70.4	67.2
Assets held for use in operating leases	9	8,184.1	7,812.0	7,748.0
Financial assets at amortised cost		135.3	145.5	152.2
Trade and other receivables		20.7	21.4	20.3
Derivative financial instruments	15	64.0	107.7	92.3
		8,557.1	8,235.4	8,152.8
Current assets				
Inventories	10	137.4	140.3	153.7
Financial assets at amortised cost		67.7	58.1	53.1
Cash and bank balances		516.4	316.2	302.6
Insurance receivables		51.9	75.8	86.4
Trade and other receivables		263.7	291.5	229.4
Reinsurers' share of insurance provisions		434.5	404.3	344.3
Derivative financial instruments	15	0.1	-	-
		1,471.7	1,286.2	1,169.5
Total assets		10,028.8	9,521.6	9,322.3
Liabilities				
Current liabilities				
Corporation tax payable		(26.2)	(8.6)	(0.2)
Deferred rental income	11	(176.6)	(172.3)	(167.4)
Provision for customer rebates	12	(143.2)	(99.7)	(112.1)
Insurance payables		(74.1)	(71.2)	(55.6)
Trade and other payables		(164.1)	(194.6)	(102.0)
Provision for insurance claims outstanding	13	(543.8)	(512.9)	(485.1)
Financial liabilities	14	(112.6)	(128.4)	(47.7)
Derivative financial instruments	15	(0.9)	(0.5)	(1.1)
		(1,241.5)	(1,188.2)	(971.2)
Net current assets		230.2	98.0	198.3
Non-current liabilities				
Deferred rental income	11	(253.9)	(239.5)	(229.2)
Provision for customer rebates	12	(68.5)	(67.5)	(72.1)
Financial liabilities	14	(5,734.8)	(5,458.3)	(5,526.1)
Derivative financial instruments	15	(65.0)	(13.3)	(21.3)
Deferred tax liabilities		(230.1)	(256.4)	(270.4)
		(6,352.3)	(6,035.0)	(6,119.1)
Total liabilities		(7,593.8)	(7,223.2)	(7,090.3)
Net assets		2,435.0	2,298.4	2,232.0
Equity				
Ordinary share capital		0.1	0.1	0.1
Hedging reserve	14	(9.8)	(23.2)	(17.2)
Restricted reserves (*)		2,444.7	2,321.5	2,249.1
Total equity		2,435.0	2,298.4	2,232.0

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

These financial statements on pages 19 to 49 were authorised by the Board of Directors on 21 May 2021 and signed on behalf of the Board.



Andrew Miller
Chief Executive

The notes on pages 23 to 49 form part of these financial statements

Consolidated statement of changes in equity

For the six months ended 31 March 2021

	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total £m
At 1 October 2019	0.1	1.4	2,171.7	2,173.2
Comprehensive income				
Profit for the period	–	–	77.4	77.4
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(20.8)	–	(20.8)
Gains on cash flow hedges reclassified to the income statement	–	(2.1)	–	(2.1)
Impact of initial application of IFRS 16	–	–	–	–
Tax relating to components of other comprehensive income	–	4.3	–	4.3
Total comprehensive income	–	(18.6)	77.4	58.8
At 31 March 2020	0.1	(17.2)	2,249.1	2,232.0
At 1 October 2020	0.1	(23.2)	2,321.5	2,298.4
Comprehensive income				
Profit for the period	–	–	123.2	123.2
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(95.7)	–	(95.7)
Gains on cash flow hedges reclassified to the income statement	–	112.2	–	112.2
Tax relating to components of other comprehensive income	–	(3.1)	–	(3.1)
Total comprehensive income	–	13.4	123.2	136.6
At 31 March 2021	0.1	(9.8)	2,444.7	2,435.0

The notes on pages 23 to 49 form part of these financial statements

Consolidated statement of cash flows

For the six months ended 31 March 2021

	Note	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Cash flows from operating activities			
Cash used in operations	16	(35.6)	(90.1)
Interest and preference share dividends paid		(78.3)	(88.2)
Income tax paid		(40.7)	(22.6)
Charitable donations		–	(52.3)
Net cash used in operating activities		(154.6)	(253.2)
Cash flows from investing activities			
Purchase of intangible assets		(13.3)	(11.7)
Purchase of property, plant and equipment		(1.3)	(5.2)
Proceeds from sale of property, plant and equipment		0.2	0.3
Net divestment of/(investment in) financial assets at amortised cost		0.6	(0.7)
Net cash used in investing activities		(13.8)	(17.3)
Cash flows from financing activities			
New loans raised		–	200.0
Loans settled		(400.0)	–
Payments of principal portions of lease liabilities		(1.8)	(1.5)
Bonds issued		787.9	–
Net cash used in financing activities		386.1	198.5
Net decrease in cash and cash equivalents		217.7	(72.0)
Cash and cash equivalents at beginning of period		220.1	359.2
Cash and cash equivalents at end of period	16	437.8	287.2

The notes on pages 23 to 49 form part of these financial statements

1. General information

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

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

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

This condensed set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 30 September 2020 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

Accounting convention

The financial statements have been prepared under the historical cost convention, except the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss apart from derivative instruments relating to cash flow hedges which are classified and measured at fair value through other comprehensive income.

2. Significant accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 March 2021 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and IAS 34 *Interim Financial Reporting*. The condensed set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2020, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Group's significant accounting policies are contained within the Group's annual financial statements but an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period is set out below.

The preparation of financial statements in conformity with international accounting standards ("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 involved, 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 applied are consistent with those of the annual financial statements for the year ended 30 September 2020, as described in those annual financial statements. IFRS 16 was adopted in that year and the policies and impact of adoption were discussed on pages 94 and 95.

Comparatives

As noted in an RNS announcement of 15 May 2020, although the Group usually opts to voluntarily produce a Half Year report including interim financial statements, this was not done in 2020 as the Covid-19 lockdowns were commencing at the time.

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 of the latest Annual Report on pages 2 to 56. In addition, note 36 to the annual 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 Directors continue to adopt the going concern basis in preparing the financial statements, which is deemed appropriate for the reasons described below.

The financial position of the Group, its liquidity position and borrowing facilities are described in the Interim management report on pages 9 to 11 of this document.

The Group has considerable financial resources, with restricted reserves of £2,444.7m at 31 March 2021, together with a long-term contract with Motability to operate the 'Motability Scheme'.

2. Significant accounting policies continued

Since the year ended 30 September 2020, there have been additional local and national lockdowns in response to the global Covid-19 pandemic. Business operations have been uninterrupted throughout this period as all employees are capable of working remotely where possible. In addition, the used-car market has remained operational and whilst there have been small deteriorations in volumes and prices, the used-car values remain buoyant and in line with management expectations.

The Directors have prepared budgets and cash-flow forecasts for a period of at least 12 months from the date of approval of the financial statements by means of a baseline forecast. The baseline forecast from 31 March 2021 is based on the most recent economic conditions and forecasts.

In addition, the Directors have applied severe, yet plausible, downside scenarios to the baseline forecast, reflecting the potential effects to operations and financial performance of further localised and national lockdowns in response to the Covid-19 pandemic. These include an additional deterioration in revenue from disposal of operating lease assets; a reduction in new business; and an inability to issue debt under the Euro Medium Term Note Programme, should it be required. Potential mitigating upsides to insurance claims cost due to a reduction in claims frequency during lockdowns have been excluded from the stressed forecasts.

Within both the baseline and stressed forecasts the Group has significant headroom to:

- continue to fund the business and meet its liabilities utilising current banking facilities;
- meet the objectives of its capital and reserves management policy; and
- comply with debt financing covenants.

The forecast headroom in the event of these severe, yet plausible, scenarios coming to fruition indicates that no mitigating action is required.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Taxation

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

Seasonality

Each year there is a minor dip in the volumes of new contracts in February and August as these are the months prior to the bi-annual changes of registration plates in March and September. This does not distort the half yearly reporting cycle as each occurrence is one month prior to the balance sheet reporting date. Major charitable donations are normally authorised in the second half of each reporting year as results for the full year become more certain.

Adoption of new or revised standards

The following amendments to standards have been adopted in these financial statements. Their adoption has not had any material impact on the amounts reported, nor has it altered accounting policies.

IAS 1 and IAS 8 (Amendments)	<i>Amendments to Definition of Material</i>
IFRS 16 (Amendments)	<i>Leases: Covid-19-Related Rent Concessions</i>

Future accounting developments

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

IFRS 17	<i>Insurance Contracts</i>
IAS 37 (Amendments)	<i>Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract</i>
IAS 1 (Amendments)	<i>Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current</i>
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)	<i>Interest Rate Benchmark Reform – Phase 2</i>

2. Significant accounting policies continued

IFRS 17 Insurance Contracts

IFRS 17 was issued on 18 May 2017 and following a couple of amendments currently has an implementation date of accounting periods commencing on or after 1 January 2023, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2024 (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.

Aside from IFRS 17 (which is still being assessed), the Directors anticipate that the adoption of these standards, amendments and interpretations in future periods is not likely to have a material effect on the financial statements of the Group, and do not plan to apply any of the new or amended IFRSs in advance of their required dates.

Other standards, amendments and interpretations not described above are not significant in scope regarding the Group.

Interest Rate Benchmark Reform and prior period early adoption

In September 2019, the IASB issued amendments to IAS 39, IFRS 9 and IFRS 7 to address uncertainties related to the market wide reform of interbank offered rates ("IBOR" reform). The first-phase amendments were adopted early by the Group in 2020. Under the reforms, LIBOR will not be sustained after the end of 2021. The amendments provide targeted relief for financial instruments qualifying for hedge accounting under IAS 39 or IFRS 9 in the lead up to IBOR reform.

Historically, the variable rate paid or received on interest rate swap contracts used by the Group has been based on LIBOR. All the Group's swaps in place at 31 March 2021 are expected to remain effective and will mature before the IBOR cessation date.

	31 March 2021 £m	30 Sep 2020 £m
Notional value of LIBOR swap contracts used in hedges	400.0	400.0
Notional value of SONIA swap contracts used in hedges	–	–
Total notional value of swap contracts used in hedges held	400.0	400.0

	31 March 2021 £m	30 Sep 2020 £m
Notional value of LIBOR swap contracts used in hedges which mature before the end of 2021	400.0	400.0
Notional value of LIBOR swap contracts used in hedges which mature after 2021	–	–
Total	400.0	400.0

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Judgements are made when applying significant accounting policies and disclosed below where these judgements materially affect the reported numbers. Judgements and estimates also apply when preparing for going concern analysis and disclosures (see note 2).

Key estimate: residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 9 and the impact of the change in estimates during the year is also disclosed in note 6. Included in the estimate of residual values at 31 March 2021 is an adjustment of £107.0m (30 September 2020: £98.1m; 31 March 2020: £nil; 30 September 2019: £nil) with regards to downside risk to vehicle resale values due to uncertainty around Covid-19 and the future economic disruption and ramifications for the used-car market. At 30 September 2020 the Group also carried an adjustment of £109.8m (30 September 2019: £109.5m) due to uncertainty around Brexit negotiations and the European/domestic political landscape; this adjustment has now been released following the Brexit trade deal struck in December 2020.

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

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 operating lease assets may differ from their realisable value (see note 9). As at 31 March 2021, if the value of the expected 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 £67.6m (30 September 2020: £62.4m; 31 March 2020: £61.9m; 30 September 2019: £59.6m). Approximately 25% of this will crystallise at the end of the contracts (in particular in cases where the leases terminate early) but for the majority of the fleet a revaluation exercise is undertaken in order to prospectively adjust the depreciation expense over the remaining terms of the leases. This would be booked from the start of the current accounting year onwards. A 1% rise or fall would impact this period's depreciation charge by approximately £25.6m (30 September 2020: £20.1m; 31 March 2020: £19.2m; 30 September 2019: £18.5m).

Key estimate and judgement: insurance contracts

There are many factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the bodily injury claims in particular invariably results in a lengthy legal process where claims quantum can fluctuate, and judgements are made by actuaries in the selection of appropriate actuarial methods when estimating the claims liabilities. The methods and basis of selection are described in more detail in note 13.

The critical accounting estimates relating to insurance contracts are a) the recognition of the reinsurance commission receivable under insurance contracts and b) the valuation of liabilities of insurance contracts.

Reinsurance commissions

The level of commission receivable from the Group's outward reinsurance comprises two elements. The first is a guaranteed percentage of the premium payable to reinsurers; this is recognised in the financial statements on the same basis as the related reinsurance expense. The second element of the reinsurance commission is dependent upon the reinsurance loss ratio experienced over the term of the contract, derived from the actuarial reserving process.

The estimation of commissions and ultimate liabilities is also affected by future legislative and economic developments, both in the UK and the Isle of Man. During 2019, the UK's Civil Liability Bill amended the mechanism for setting the Personal Injury Discount Rate ("the Ogden rate"). The objective is to reflect the reality of how claimants invest their money on the basis that they are 'low risk' investors (not 'no risk' investors) with a review of the rate at least every five years. Any change in the Ogden discount rate would not impact on the Group's retained liabilities but would have an effect on the Group's gross liabilities and reinsurance contingent commission. The new Ogden rate of -0.25% became effective on 5 August 2019 in England, with an Ogden rate of -0.75% in Scotland. A new interim Ogden rate in Northern Ireland with effect from 31 May 2021 of -1.75% has in particular impacted projected ultimate losses in the most recent actuarial reserving study as at 31 March 2021.

During the period £29.2m of commission was received in respect of the reinsurance contract for the 2014-2017 policy period. Commission receivable and payable are adjusted on a quarterly basis dependent upon projected ultimate incurred loss ratios. The carrying amount of reinsurance commission receivable at the reporting date is £7.1m (30 September 2020: £33.9m, 31 March 2020: £45.9m; 30 September 2019: £32.0m). The amounts recognised in the year are shown in note 13.

Valuation of liabilities of insurance contracts

Claims incurred include all losses occurring during the year (reported or not), related handling costs, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. The provision for claims outstanding is made on an individual basis plus an estimate of the cost of claims incurred but not reported ("IBNR") at the balance sheet date using statistical methods. The estimation of IBNR is generally subject to a greater degree of uncertainty than notified claims as some cases can take time to become notified and the total amount of the potential claim is not always apparent from initial information supplied to the insurer. In calculating the estimated cost of unpaid claims, the Group, in conjunction with independent actuaries, uses a variety of estimation techniques, generally based upon statistical analysis of both market data and its own historic experience.

The Group has assessed the impact of Covid-19 on the projected ultimate level of claims. The estimated impact of Covid-19 on frequencies for June 2020 and prior is largely reflected in the data as actual experience has emerged. In the application of the risk margin, the Group has recognised that the Covid-19 period brings greater uncertainty than normal. There is potential for impacts on claim severity due to a different profile of accidents, or due to repair delays (particularly in the case of hire car costs). There may be impacts on third-party costs which may take time to emerge in the data. There may also be a further increase in the proportion of at-fault claims which may result in lower third-party recoveries. For these reasons, the Group has determined that it is appropriate and prudent to apply a higher risk margin than in a normal period.

The risk margin would normally be calibrated at the 80th percentile, and in this and the prior reserving exercise as at 30 September 2020 it has been temporarily moved to a higher confidence interval (85th), giving an additional risk margin on the retained risk layer of £2.6m. The actuary has provided the Directors with a number of models and sensitivity tests to evaluate the adequacy of this risk

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

margin in a range of scenarios. The conclusion of the analysis was that the risk margin at the 85th percentile would be adequate. This has given the Group assurance that a range of downside scenarios including currently unforeseen Covid-19 impacts is not expected to exceed the margin applied.

The reserves held in the financial statements of the Group are adequate and match the best estimates calculated by the independent actuaries. See note 13 for details of claims reserves balances.

Sensitivity analysis

A 1% change in the insurance loss ratio would impact pre-tax profits by £1.4m in the period (March 2020: 1.2m). The precise outcome of such changes would depend on the impacted layer and frequency of claims in each scenario. Note 13 describes in more detail the sources of uncertainty in the estimation of future claims payments.

4. Revenue

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

	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Proceeds from disposal of operating lease assets ⁽ⁱ⁾	1,124.5	1,077.6
Rentals receivable from operating lease assets	663.8	638.8
Rentals receivable from operating lease in-life services	106.7	98.4
Rentals receivable from operating lease insurance ⁽ⁱⁱ⁾	254.7	270.1
Insurance reimbursements from disposal of operating lease assets	17.0	18.9
Finance income	1.1	1.9
Other income	1.2	1.3
Total revenue	2,169.0	2,107.0

(i) During the six months ended 31 March 2021 the Group made a gain of £78.4m on the disposal of operating lease assets (six months ended 31 March 2020: £104.6m). See note 16.

(ii) Presented net of £32.0m of insurance related rental rebates expected to be paid to customers in summer 2021 in recognition of the beneficial impact on claim volumes from reduced traffic levels through the national lockdowns (2020: £nil).

Rentals receivable from operating lease insurance arrangements are applied to the Group's insurance cover arrangements – premiums payable to third-party insurers including reinsurers, and claims payable to third parties by the Group's reinsurance captive.

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 with a “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.

5. Segmental analysis continued

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.

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 six months ended 31 March 2021 and 31 March 2020.

	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Six months ended 31 March 2021				
Rentals receivable for operating lease assets	663.8	–	–	663.8
Rentals receivable for operating lease in-life services	106.7	–	–	106.7
Rentals receivable for operating lease insurance	254.7	–	–	254.7
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,141.5	–	–	1,141.5
Inter-segment proceeds	22.0	–	(22.0)	–
Insurance income	–	135.1	(135.1)	–
Other revenue	1.2	1.1	–	2.3
Total revenue	2,189.9	136.2	(157.1)	2,169.0
Net book value of disposed operating lease assets	(1,076.8)	–	–	(1,076.8)
Fleet operating costs	(389.3)	–	135.1	(254.2)
Insurance claims and commission costs	–	(117.4)	22.0	(95.4)
Depreciation on assets used in operating leases	(403.6)	–	–	(403.6)
Other operating costs	(104.6)	(0.6)	–	(105.2)
Charitable donations	–	–	–	–
Net operating costs	(1,974.3)	(118.0)	157.1	(1,935.2)
Profit from operations	215.6	18.2	–	233.8
Finance costs	(81.7)	–	–	(81.7)
Profit before tax	133.9	18.2	–	152.1
Taxation	(25.4)	(3.5)	–	(28.9)
Profit for the period	108.5	14.7	–	123.2

	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Six months ended 31 March 2020				
Rentals receivable for operating lease assets	638.8	–	–	638.8
Rentals receivable for operating lease in-life services	98.4	–	–	98.4
Rentals receivable for operating lease insurance	270.1	–	–	270.1
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,096.6	–	–	1,096.6
Inter-segment proceeds	24.6	–	(24.6)	–
Insurance income	–	123.4	(123.4)	–
Other revenue	1.8	1.3	–	3.1
Total revenue	2,130.3	124.7	(148.0)	2,107.0
Net book value of disposed operating lease assets	(1,008.8)	–	–	(1,008.8)
Fleet operating costs	(360.1)	–	123.4	(236.7)
Insurance claims and commission costs	–	(129.8)	24.6	(105.2)
Depreciation on assets used in operating leases	(447.1)	–	–	(447.1)
Other operating costs	(98.0)	(0.5)	–	(98.5)
Charitable donations	–	–	–	–
Net operating costs	(1,914.0)	(130.3)	148.0	(1,896.3)
Profit from operations	216.3	(5.6)	–	210.7
Finance costs	(84.3)	–	–	(84.3)
Profit / (loss) before tax	132.0	(5.6)	–	126.4
Taxation	(50.0)	1.0	–	(49.0)
Profit / (loss) for the period	82.0	(4.6)	–	77.4

5. Segmental analysis continued

The following tables show certain asset and liability information as at 31 March 2021, 30 September 2020 and 31 March 2020 regarding business operating segments.

	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
31 March 2021				
PPE & intangible assets	153.0	–	–	153.0
Assets held for use in operating leases (including inventories)	8,321.5	–	–	8,321.5
Derivative financial instruments	64.1	–	–	64.1
Insurance receivables	–	51.9	–	51.9
Reinsurers' share of insurance provisions	–	392.4	42.1	434.5
Trade and other receivables	284.4	–	–	284.4
Financial assets	468.1	352.5	(101.2)	719.4
Total assets	9,291.1	796.8	(59.1)	10,028.8
Deferred rental income and provisions for rebates	(642.2)	–	–	(642.2)
Insurance payables	–	(74.1)	–	(74.1)
Trade and other payables	(163.8)	(0.3)	–	(164.1)
Corporation tax payable	(26.2)	–	–	(26.2)
Financial liabilities	(5,847.4)	–	–	(5,847.4)
Deferred taxation	(230.1)	–	–	(230.1)
Provision for insurance claims outstanding	–	(501.7)	(42.1)	(543.8)
Derivative financial instruments	(65.9)	–	–	(65.9)
Total liabilities	(6,975.6)	(576.1)	(42.1)	(7,593.8)
Net assets	2,315.5	220.7	(101.2)	2,435.0
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(9.8)	–	–	(9.8)
Restricted reserves	2,325.2	119.5	–	2,444.7
Total equity	2,315.5	220.7	(101.2)	2,435.0
30 September 2020				
PPE & intangible assets	148.8	–	–	148.8
Assets held for use in operating leases (including inventories)	7,952.3	–	–	7,952.3
Derivative financial instruments	107.7	–	–	107.7
Insurance receivables	–	75.8	–	75.8
Reinsurers' share of insurance provisions	–	360.1	44.2	404.3
Trade and other receivables	312.9	–	–	312.9
Financial assets	314.3	306.7	(101.2)	519.8
Total assets	8,836.0	742.6	(57.0)	9,521.6
Deferred rental income and provisions for rebates	(579.0)	–	–	(579.0)
Insurance payables	–	(71.2)	–	(71.2)
Trade and other payables	(194.4)	(0.2)	–	(194.6)
Corporation tax payable	(8.6)	–	–	(8.6)
Financial liabilities	(5,586.7)	–	–	(5,586.7)
Deferred taxation	(256.4)	–	–	(256.4)
Provision for insurance claims outstanding	–	(468.7)	(44.2)	(512.9)
Derivative financial instruments	(13.8)	–	–	(13.8)
Total liabilities	(6,638.9)	(540.1)	(44.2)	(7,223.2)
Net assets	2,197.1	202.5	(101.2)	2,298.4
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(23.2)	–	–	(23.2)
Restricted reserves	2,220.2	101.3	–	2,321.5
Total equity	2,197.1	202.5	(101.2)	2,298.4

5. Segmental analysis continued

31 March 2020	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	140.0	–	–	140.0
Assets held for use in operating leases (including inventories)	7,901.7	–	–	7,901.7
Derivative financial instruments	92.3	–	–	92.3
Insurance receivables	–	86.4	–	86.4
Reinsurers' share of insurance provisions	–	299.1	45.2	344.3
Trade and other receivables	249.7	–	–	249.7
Financial assets	340.1	269.0	(101.2)	507.9
Total assets	8,723.8	654.5	(56.0)	9,322.3
Deferred rental income and provisions for rebates	(580.8)	–	–	(580.8)
Insurance payables	–	(55.6)	–	(55.6)
Trade and other payables	(101.8)	(0.2)	–	(102.0)
Corporation tax payable	(0.2)	–	–	(0.2)
Financial liabilities	(5,573.8)	–	–	(5,573.8)
Deferred taxation	(270.4)	–	–	(270.4)
Provision for insurance claims outstanding	–	(439.9)	(45.2)	(485.1)
Derivative financial instruments	(22.4)	–	–	(22.4)
Total liabilities	(6,549.4)	(495.7)	(45.2)	(7,090.3)
Net assets	2,174.4	158.8	(101.2)	2,232.0
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(17.2)	–	–	(17.2)
Restricted reserves	2,191.5	57.6	–	2,249.1
Total equity	2,174.4	158.8	(101.2)	2,232.0

6. Net operating costs

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

	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Net book value of disposed operating lease assets	1,046.1	973.0
Net book value of operating lease assets derecognised as insurance write-offs	30.7	35.8
Fleet operating costs including insurance, maintenance and roadside assistance costs (*)	254.2	236.7
Insurance claims expense	95.4	105.2
Other product costs including continuous mobility costs, adaptations support and communications	30.5	27.7
Employee costs	30.0	26.0
Other operating costs	18.4	17.1
Legal and professional fees	14.0	16.8
Bad debt charges and movement in bad debt provisions	0.6	0.4
Management fees	0.4	0.4
Charitable donations	–	–
Net operating costs before depreciation	1,520.3	1,439.1
Depreciation on assets used in operating leases	403.6	447.1
Depreciation and amortisation on property, plant and equipment and intangible assets	11.3	10.1
Net operating costs	1,935.2	1,896.3

(*) These costs are presented net of insurance premium rebates.

The depreciation charge on assets used in operating leases includes a £61.6m release (six months ended 31 March 2020: £16.0m release) relating to changes in estimates during the period of future residual values (see note 9).

7. Finance costs

	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Interest and charges on bank loans and overdrafts	5.1	6.4
Interest on debt issued under the Euro Medium Term Note Programme	75.9	77.2
Interest on right-of-use leased assets	0.3	0.3
Preference dividends	0.4	0.4
Total finance costs	81.7	84.3

8. Taxation

The major components of the consolidated tax charge are:

	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Current tax		
Charge for the period	58.2	43.2
Total	58.2	43.2
Deferred tax		
Origination and reversal of temporary differences	(29.3)	(19.2)
Re-measurement of deferred tax due to change in rate of corporation tax	–	25.0
Total	(29.3)	5.8
Tax on profit	28.9	49.0

Income tax expenses have been recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year. The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017, and was due to change to 17% with effect from 1 April 2020 but following substantive enactment of legislation in Parliament on 17 March 2020 continued at a standard rate of corporation tax of 19% from 1 April 2020 onwards. Accordingly, profits are taxable at 19% for both this and the previous accounting year (2020: 19%). In the Budget of 3 March 2021, the Government announced a new corporation tax rate of 25% to take effect from 1 April 2023. Had this been substantively enacted at the balance sheet date this would have resulted in a reduction to the deferred tax liability of approximately £12.7m.

Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments for this year are payable in the first half of the year. The Group has paid £32.0m of corporation tax relating to the current financial year (2020: £43.0m). The Group also paid £8.7m of tax relating to prior years during the six months to 31 March 2021 (2020: recovered over-paid tax relating to prior years of £20.4m).

9. Assets held for use in operating leases

	Motor vehicle assets £m
Cost	
At 1 October 2019	8,840.7
Additions	1,755.7
Transfer to inventory	(1,429.4)
At 31 March 2020	9,167.0
At 1 October 2020	9,425.3
Additions	1,849.6
Transfer to inventory	(1,462.2)
At 31 March 2021	9,812.7
Accumulated depreciation	
At 1 October 2019	1,344.8
Charge for the period	447.1
Impairment releases	–
Eliminated on transfer to inventory	(372.9)
At 31 March 2020	1,419.0
At 1 October 2020	1,613.3
Charge for the period	408.7
Impairment releases	(5.1)
Eliminated on transfer to inventory	(388.3)
At 31 March 2021	1,628.6
Carrying amount	
At 1 October 2019	7,495.9
Additions	1,755.7
Depreciation	(447.1)
Impairment releases	–
Transfer to inventory (note 10)	(1,056.5)
At 31 March 2020	7,748.0
At 1 October 2020	7,812.0
Additions	1,849.6
Depreciation	(408.7)
Impairment releases	5.1
Transfer to inventory (note 10)	(1,073.9)
At 31 March 2021	8,184.1

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.

9. Assets held for use in operating leases continued

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

Years in which unguaranteed residual values are recovered

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	2,060.2	1,895.1	1,775.9
Later than one year and not later than two years	2,316.3	2,148.3	1,931.9
Later than two years and not later than three years	2,277.6	2,098.9	2,383.7
Later than three years and not later than four years	51.8	45.5	41.1
Later than four years and not later than five years	49.7	51.4	56.4
Total exposure	6,755.6	6,239.2	6,189.0

The total unguaranteed residual value exposure presented above consists of the original priced residual values net of revisions in estimation (see the 'key sources of estimation uncertainty' 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.

Timing of revisions to original priced residual values included in the unguaranteed residual values above

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Total adjustments to depreciation carried at 31 March/30 September (*)	91.0	63.6	102.3
Amounts to be released/(charged) in future years	106.7	(76.1)	37.3
Total increase/(decrease) in estimated residual value	197.7	(12.5)	139.6

* The total adjustment to depreciation carried at 31 March 2021 of £91.0m (30 September 2020: £63.6m) is included within the accumulated depreciation balance of £1,628.6 (30 September 2020: £1,613.3m) on assets held for use in operating leases.

Impairment charges included in the net book value of operating leases

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Impairment charges brought forward at 1 October	(16.6)	-	-
Impairment charges arising during the year	-	(16.6)	-
Impairment releases during the year	5.1	-	-
Impairment charges carried at 30 September	(11.5)	(16.6)	-

The impairment charges carried at 31 March 2021 of £11.5m (30 September 2020: £16.6m) are included within the accumulated depreciation balance of £1,628.6m (30 September 2020: £1,613.3m) on assets held for use in operating leases.

At each balance sheet date, a review is undertaken for signs of impairment of the carrying value of the assets. Impairment is defined as a position where the net book value is higher than the "value in use". Value in use represents the estimated future cash flows to be derived from continuing use of the asset, measured after applying an appropriate discount rate.

In terms of the leased fleet, this is done by an evaluation by tranches of leases based on their month of inception. Where the net book value at the balance sheet date is too high an impairment charge is booked to bring the carrying amount into line with the value in use.

At 30 September 2020, following the re-estimation of the residual values, and mindful of the Brexit and Covid-19 related overlays described in note 3, an impairment review was undertaken which resulted in impairment charges of £16.6m (2019: £nil), all of which was expected to unwind during the next financial year. Due to the short-term nature of this timing, no discounting was applied. At 31 March 2021 all but £11.5m of this balance has been released as a credit to depreciation for the period.

9. Assets held for use in operating leases continued

The Group as lessor

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

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	1,035.5	985.4	1,108.2
Later than one year and no later than two years	513.3	498.2	585.0
Later than two years and no later than three years	173.2	155.4	190.4
Later than three years and no later than four years	9.1	8.7	10.2
Later than four years and no later than five years	3.0	2.7	3.7
Total	1,734.1	1,650.4	1,897.5

10. Inventories

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Ex-operating lease assets held for sale	137.4	140.3	153.7

Inventories represent the operating lease assets previously held for rental to customers and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £nil has been provided against irrecoverable vehicles (30 September 2020: £nil; 31 March 2020: £nil). During the period there was no change to the provision and no write off (period to 31 March 2020: no change to the provision and no write off).

The total value of inventories recognised as expense and included in net operating costs amounted to £1,076.8m (31 March 2020: £1,008.8m).

The movements of inventories in the six-month periods ended 31 March 2021 and 2020 are as follows:

	£m
At 1 October 2019	106.0
Transfer from operating lease assets (note 9)	1,056.5
Disposals (including insurance write-offs)	(1,008.8)
At 31 March 2020	153.7
At 1 October 2020	140.3
Transfer from operating lease assets (note 9)	1,073.9
Disposals (including insurance write-offs)	(1,076.8)
At 31 March 2021	137.4

11. Deferred rental income

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Current			
Customers' advance payments (*)	163.2	150.6	150.4
Vehicle in-life service income	12.7	17.0	14.0
Vehicle insurance income	0.7	4.7	3.0
Total current	176.6	172.3	167.4
Non-current			
Customers' advance payments (*)	176.1	155.7	157.3
Vehicle in-life service income	68.7	66.0	62.1
Vehicle insurance income	9.1	17.8	9.8
Total non-current	253.9	239.5	229.2
Total	430.5	411.8	396.6

(*) 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.

Deferred income balances

Significant changes in the deferred income balances under IFRS 15 during the period are as follows:

	In-life services income £m	Insurance income £m	Total £m
At 1 October 2019	73.3	6.8	80.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(20.3)	(0.1)	(20.4)
Increases due to cash received, excluding amounts recognised as revenue during the period	23.1	6.1	29.2
At 31 March 2020	76.1	12.8	88.9
At 1 October 2020	83.0	22.5	105.5
Revenue recognised that was included in the deferred income balance at the beginning of the period	(23.3)	(13.2)	(36.5)
Increases due to cash received, excluding amounts recognised as revenue during the period	21.7	0.5	22.2
At 31 March 2021	81.4	9.8	91.2

Transaction price allocated to the remaining performance obligations

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

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	167.9	162.4	164.7
Later than one year and no later than two years	107.3	105.4	109.7
Later than two years and no later than three years	44.3	39.5	41.8
Later than three years and no later than four years	5.8	5.6	6.0
Later than four years and no later than five years	2.1	1.8	2.1
Total	327.4	314.7	324.3

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

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	403.4	404.9	422.8
Later than one year and no later than two years	254.3	251.5	266.2
Later than two years and no later than three years	102.2	88.2	92.9
Later than three years and no later than four years	6.3	6.4	7.3
Later than four years and no later than five years	2.3	1.9	2.3
Total	768.5	752.9	791.5

12. Provision for customer rebates

	Insurance rental refund liability	Good condition bonuses £m	Return to dealer payments £m	WAV support £m	Total £m
At 1 October 2019	–	167.4	3.2	4.7	175.3
Additional provisions accrued during the period	–	56.4	–	1.1	57.5
Utilised during the period	–	(46.0)	(1.9)	(0.7)	(48.6)
At 31 March 2020	–	177.8	1.3	5.1	184.2
At 1 October 2020	–	159.7	2.0	5.5	167.2
Additional provisions accrued during the period	32.0	54.4	1.8	1.3	89.5
Utilised during the period	–	(42.5)	(1.4)	(1.1)	(45.0)
At 31 March 2021	32.0	171.6	2.4	5.7	211.7

Analysis of provisions

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Included in non-current liabilities	68.5	67.5	72.1
Included in current liabilities	143.2	99.7	112.1
Total	211.7	167.2	184.2

Customer rental rebates occur under three conditions at the end of the contract:

- Good condition bonuses can be earned for keeping the vehicle in good condition during the lease
- Return to dealer payments are payable in some situations when a lease terminates early and the vehicle is returned to the dealership
- WAV (wheelchair accessible vehicle) support rebates may be payable at the end of a full five-year lease term

These balances are always subject to some degree of uncertainty as the Board keeps the amounts of the bonus payments under review.

The insurance rental refund liability relates to payments which will be made during summer 2021 (see note 4).

13. Provision for insurance claims outstanding 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 provision (reserving) risk. Underwriting risk is the risk that premiums charged are insufficient to cover the cost of the claims, either through an inaccurate assessment of the risks or due to other unforeseen/uncontrollable factors. Insurance provision (reserving) 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;
- 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; and
- a system of review is in place whereby all claims in excess of £250,000 are reported separately to the Group.

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.

13. Provision for insurance claims outstanding and insurance risk management continued

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 £30,000 (2020: £30,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2020: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 122.16% (2020: 116.26%) of the Group's net earned premium income or £357,435,000 (2020: £318,150,000) in the aggregate whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 132.58% (2020: 127.11%) of net premium earned or £30,500,000 (2020: £29,700,000) 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.

Provision for insurance claims outstanding

These provisions are comprised of specific claims reserves including adjustments for insurance claims incurred but not reported (IBNR).

13. Provision for insurance claims outstanding and insurance risk management continued

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.

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Motor quota-share reinsurance			
Claims reserves	487.5	449.2	446.9
IBNR reserve	56.3	63.7	38.2
IBNR recoveries	(41.8)	(53.0)	(7.8)
Third-party recoveries reserve	(42.1)	(44.2)	(47.6)
Reinsurance recoveries reserve	(350.6)	(307.1)	(288.9)
Total net retained	109.3	108.6	140.8
Included in liabilities	543.8	512.9	485.1
Included in assets	(434.5)	(404.3)	(344.3)
Total net retained	109.3	108.6	140.8

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-Ferguson 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 and 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.

Line items in the Group accounts

The following claims development tables flow through to note 5 (Segmental analysis) and note 6 (Net operating costs) as follows:

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Insurance claims and commission costs			
Current year claims including IBNR	100.7	183.3	153.9
Prior year claims	(14.0)	(16.5)	(34.2)
Reinsurance commissions, MIB levies and administration fees	8.7	4.6	(14.5)
Insurance claims and commission costs	95.4	171.4	105.2

During the period reinsurance commissions receivable were reduced by £3.6m comprising a guaranteed element of £2.9m and a reduction in variable commission of £6.5m (2020: Guaranteed element of £5.5m with a reduction in variable commission of £1.2m)

13. Provision for insurance claims outstanding and insurance risk management continued

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting year ended 30 September 2016 £m	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting period ended 31 March 2021 £m	Total £m
At end of reporting period	251.7	290.6	348.5	401.3	354.8	178.2	
One year later	293.9	326.9	384.6	399.0	356.5		
Two years later	287.3	313.9	391.5	398.5			
Three years later	275.7	313.0	391.1				
Four years later	272.5	309.4					
Five years later	272.9						
Current cumulative claims	272.9	309.4	391.1	398.5	356.5	178.2	1,906.6
Cumulative payments to date	(260.6)	(295.5)	(322.4)	(317.5)	(244.8)	(72.3)	(1,513.1)
Rebates	20.5	25.0	26.4	25.9	26.4	14.5	138.7
Claims reserves	32.8	38.9	95.1	106.9	138.1	120.4	532.2
Claims reserves in respect of prior periods							11.6
Total liability included in the balance sheet							543.8

The above table is gross of the effects of reinsurance but net of subrogated claims recoveries. Rebates are amounts received relating to volume, referral and wholesale discounts from trade partners, which have reduced the cost of claims to the Group.

The overall ultimate claims cost development during the six months ended 31 March 2021 for prior underwriting years has moved very little overall and is to be expected given the amount of uncertainty present.

The increase in estimated ultimate claims in 2019/20 is due to a deterioration in reserves relating to some large losses. In addition, the Ogden rate change in Northern Ireland has added £2.7m to projected ultimate losses overall on a gross basis, and there has been some deterioration in small bodily injury losses.

13. Provision for insurance claims outstanding and insurance risk management continued

	Underwriting year ended 30 September 2016 £m	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting period ended 31 March 2021 £m	Total £m
Estimate of ultimate claims cost net of reinsurance							
At end of reporting period	182.9	193.6	227.8	247.1	209.7	100.7	
One year later	190.1	194.5	236.0	235.0	205.0		
Two years later	183.4	197.4	232.8	238.1			
Three years later	173.5	197.6	234.0				
Four years later	173.3	197.7					
Five years later	173.2						
Current cumulative claims	173.2	197.7	234.0	238.1	205.0	100.7	1,148.7
Cumulative payments to date	(192.5)	(219.8)	(251.5)	(245.0)	(200.8)	(69.4)	(1,179.0)
Rebates	20.5	25.0	26.4	25.9	26.4	14.5	138.7
Claims reserves net of recoveries	1.2	2.9	8.9	19.0	30.6	45.8	108.4
Claims reserves in respect of prior periods							0.9
Total net liability included in the statement of financial position							109.3
Comprises:							
Claims reserves including IBNR							543.8
Third-party recoveries reserve							(42.1)
Reinsurance recoveries reserve							(392.4)
Total							109.3

The small increase in net projected ultimate claims costs is due to an increase in estimated ultimate losses from small bodily injury claims.

Movements in insurance liabilities

	Period ended 31 March 2021			Year ended 30 September 2020		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	512.9	(360.1)	152.8	454.4	(284.5)	169.9
Notified claims recoveries	(44.2)	–	(44.2)	(42.1)	–	(42.1)
Total at beginning of period	468.7	(360.1)	108.6	412.3	(284.5)	127.8
Cash paid for claims settled In the period	(99.8)	13.8	(86.0)	(210.8)	24.8	(186.0)
Movement in liabilities						
Current period claims including IBNR	159.9	(59.2)	100.7	280.9	(97.6)	183.3
Prior period claims	(27.2)	13.2	(14.0)	(13.7)	(2.8)	(16.5)
Total at end of period	501.6	(392.3)	109.3	468.7	(360.1)	108.6
Notified claims including IBNR	543.8	(392.3)	151.5	512.9	(360.1)	152.8
Notified claims recoveries	(42.2)	–	(42.2)	(44.2)	–	(44.2)
Total at end of period	501.6	(392.3)	109.3	468.7	(360.1)	108.6

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

14. Financial liabilities

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Current			
Accrued interest and coupon	30.2	29.3	29.3
Cash in the course of transmission	78.6	96.1	15.4
Right-of-use asset lease liabilities	3.8	3.0	3.0
Bank overdrafts	–	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	–	–	–
Total current	112.6	128.4	47.7
Non-current			
Bank loans	399.3	799.2	899.1
Right-of-use lease liabilities	40.5	42.1	43.6
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	5,285.0	4,607.0	4,573.4
Preference shares	10.0	10.0	10.0
Total non-current	5,734.8	5,458.3	5,526.1
Total	5,847.4	5,586.7	5,573.8
The financial liabilities are repayable as follows:			
On demand and no later than one year	112.6	128.4	47.7
Later than one year and no later than two years	403.4	402.7	3.2
Later than two years and no later than five years	1,303.3	1,761.9	2,240.2
Later than five years	4,028.1	3,293.7	3,282.7
Total	5,847.4	5,586.7	5,573.8

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

Bank borrowings

All bank borrowings as at 31 March 2021, 30 September 2020 and 31 March 2020 are at floating rates.

As at 31 March 2021 the Group has the following principal bank loans:

- a) A five-year term loan of £0.4bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018; and
- b) A five-year revolving credit facility of £1.5bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018, of which £nil was drawn at 31 March 2021 (30 September 2020: £400.0m). The facility repayment date is 28 September 2023.

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

14. 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:

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
5.375% Sterling bond due 2022	399.5	399.3	399.1
1.625% Eurobond due 2023 ⁽ⁱ⁾	466.6	497.1	486.3
0.875% Eurobond due 2025 ⁽ⁱⁱ⁾	425.3	453.3	443.8
0.375% Eurobond due 2026 ⁽ⁱⁱⁱ⁾	510.1	543.7	532.2
3.750% Sterling bond due 2026	298.5	298.3	298.2
4.375% Sterling bond due 2027	297.7	297.5	297.3
0.125% Eurobond due 2028 ^(iv)	424.8	–	–
1.750% Sterling bond due 2029	394.5	394.2	393.8
5.625% Sterling bond due 2030	298.8	298.8	298.7
2.375% Sterling bond due 2032	345.5	345.3	345.1
3.625% Sterling bond due 2036	591.0	590.7	590.4
2.375% Sterling bond due 2039	489.1	488.8	488.5
1.500% Sterling bond due 2041	343.6	–	–
	5,285.0	4,607.0	4,573.4

- (i) The repayment obligation in respect of the Eurobonds of €550m (£473.4m) is hedged by cross-currency swap contracts (note 15) 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.
- (ii) The repayment obligation in respect of the Eurobonds of €500m (£430.4m) is hedged by cross-currency swap contracts (note 15) 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.
- (iii) The repayment obligation in respect of the Eurobonds of €600m (£532.2m) is hedged by cross-currency swap contracts (note 15) for the purchase of €600m and for the sale of £538.2m 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 (£430.4m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £445.0m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

The Company has a £5.5bn Euro Medium Term Note Programme with denominations of €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 £5.5bn Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

During the period ended 31 March 2021 and the previous two financial years the Group has issued the following bonds:

- a €500m Eurobond with a rate of 0.125% issued on 20 January 2021 and expiring on 20 July 2028
- a £350m Sterling bond with a rate of 1.500% issued on 20 January 2021 and expiring on 20 January 2041
- a €600m Eurobond with a rate of 0.375% issued on 3 July 2019 and expiring on 3 January 2026
- a £400m Sterling bond with a rate of 1.750% issued on 3 July 2019 and expiring on 3 July 2029
- a £500m Sterling bond with a rate of 2.375% issued on 3 July 2019 and expiring on 3 July 2039.

Other comprehensive income and the 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 cash flow hedge accounting rules outlined in IFRS 9, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2021, the Eurobond debt liability was increased by £10.4m (30 September 2020: was increased by £122.6m). This movement of £112.2m is a result of Sterling strengthening against the Euro by £92.7m for the three bonds in issue at both 31 March 2021 and 30 September 2020 and by £19.5m for the newly issued Eurobond in the period. The associated assets and liabilities relating to derivatives at 31 March 2021 were a net liability of £1.8m (30 September 2020: net asset of £93.9m). This movement of £95.7m is a result of changes to the fair value during the period and derivatives set up to cover the new Eurobond. The net valuation difference at 31 March 2021 is therefore a liability of £12.1m which, after tax at 19%, leads to a hedging reserve of (£9.8m).

14. 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 annually, and repayment of principal to the shareholders on winding-up) as stated in the Memorandum and Articles of Association of the Company.

The weighted average interest rates on borrowings as at 31 March 2021, 30 September 2020 and 31 March 2020 were as follows:

	31 March 2021 %	30 September 2020 %	31 March 2020 %
Non-current bank loans	0.8	0.8	1.0
Non-current debt issued under the Euro Medium Term Note Programme	2.6	3.1	3.1
Non-current preference shares	7.0	7.0	7.0

At 31 March 2021, 30 September 2020 and 31 March 2020, the Group had the following undrawn committed borrowing facilities:

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Working capital facility	100.0	100.0	100.0
Revolving credit facility	1,500.0	1,100.0	1,000.0
Total	1,600.0	1,200.0	1,100.0

Undrawn committed facilities expire as follows:

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	10.0	10.0	10.0
Later than one year and no later than two years	0.0	–	0.0
Later than two years and no later than five years	1,590.0	1,190.0	1,090.0
Total	1,600.0	1,200.0	1,100.0

Right-of-use asset lease liabilities maturity analysis – contractual undiscounted cash flows

	31 March 2021 £m	30 September 2020(*) £m
No later than one year	4.3	3.6
Later than one year and no later than five years	17.8	17.5
Later than five years and no later than ten years	15.1	16.1
Later than ten years	10.8	11.9
Total undiscounted cash flows	48.0	49.1
Current	4.3	3.6
Non-current	43.7	45.5

The total cash outflow for leases during the period was £2.1m.

(*) Last year the Group adopted IFRS 16 using the “modified retrospective model” of transition and therefore need not disclose comparative information as at 31 March 2020.

Amounts recognised in the income statement

	Period to 31 March 2021 £m	Period to 31 March 2020 £m
Depreciation on the right-of-use assets	2.6	2.3
Interest expense	0.3	0.3
Total	2.9	2.6

15. Derivative financial instruments

	31 March 2021		30 September 2020		31 March 2020	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges						
Cross-currency swaps	(1.0)	1,819.4	96.1	1,374.4	72.5	1,374.4
Interest rate swaps	(0.8)	400.0	(2.2)	400.0	(2.6)	400.0
Total	(1.8)	2,219.4	93.9	1,774.4	69.9	1,774.4
Included in non-current liabilities	(65.0)	1,417.0	(13.3)	738.2	(21.3)	738.2
Included in current liabilities	(0.9)	200.0	(0.5)	200.0	(1.1)	200.0
Derivative financial instrument liabilities	(65.9)	1,617.0	(13.8)	938.2	(22.4)	938.2
Included in non-current assets	64.0	402.5	107.7	836.2	92.3	836.2
Included in current assets	0.1	200.0	–	–	–	–
Derivative financial instrument assets	64.1	602.5	107.7	836.2	92.3	836.2

Cross-currency swaps

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 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 0.875% is fully swapped into the GBP rate of 2.061%.

On 3 July 2019, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €600m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt and the EUR coupon rate of 0.375% is fully swapped into the GBP rate of 1.770%.

On 20 January 2021, 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 and the EUR coupon rate of 0.125% is fully swapped into the GBP rate of 1.083%.

Interest rate swaps

At 31 March 2021, the fixed interest rates ranged from 0.006% to 0.654% (2020: the fixed interest rates ranged from 0.654% to 1.006%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31 March 2021 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

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

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
No later than one year	(23.5)	(20.0)	(20.2)
Later than one year and no later than three years	(38.8)	(36.7)	(37.0)
Later than three years and no later than five years	(28.7)	(20.8)	(24.8)
Later than five years	(10.4)	(2.8)	(7.6)
Total	(101.4)	(80.3)	(89.5)

Further details of derivative financial instruments are provided in note 20.

16. Cash generated from operations

Reconciliation of profit to net cash flow from operating activities:

	Six months ended 31 March 2021 £m	Six months ended 31 March 2020 £m
Profit before tax	152.1	126.4
Adjustments for:		
Depreciation and amortisation charge on corporate assets	11.2	10.1
Depreciation charge on operating lease assets	408.7	447.1
Impairment release for assets used in operating leases	(5.1)	–
Impairment charge for financial assets at amortised cost	–	–
Inventory write-down	–	–
Finance costs	81.7	84.3
Gains on disposal of operating lease assets	(78.4)	(104.6)
Losses on operating lease assets written off through insurance	13.7	16.9
Gains on disposal of corporate assets	(0.1)	(0.1)
Increase in bad debt provisions	0.3	0.7
Operating cash flows before movements in working capital	584.1	580.8
Purchase of assets held for use in operating leases	(1,849.6)	(1,755.7)
Proceeds from sale of assets held for use in operating leases	1,124.5	1,077.6
Proceeds from insurance reimbursements of operating lease assets written off	17.0	18.9
Charitable donations paid	–	52.3
Decrease in insurance receivables	23.8	10.4
Decrease in other receivables	28.0	67.8
Increase in deferred rental income	18.7	16.8
Increase in provision for customer rebates	44.5	8.8
Increase/(decrease) in provision for net insurance claims	0.8	(13.4)
Increase in insurance payables	3.0	3.3
Decrease in payables	(30.4)	(157.7)
Cash used in operations	(35.6)	(90.1)

Cash and cash equivalents

Cash and cash equivalents are presented in the consolidated statement of cash flows as the net of cash and bank balances. 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. Cash in the course of transmission is included within financial liabilities and represents committed transactions that have not cleared the bank at the reporting date, and are not therefore shown in bank overdrafts.

17. Analysis of changes in net debt

	At 1 October 2020 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 31 March 2021 £m
Cash and bank balances	316.2	200.2	–	–	–	516.4
Bank overdrafts and cash in the course of transmission	(96.1)	17.5	–	–	–	(78.6)
Cash and cash equivalents	220.1	217.7	–	–	–	437.8
Borrowings due after one year	(799.2)	400.0	–	–	(0.1)	(399.3)
Debt issued under the Euro Medium Term Note Programme	(4,607.0)	(787.9)	112.2	–	(2.3)	(5,285.0)
Derivative financial instruments	93.9	–	–	(95.7)	–	(1.8)
Preference shares	(10.0)	–	–	–	–	(10.0)
Right-of-use asset lease liabilities	(45.1)	1.8	–	–	(1.0)	(44.3)
Financing activities	(5,367.4)	(386.1)	112.2	(95.7)	(3.4)	(5,740.4)
Total net debt	(5,147.3)	(168.4)	112.2	(95.7)	(3.4)	(5,302.6)

	At 1 October 2019 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 31 March 2020 £m
Cash and bank balances	450.5	(147.9)	–	–	–	302.6
Cash in the course of transmission	(91.3)	75.9	–	–	–	(15.4)
Cash and cash equivalents	359.2	(72.0)	–	–	–	287.2
Bank loans	(399.0)	(500.0)	–	–	(0.1)	(899.1)
Debt issued under the Euro Medium Term Note Programme	(4,869.1)	300.0	(2.1)	–	(2.2)	(4,573.4)
Derivative financial instruments	90.7	–	–	(20.8)	–	69.9
Preference shares	(10.0)	–	–	–	–	(10.0)
Right-of-use asset lease liabilities*	(48.1)	1.5	–	–	–	(46.6)
Financing activities	(5,235.5)	(198.5)	(2.1)	(20.8)	(2.3)	(5,459.2)
Total net debt	(4,876.3)	(270.5)	(2.1)	(20.8)	(2.3)	(5,172.0)

* These were booked on the date of initial application of IFRS 16, being 1 October 2019.

	31 March 2021 £m	30 September 2020 £m	31 March 2020 £m
Cash and bank balances	516.4	316.2	302.6
Derivative financial instruments	(1.8)	93.9	69.9
Current financial liabilities	(112.6)	(128.4)	(47.7)
Non-current financial liabilities	(5,734.8)	(5,458.3)	(5,526.1)
Total	(5,332.8)	(5,176.6)	(5,201.3)
Less interest accruals included in financial liabilities	30.2	29.3	29.3
Total net debt	(5,302.6)	(5,147.3)	(5,172.0)

18. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2021 amounted to £3,540,733 (six months ended 31 March 2020: £3,080,331). Net contributions due at the balance sheet date were £nil (31 March 2020: (£1,948)).

19. 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 Annual Report on pages 2 to 56.

Related parties comprise Directors (and their close families and service companies), the Motability Charity ("Motability") 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 the inside front cover of the Annual Report.

Transactions

During the six months ended 31 March 2021 the Group paid £nil in donations to Motability (six months ended 31 March 2020: £52.3m which had been accrued for in the 2019 financial statements).

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans); £0.2m of bank charges were also paid in the period (six months ended 31 March 2020: £0.2m). Additionally, total fees of £0.8m (six months ended 31 March 2020: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the period, the Group made preference share dividends payments of £0.7m to the shareholder banks (six months ended 31 March 2020: £0.7m).

At 31 March 2021, £418.7m of cash and cash equivalents were held with shareholder banks (30 September 2020: £237.9m; 31 March 2020: £256.5m). During the six months ended 31 March 2021, the Group received interest payments on these cash deposits totalling £nil (six months ended 31 March 2020: £0.3m).

The Group's bond issuances under the Euro Medium Note Term Programme (see note 14) are arranged by the shareholder banks. During the six months ended 31 March 2021 the Group has paid fees of £3.1m (six months ended 31 March 2020: £nil) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 15) with the shareholder banks to mitigate its exposure to interest rate risk and foreign exchange risk as part of its financial risk management policy. During the six months ended 31 March 2021 the Group made a net payment of £1.1m (six months ended 31 March 2020: net payment of £0.3m) in respect of interest rate swaps, and a net payment of £5.9m (six months ended 31 March 2020: received a net payment of £10.5m) in respect of cross-currency swaps.

20. Fair value of financial instruments

The fair value of financial instruments traded in active markets (debt issued under the Euro Medium Note Term Programme) 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 fair value due to its short-term nature;
- the carrying values less impairment provisions of trade and other receivables and payables are also assumed to approximate to their fair values due to the short-term nature of 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.

Categories of financial instruments

	31 March 2021 carrying value £m	31 March 2021 fair value £m	30 September 2020 carrying value £m	30 September 2020 fair value £m	31 March 2020 carrying value £m	31 March 2020 fair value £m
Cash and bank balances (I)	516.4	516.4	316.2	316.2	302.6	302.6
Trade receivables (II)	88.3	88.3	116.6	116.6	51.2	51.2
Financial assets at amortised cost (III)	203.0	204.5	203.9	204.4	205.3	203.5
Trade and other payables (II)	(162.6)	(162.6)	(193.1)	(193.1)	(100.4)	(100.4)
Bank overdrafts (IV)	–	–	–	–	–	–
Cash in the course of transmission and accrued interest and coupon (II)	(108.8)	(108.8)	(125.4)	(125.4)	(44.7)	(44.7)
Bank loans – non-current (IV)	(399.3)	(399.3)	(799.2)	(799.2)	(899.1)	(899.1)
Debt issued under the Euro Medium Term Note Programme * (III)	(5,285.0)	(5,751.5)	(4,607.0)	(5,278.8)	(4,573.4)	(4,858.0)
Redeemable preference share liabilities (III)	(10.0)	(14.1)	(10.0)	(14.6)	(10.0)	(14.4)
Net non-derivative financial instruments	(5,158.0)	(5,627.1)	(5,098.0)	(5,773.9)	(5,068.5)	(5,359.3)
Interest rate swap – cash flow hedge	(0.8)	(0.8)	(2.2)	(2.2)	(2.6)	(2.6)
Cross-currency swap – cash flow hedge	(1.0)	(1.0)	96.1	96.1	72.5	72.5
Total financial instruments requiring fair value disclosure	(5,159.8)	(5,628.9)	(5,004.1)	(5,680.0)	(4,998.6)	(5,289.4)
Right-of-use asset lease liabilities (V)	(44.3)	n/a	(45.1)	n/a	(46.6)	n/a
Total	(5,204.1)	(5,628.9)	(5,049.2)	(5,680.0)	(5,045.2)	(5,289.4)

* Amounts are shown net of unamortised discounts, fees 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.

(V) Exempt from fair value disclosure under IFRS 7 paragraph 29(d).

Fair value measurements

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

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. There have been no transfers between Level 1 and Level 2 in either direction in the period (2020: no transfers).

Cash and bank balances, trade and other receivables, trade and other payables, cash in the course of transmission and accrued interest and coupon, and bank loans are not included in the table below as their carrying amount is a reasonable approximation of fair value.

20. Fair value of financial instruments continued

	31 March 2021			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Non-derivative financial assets				
Financial assets at amortised cost	204.5	–	–	204.5
	204.5	–	–	204.5
Non-derivative financial liabilities				
Financial liabilities	–	(5,765.6)	–	(5,765.6)
	–	(5,765.6)	–	(5,765.6)
Derivative financial instruments				
Interest rate swaps	–	(0.8)	–	(0.8)
Cross-currency swaps	–	(1.0)	–	(1.0)
	–	(1.8)	–	(1.8)
Total	204.5	(5,767.4)	–	(5,562.9)

	30 September 2020			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Non-derivative financial assets				
Financial assets at amortised cost	204.4	–	–	204.4
	204.4	–	–	204.4
Non-derivative financial liabilities				
Financial liabilities	–	(5,293.4)	–	(5,293.4)
	–	(5,293.4)	–	(5,293.4)
Derivative financial instruments				
Interest rate swaps	–	(2.2)	–	(2.2)
Cross-currency swaps	–	96.1	–	96.1
	–	93.9	–	93.9
Total	204.4	(5,199.5)	–	(4,995.1)

	31 March 2020			Total £m
	Level 1 £m	Level 2 £m	Level 3 £m	
Non-derivative financial assets				
Financial assets at amortised cost	205.3	–	–	205.3
	205.3	–	–	205.3
Non-derivative financial liabilities				
Financial liabilities	–	(4,872.4)	–	(4,872.4)
	–	(4,872.4)	–	(4,872.4)
Derivative financial instruments				
Interest rate swaps	–	(2.6)	–	(2.6)
Cross-currency swaps	–	72.5	–	72.5
	–	69.9	–	69.9
Total	205.3	(4,802.5)	–	(4,597.2)

Nature and characteristics of financial instruments in the fair value tables

The fair values of cash and bank balances, trade receivables and payables, bank loans and overdrafts, and cash in the course of transmission are considered to be not materially different from their book values. Market inputs to these values are considered, but because all of the assets mature within three months of the year end, the payables, overdrafts and cash in the course of transmission are also short term in nature, and the interest rates charged on the bank loans are reset to market rates on a monthly basis, minimal difference arises. The nature and characteristics of the Level 2 fair valued items, i.e. issued debt, preference shares and swaps, are as described in note 2 and note 25 of the Annual Report. As these valuation exercises are not wholly market based they are considered to be Level 2 measurements. Financial assets held at amortised costs are investments held by MO Reinsurance Ltd. These have quoted prices and so are classified as Level 1.

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