Motability Operations | Group plc

Sustaining a worry-free proposition through challenging times

Annual Report and Accounts 2021

Our purpose is 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 almost 649,000 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.

Structural shifts are transforming the space in which the Scheme operates, with the advent of new mobility innovations and manufacturers exploring alternative routes to market.

This comes at a time when supply-side constraints are challenging the availability and choice of vehicle models on offer. The transition to electric vehicles is also an immediate and complex challenge for the scheme.

In order to continue to provide affordable and worry-free services to current and future customers, we need to adapt.

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Financial statements

* These sections constitute the 'Directors' Report'.

Explaining the Scheme

How we deliver the Scheme

We provide mobility to nearly 649,000 customers, all of whom are in receipt of the Government's mobility allowance. Through integration of manufacturers, dealers and other suppliers, we deliver our customers with worry-free, affordable mobility to meet their individual needs.

Motability, the Charity's role

Motability sets the strategic policies and direction of the Scheme.

For more detail regarding Motability's role, please see page 5

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

Suppliers

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

Funding

In operating the Scheme, we are required to source the financing of our £8.7bn 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.

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.

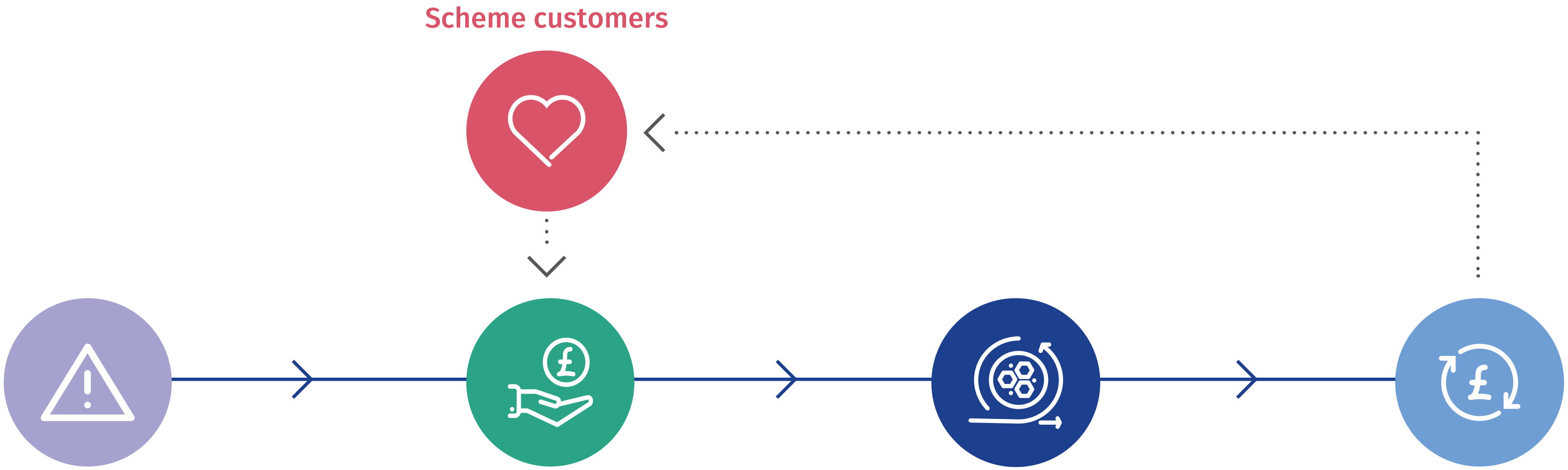
Remarketing

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

Explaining the Scheme continued

How we protect the Scheme

As operators of the Motability Scheme, we bear a number of significant risks, the most significant of which is the movement in used-car values, which could, if not carefully managed, undermine the long-term sustainability of the customer proposition.



Risk

Our biggest single risk relates to the value of used cars when they are returned to us by customers at the end of their lease; this residual value is something we have to forecast three to five years in advance. Lease prices are fixed therefore customers are not exposed to this risk.

We also bear a number of other significant risks which are covered in detail in our Risk management section from page 55.

Capital

To protect the Scheme, and so customers, from exposure to these risks we aim to hold an adequate level of capital reserves.

We use an externally validated model and approach to calculate the level of capital we should hold to underpin the long-term sustainability of the Scheme.

Profitability

We aim to deliver a consistent customer proposition that is protected from economic downturn or market-specific shocks.

We include a margin in our lease pricing to enable us to minimise pricing volatility for customers should these events occur. It means that we can recover financially from such impacts without needing to increase customer prices.

Reinvestment

To the extent that retained profit exceeds capital requirements, and following consultation with Motability, any additional profit can be reinvested into the customer proposition or donated to Motability.

Motability, the Charity

The role of Motability

The Charity's vision is that no disabled person should be disadvantaged by poor access to transportation. The Charity recognises the Motability Scheme, which has changed millions of lives, is a unique route to enable disabled people to exchange their mobility allowances for an affordable vehicle lease. Through its oversight role, Motability is focused on ensuring that the needs of disabled people are met.

Motability

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.

Motability, the Charity, has been responsible, since the Scheme's foundation, for securing support from the Government and disabled people, and overseeing the Scheme to ensure that it is dedicated to the interests of disabled people, provides access to a wide choice of vehicles, remains sustainable and provides excellent service and value for money.

Motability sets the strategic direction and high-level policies for the Scheme in consultation with Motability Operations, which is, through an Agreement, contracted to provide the services required to deliver the Scheme and is responsible for its day to day operation, including responsibility for managing the commercial risks, raising the funding required to finance the fleet of vehicles and delivering a sustainable and affordable proposition for the Scheme's disabled customers.

Motability, the Charity

Further detail regarding Motability's oversight responsibilities and the charity's wider role and objectives can be found in Motability's Annual Report and inaugural Impact Report on their website.

Chairman's statement

Investing to meet the needs of the future

After last year, a return to something closer to normality has been welcome. However, there is still a long way to go before we are back to 'business as usual'. This year continued to see the business face many challenges, including further lockdowns, and supply issues leading to an increase in our order book.

Once again, Motability Operations has responded superbly to the situation, and I'd like to thank colleagues who work tirelessly, continuing to address the needs of customers. The hard work and dedication of our employees, many still working from home for extended periods, and the unflagging support of business partners, have brought us through this latest challenging year in excellent shape.

It's been a year of change too. On 1 January, we welcomed the Group's new CEO, Andrew Miller. Andrew is responsible for formulating strategy and driving performance across all aspects of the business. He was previously a partner at the private equity firm Terra Firma and before that held positions including Chief Executive at Guardian Media Group and Chief Financial Officer at Autotrader. His experience covers strategic, operational and finance roles at major international companies, including PepsiCo, Bass and Procter & Gamble. Andrew is also a Non-Executive Director at Channel 4.

Andrew has arrived in the business at one of the most challenging times in the history of the Scheme, with major disruptions ahead across our industry. Already, he has grasped this as an opportunity to shape exciting new strategic directions, and the Board and I are enjoying working with him immensely.

I'd also like to express the Board's appreciation to Matthew Hamilton-James, who stepped in as interim CEO in 2020. On behalf of the Group and all our stakeholders I pay tribute to Matthew's calm leadership and clear-sighted, wise stewardship during this most difficult time. Now restored to his position as Finance Director, we are fortunate to have his talent within the organisation.

> "I'd like to take this opportunity to pay tribute to the commitment and resilience of employees across the business.

Chairman's statement continued

Our people underpin the success of this business, and we continue to work on programmes to seek, recruit, and retain top talent. We have created a new scholarship programme, providing financial help and valuable work experience for students from ethnic minority groups. We are working with early intervention mentoring charity, Urban Synergy, to launch it. Our scholarship programme for students with a disability has been in place for over 10 years and we are very pleased to be expanding the programme further.

I'd like to take this opportunity to pay tribute to the commitment and resilience of employees across the business. Notwithstanding the challenges of adapting to a hybrid working environment and unprecedented customer call volumes (linked to both the impact of the pandemic and delays in new vehicle deliveries), our people have continued to work relentlessly to support our customers through these challenging times.

With our people as the foundation, we are well-placed as we contemplate the changing landscape ahead of us. Over the next decade, the motoring world, the Scheme – and by extension the Company – will change radically. In his CEO's report, Andrew picks this up and outlines the challenge presented by the transition to electric vehicles, explaining how the Company is developing its innovation muscle to futureproof the service we provide to customers; in short how we ensure that we provide our customers with a worry-free "glide-path to green motoring".

Shorter-term disruptions are also affecting Scheme operations and delivering some extraordinary and unpredictable outcomes. No-one could have expected the current appreciation in used-car values. This has been driven by a combination of the well-publicised semi-conductor issues and the Covid-19 related delays which are limiting the supply of new cars. While this means Scheme customers are waiting longer for their new car to arrive, the value of our current vehicle fleet has increased significantly, generating a financial outcome of higher than anticipated capital headroom.

The strength of our financial position means we are able to invest strategically to help our customers. In his CEO review, Andrew outlines in detail the investments made to date and also future commitments including a £300m investment to support the transition to electric vehicles, over £100m in rebates to customers (reflecting lower costs related to reduced vehicle usage during the various phases of national and regional lockdowns), £180m to alleviate affordability pressures for both renewing and new-to-Scheme customers, and a donation of £170m to Motability, the Charity to further enhance the lives of people living with disabilities. Motability, the Charity, has a wider set of grant-making, research and innovation programmes aimed at reducing the disadvantage in access to transport experienced by disabled people. We are delighted to be able to continue to support its valuable and life-enhancing work.

"Our people underpin the success of this business, and we continue to work on programmes to seek, recruit, and retain top talent."

Chairman's statement continued

Linked to this latter point, I am pleased to report that the working relationship with the Charity remains very strong. The Charity's oversight role remains invaluable in helping the Company deliver the Scheme to the highest possible standards for our customers. In particular, I would like to thank Motability's Chairman, Charles Manby MBE, for his wise insights over the course of the year and also in particular the collaborative way in which we have worked together to respond to the challenges presented by Covid-19.

Looking ahead, I am very confident about the business's ability to meet its operational and financial goals in 2022. Our core focus remains on ensuring our customers are well-served and supported, and we were delighted that despite the difficulties of the year, customer satisfaction remained at 9.8 out of 10.

At the same time, we are starting to develop our thinking and efforts on wider issues of environment, social and governance (ESG), exploring ways that even a large car fleet such as ours can play its part in reducing impacts on the environment, whilst recognising that, for many of our customers, access to a car is their only route to mobility. With further changes all around us, we will also consider the options for eligible people who may be less suited to the Scheme in its current form.

£170m

donated to Motability, the Charity

Nonetheless, given the continuing range of variables which could affect our performance, it is important that we keep the business's capital reserves at a prudent level. These reserves will continue 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 around a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

We are all focused on ensuring the Scheme sustains its high level of performance, while addressing the many challenges on the rapidly approaching horizon. We have to maintain our peerless levels of customer service, while continuing to attract new customers, and navigating the green transition. Under Andrew's inspiring leadership, I am confident we will deliver, to the benefit of all of our stakeholders.

Stephen O'Brien

Rt. Hon Sir Stephen O'Brien KBE
Chairman

Our business model

A unique proposition

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 aim to deliver value and an excellent service for customers by providing an affordable, consistent, worry-free leasing proposition which is universally available across the UK.
- 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.

649k
Customers on the Scheme

98%
Worry-free motoring satisfaction rating

94%
Employee engagement (measured during lockdown)

8.45%
Talent retention is high with regretted attrition just above 8%

>30,000
Jobs linked to the scheme

£3.1bn
Purchases from UK dealers

Chief Executive's review

Supporting customers now and in the future

I was delighted on joining Motability Operations in January to find a well-run business with professional, engaged and dedicated employees, who are passionate about doing the right thing for our customers. It is a privilege to lead this exciting Group at such an interesting time.

My challenge is to develop a strategy that will allow Motability Operations to build on these strengths and allow the business to evolve within the terms of the Scheme's clear purpose. We exist to provide mobility to disabled customers through an operating model that is sustainable, robust, commercial, and efficient.

The continued success of the Scheme, which has transformed services to disabled people over the past 43 years, has only been possible by constantly adapting and responding to changes in our operating environment. Structural shifts are transforming the spaces in which the Scheme operates. New tech and start-ups are increasingly offering innovative solutions in many areas of mobility, vehicle manufacturers are exploring new direct routes to market, and the stakeholder and governance environment is becoming more complex.

In order to continue to provide affordable, worry-free services to current and future customers, we need to adapt.

An immediate challenge is how we support our customers in the adoption of electric vehicles.

The Government has made clear its commitment to electric vehicles and we are eager to play our part in the transition. Indeed, increasing numbers of customers are already seeking to choose electric. But we know that electric vehicles do not yet suit everyone. There are challenges such as price, mileage range and limitations in the charging infrastructure to resolve. We are confident that those things will become more straightforward in the years before 2030, when the ban on the sale of new internal combustion engine cars comes into effect. But while such teething problems exist, we shall work hard to help customers choose the cars which work best for them, recognising that an electric car may not currently be a suitable choice. Our priority does not change: we want to take the hassle out of driving and give customers the worry-free motoring they have come to expect from us.

Our 'worry-free' proposition must always be based on value, expertise, assistance, and choice. We need to ensure that our proposition remains sustainable and is fit for the future and we see our investment in electric vehicles as a central pillar of this transition.

"My commitment to customers is that we will support you through the transition, every step of the way."

Andrew Miller
Chief Executive Officer

Chief Executive's review continued

Investing for today and a sustainable future

Motability Operations is, by design, a financially and operationally robust business. This has been demonstrated through the challenges of the Covid-19 pandemic as we have focused on supporting our customers and employees. Our robust capital base provides us with the resilience and confidence as we look ahead. We hold capital reserves to ensure that we protect customers from risk and adverse market volatility.

Of course, in the event of positive market movements, this can result in unexpected financial upside. During this year, as has been widely covered in the media, there has been unprecedented upside in used-car values. The ongoing new-vehicle supply shortages (a result of the semi-conductor processing chip shortages), a shift away from public transport since the start of the pandemic and the fact that many consumers have built up savings over the past 18 months have all driven up the demand for used vehicles. Average sales values for vehicles have increased 46% year on year, with Car Auction Price (CAP) guide reflecting a 16% increase in values between June and September this year alone.

These dynamics have resulted in unexpectedly high profits on the resale of vehicles at the end of lease. This market strength has allowed us to release residual value overlays previously reported in relation to potential downside risks associated with Covid-19 and Brexit and our outlook for the future value of the fleet is also more positive, buoyed by the current elevated used-vehicle prices, and the expectation of the continued shortage in new-vehicle supply-side during 2022.

As described in more detail in the Finance Director's review, these dynamics have resulted in a financial result above our planned expectations, with a post-tax profit of £559.5m.

This strong result has provided us with financial headroom to commit with confidence to a number of significant investments designed to support today's customers and to underpin future affordability and sustainability, including:

- **Supporting customers through the pandemic:** £100m of rebates paid/committed to current customers reflecting reduced vehicle usage (and so reduced insurance and maintenance costs) during the pandemic
- **Investing in the Glide Path to Green:** £300m of capital to invest in the transition to electric vehicles
- **Affordability support:** £180m allocated to affordability support for both renewing and new-to-scheme customers; and
- **Support for Motability:** £170m donated to Motability to assist with their wider mandate of supporting the UK's disabled population with their transportation needs

These investments are set out in more detail on the following pages.

"We see our investment in electric vehicles as central to our future proposition."

Chief Executive's review continued

£100m

Supporting customers through the pandemic

During FY2021 we have focused on ensuring our customers remain supported as the UK has navigated its way out of the impacts of Covid-19.

I am pleased to report 98% customer satisfaction levels, and sector leading scores in the Institute of Customer Service's Independent UK Customer Satisfaction Index.

We have kept customers mobile throughout, with flexible lease extensions available to ensure customers can stay in their current vehicles when access to the dealer network was restricted through the various phases of national lockdown, and more recently as new-vehicle supply lead times have resulted in the delay in the fulfilment of customer orders.

We continued to offer the option for customers to accelerate their Good Condition Bonus (GCB) up until 30 June 2021, in line with wider FCA guidance, thereby supporting those who find themselves under financial pressure.

We have committed a further £60 rebate to each customer, reflecting the reduced operating costs linked to lower mileages during the period of national lockdown.

In total, over £100m has been paid/committed to customers in this way since March 2020, with two £50 rebates having been previously paid during 2020, and more recently during the summer of 2021.

Throughout FY2021 we have continued investment to subsidise WAVs and adaptations.

Investing in the Glide Path to Green

From 2030 there will be a ban on the sale of new internal combustion engine cars and vans in the UK. We need to prepare the Scheme and our customers for this significant change. The transition of our customers to electric vehicles over the next few years requires careful planning and support; we are focused on ensuring that our customers are not left behind on this transition. We aim to ensure that customers have access to suitable, affordable vehicles, with the availability of cost-effective and accessible charging options.

We are already investing heavily in this space, with 87 electric vehicle models available on the Scheme, with the installation of free-of-charge home charge points. In FY2021, our investment into customer applications was over £20m.

Looking ahead, we have ring-fenced £300m of capital to invest in this transition; our aim being to ensure that the Scheme's transition to electric is in line with the wider market. We will use this investment to support affordability and to overcome the additional practical challenges many customers may face in transitioning to electric vehicles.

The Scheme recognises it has an important role to play in helping to reduce CO_2 emissions. We are committed to playing our part in addressing this global challenge and supporting the Government's policy commitments. Over the coming year we will set out clear targets for this transition and our path to net zero as we develop our ESG framework.

Further detail regarding our electric vehicle strategy is set out on pages 22-26 – The Glide Path to Green

£300m

Chief Executive's review continued

Affordability support

Whilst the investment to support the transition to electric vehicles is vital, it is also recognised that EVs do not represent a viable choice for all customers right now and so we are pleased to commit additional support towards lease affordability to all customers, in addition to the specific EV investment outlined on the previous page.

We remain focused on ensuring that our price list remains affordable, with a good breadth and depth of vehicles available to customers.

The current new-vehicle supply-side constraints, combined with the increasing costs associated with manufacturers investing in both cleaner internal combustion engine (ICE) technology and electric vehicles, have resulted in increasing On The Road (OTR) prices which have significantly outstripped inflation. This results in a current and enduring challenge on both affordability and model availability.

We plan to support these affordability challenges through a renewal payment of £250 (made available to all existing customers at the point of renewal) and £250 new-to-scheme payment for brand new customers during 2022; **in total committing £180m of capital to support existing and new customers with general affordability challenges linked to the new vehicle supply-side issues.**

£170m

£180m

Support for Motability

We maintain a close relationship with Motability and aim, where affordable, to provide the Charity with financial resource to assist their wider mandate of assisting the UK's disabled population with their transportation needs, removing disadvantage.

We are therefore delighted that our financial position this year has enabled us to make a significant donation of £170m to support the important activity they deliver.

Motability's Annual Report and Accounts and Impact Report set out this activity. The Charity recognises that there are 6.5m disabled people in the UK who could potentially benefit from better access to transport and the Charity's growing body of knowledge and connections is enabling the development of new routes to impact. The donation will enable the Charity to build and maintain its level of ambition over the next three years and it is anticipated that 70% of grant-making will be Scheme-related; assisting its beneficiaries to access the vehicle they need including heavily adapted vehicles for the most severely disabled.

Chief Executive's review continued

Our commitment to Environment, Social and Governance (ESG)

As a business we recognise our responsibilities to a broad range of stakeholders including customers, Government, Motability, investors, our employees, and the wider community. This continues to shape our thinking as we develop our approach to the Environment, Social and Governance (ESG) agenda.

At Motability Operations we aim to be recognised as:

- Being customer focused and demonstrably removing barriers for disabled customers
- Providing value for customers, Motability, Government, and the wider economy
- Delivering a positive social impact for local communities and wider society
- Having a clear commitment to sustainability and the environment with a measurable path to net zero
- Being a responsible and supportive employer, with a clear and tangible commitment to diversity and inclusion, and a leader in employment of disabled talent
- Being open and transparent in reporting with an appropriate governance and compliance framework

We are developing an ESG framework to help us clearly set out and report against our activities and progress against a range of ESG initiatives and targets. Pages 18-21 of this report headline the activity to date on our ESG journey and signpost the next steps in implementing our ESG plans.

Customer service & engagement

Customer service is central to our business. We measure this through our customer satisfaction survey, now carried out by Ipsos MORI, with the latest results showing overall satisfaction, advocacy, and intention to renew, all with a rating of 9.8 out of 10.

During lockdown, we took decisive action to protect customers, automatically extending leases which were coming to their scheduled end to ensure that customers could remain mobile. With reduced road usage during the various phases of national and regional lockdown, we took the early decision to pass on the savings from lower insurance costs to our customers, with each customer receiving two insurance rebates totalling £100. We have now committed a further £60 rebate to each customer, reflecting the reduced operating costs linked to lower mileages travelled as the UK emerged from lockdown during this year. In total, over £100m has been rebated to customers in this way since March 2020.

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 200,000 customers are now taking advantage of this secure channel to check their application progress, change their details, or access a payment through bank transfer.

Notwithstanding the development of our entire services, we experienced an elevated volume of customer calls during the year linked to Covid-19 and supply-side disruption. This inevitably put pressure on our call-answering performance, however it is testament to the commitment of our people that our average call answering time was only three minutes.

In May, we launched the first ever television advert for the Motability Scheme as national awareness campaign 'Everyday Freedom' piloted in spring. Alongside a print, digital and PR campaign, the national television advert aims to boost awareness and understanding of the Scheme amongst those who are eligible to join and their families. After successful regional and national pilots, a multichannel campaign will take place in 2022.

Currently only one-third of eligible disabled people are enjoying the benefits of a worry-free lease package through the Motability Scheme. We believe that by increasing awareness of the Scheme and by better understanding the needs and characteristics of our potential customer base, we can open the doors of the Scheme to many more eligible disabled people. We have initiated research to provide a detailed segmentation of the current and potential customer base, to help us understand how we may be able to support their mobility needs.

Having identified the need for more focus in this area, I am also pleased to announce we have appointed Lisa Thomas into a new role of Chief Marketing Officer. Lisa has extensive experience in brand, marketing and communications. She spent much of her career at M&C Saatchi, which she joined initially to launch and build a customer experience agency, LIDA, and then went on to be UK Group CEO. Latterly, she was Global Chief Brand Officer for the Virgin Group, responsible for the protection and growth of the Virgin brand globally.

+200,000

customers now using our new online account services

"In May, we launched the first ever television advert for the Motability Scheme as national awareness campaign 'Everyday Freedom'."

Chief Executive’s review continued

“We believe we are well placed to meet the short and long-term challenges ahead.”

Suppliers

Our services would not be possible without the support of business partners, including Royal & Sun Alliance Motability (RSAM), 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.

In July, after a comprehensive competitive tender process, we announced a move from RSAM, which has been a long-term insurance supplier to the Motability Scheme, to the Direct Line Group (DLG). The new insurance proposition will provide market-leading customer experience through an integrated, aligned and well-managed supply chain. Customers will benefit from a modern technology platform supporting interaction across all channels. The new arrangements will take effect from mid-2023 for an initial 10 years.

The risk model will remain unchanged under the new arrangements. DLG will provide insurance and will reinsure 80% of the risk through Motability Operations’ reinsurance captive. The captive’s net exposure is contained through the placement of a conservatively structured reinsurance programme into the reinsurance market. DLG intends to provide the existing customer-facing activities through the continued use of the dedicated Motability unit in Liverpool, ensuring seamless continuity of service for customers.

As well as future-proofing our service, the new insurance proposition will offer the potential to grow the Scheme and provide increased flexibility to customers. We are confident these arrangements with DLG position us well to support the continued delivery of worry-free motoring and value for money to our customers. I would like to thank the team at RSA for their ongoing support and commitment to the Motability Scheme as we transition to the new arrangements.

Chief Executive's review continued

Our employees are our greatest asset

Our performance is underpinned by the commitment of our employees. This has never more been the case than during the challenges of Covid-19 over the past 18 months, where their resilience, passion and engagement have been key.

Support and engagement

We have continued to place particular focus on the health and wellbeing of our employees during the pandemic with frequent communications, proactively reassuring employees of the support available to them and seeking regular feedback. During 2021 we launched our Mental Health Allies programme, providing an internal network of trained individuals who volunteer and can provide support, signposting and trusted conversations about mental health in the workplace. We now have 65 Mental Health Allies throughout our business.

We work hard to ensure that our teams are engaged in our strategic plans and progress. This is achieved through a combination of newsletters, employee webinars and roadshows presented by myself and the executive team. We seek employee feedback through our Employee Forum, from our Diversity Networking Groups and through meetings with Simon Minty, our designated Non-Executive Director who engages with employees. We use this employee feedback to inform our plans.

We recognise the importance of an effective and engaged workforce and each year we undertake an annual employee culture survey. Facilitated by an independent global employee research organisation, our results are compared against a benchmark of UK High Performing Organisations, against which we have consistently out-performed for over ten years. In 2021 we achieved a survey response of 90%, and once again outperformed the high performing organisation benchmark on all categories – a marker of our continued strong levels of engagement given that we were just emerging from the third and arguably the most challenging lockdown period between January – April 2021.

Talent, inclusion and flexible working

We aim to recruit and retain the talent needed to maintain our strong performance over the long term, including through our graduate, disability scholarship and internship programmes. In 2021 we commenced two new programmes which included Degree Apprenticeships in our Risk and Business Systems division, and in partnership with early intervention mentoring charity, Urban Synergy, the delivery of a Scholarship Programme targeted at attracting candidates from BAME backgrounds.

We invest in training and development, and plan carefully for succession. This helps us foster the right people and skills to determine our long-term success.

In December 2020 we established our Equality, Diversity and Inclusion Committee, which, building on the success of the work of the Diversity Networking Groups, is responsible for defining our strategy and monitoring the development and implementation of Motability Operations' diversity and inclusion strategic goals.

One of the aims of the Committee is to act as a channel to direct and challenge the organisation in terms of our practice, approach and development of diversity and inclusion; particularly where progress is limited or in support of under-represented or disadvantaged individuals and groups. In 2021 the Committee commissioned an audit to review the policies and practices across the organisation through a D&I lens with a view to better understanding the lived experience of employees across all groups. The result of this has informed the development of a five-year plan and a series of specific actions for 2022. In 2021 we launched several initiatives, including a reverse mentoring pilot and the roll-out of a Company-wide inclusion training programme called 'Valuing Difference at MO'.

> "We invest in training and development, and plan carefully for succession. This helps us foster the right people and skills to determine our long-term success."

Chief Executive's review continued

Whilst the pandemic presented our business with many challenges, it did provide an opportunity to review our future ways of working given the successful implementation of remote working in March 2020. In August 2021 we launched our Hybrid-Working model which was collaboratively designed by teams, managers and senior leaders. This approach builds on our excellent inclusive culture, encouraging teams to combine both face-to-face collaboration in the office with the flexibility of working remotely. We recognise each team has its own unique way of working and have empowered teams and managers to determine an approach that meets their business, customers' and teams' needs. We will keep our approach to hybrid working under review and look to learn and build on our experience and employee feedback.

Our Gender Pay Gap report in FY2021 reported a mean gap of 24.6% (FY2020: 25.6%) and a gender bonus gap of 64.3% (FY2020 64.2%). Our gap is primarily driven by the uneven distribution of men and women across different roles within the business, most notably in specialist, technical roles where competition for top diverse talent, particularly in the current employment market, is highly competitive.

Over the past three years we have grown the number of women in senior management roles and 58% of our Head of Function roles are held by women. We recognise that we are on a continued journey to close our gender pay gap further and our action plans continue to provide focus and direction. Looking ahead we plan to extend this analysis to understand the patterns of pay across the broader diversity spectrum such as ethnicity and disability.

Summary and outlook

Looking back at this significant year, first and foremost I want to express my thanks to all employees at Motability Operations not only for their commitment and support, but for making me feel so welcome, for showing me the ropes and giving me first-hand insight into what a truly customer-orientated business this is.

I also want to echo the Chairman's thanks to Matthew Hamilton-James for the excellent job he performed as Interim CEO, as well as his warm welcome and wise counsel, and I extend these words of thanks to the wider executive team. I am similarly grateful for the guidance of Sir Stephen O'Brien and the members of the Motability Operations Board for their constructive challenge and support.

It has also been a pleasure to work in such a collaborative and constructive way with colleagues at Motability, and I would particularly like to thank Charles Manby, Barry Le Grys and the wider team at the Charity for their insight and positive engagement.

Despite the many challenges this year, Motability Operations Group plc remains financially and operationally resilient. The underlying financial strength with which we entered the Covid-19 crisis reassured us that we were well placed to continue to offer our customers affordable, worry-free mobility.

The unprecedented upside in used-car values has resulted in capital headroom which has enabled us to make significant investments to support current and future customers. This allows us to embrace the challenges that lie ahead with confidence, in particular as we accelerate the transition to electric vehicles and respond to other technological and industry developments, and positively influence the future in the Scheme's next chapter.

As ever, in consultation with Motability (the Charity), we keep our capital position under constant review as we respond to the emerging risk-landscape. Given these committed investments, and also the current uncertainty regarding how long the new-vehicle supply-side challenges will continue (and the implication of this for used-car values), we believe that it is prudent, at this time, to retain the current level of capital headroom to shield customers from potential volatility and to protect the Scheme through the cycle.

Andrew Miller
CEO

Environment, Social and Governance

Committed to the journey

At Motability Operations we aim to be recognised as:

- *Being customer focused and demonstrably removing barriers for disabled customers*
- *Providing value for customers, Motability, Government, and the wider economy*
- *Delivering a positive social impact for local communities and wider society*
- *Having a clear commitment to sustainability and the environment with a measurable path to net zero*
- *Being a responsible and supportive employer, with a clear and tangible commitment to diversity and inclusion, and a leader in employment of disabled talent*
- *Being open and transparent in reporting with an appropriate governance and compliance framework*

As a business we have a clear social purpose. We operate our vehicle fleet to meet the mobility needs of over 630,000 disabled customers; we have a unique role to play in ensuring that disabled people retain access to affordable, worry-free mobility during the transition to electric vehicles and more generally through the adoption of new technologies.

We aim to embrace ESG in the broadest sense, with focus on empowerment and support for under-represented groups; this extends to wider society, including increasing diversity in our workforce and supporting the communities in which we live and work. All this is underpinned through a clear and consistent governance and compliance framework.

We are developing an ESG framework to help us clearly set out and report against our activities and progress against a range of ESG initiatives and targets, and a range of external accreditations are under consideration. Whilst, as outlined on the following pages, good progress has been made, we recognise that we are on a journey, and we are committed to drive further improvements.

> "At Motability Operations, we are developing an ESG framework, with customers, employees and the wider stakeholder group at the heart of our thinking. We want to seize the opportunity to make a positive impact."

E Environment

See more on page 19

S Social

See more on page 20

G Governance

See more on page 21

E

Environment

"We are focused on embracing the opportunity presented by the accelerating roll-out of vehicle electrification."

As a large vehicle-leasing business our most significant environmental impact is inevitably the footprint of our customer car fleet. Over recent years we have aimed to ensure that vehicle ranges available on the Scheme not only meet the needs of our disabled customers, but also offer environmentally friendly choices.

We are focused on embracing the opportunity presented by the accelerating roll-out of vehicle electrification and, as set out on pages 22-25, have committed £300m of investment into this transition over the next five years.

Our environmental impact of course extends beyond our vehicle fleet into our premises and employee footprint.

We have committed to further transparency in 2022 when we plan to develop science based targets for our CO_2 reduction and are in the process of engaging with the Carbon Disclosure Project's (CDP) disclosure exercise. This is an important step on our journey to prepare for and manage climate-related risks.

Looking ahead we plan to build upon the positive initiatives already in place to minimise the environmental impact of our end-to-end business and will set our clear and measurable environmental targets.

Progress to date

- Investing to support the affordability of electric vehicles and the installation of free-of-charge home charge points; nearly 10% of customer applications are for electric vehicles
- Undertaking an exercise to measure our carbon footprint and engaging with the CDP
- Installation of electric vehicle charging points across our office locations
- BREAM/SKA ratings (Good to Excellent) and EHS policy aligned to IMS ISO14001/45001
- Purchase of REGO-backed green electricity

Next steps

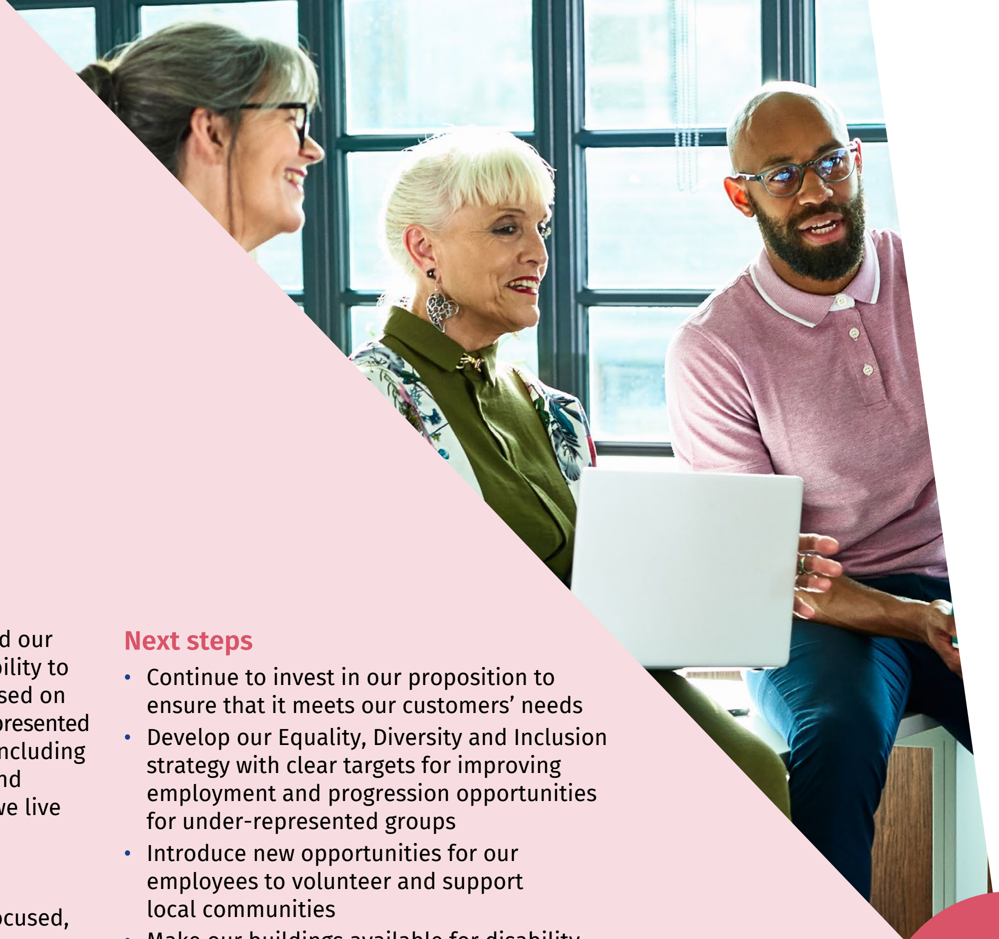
- Further investment to accelerate the transition of our customer fleet to electric vehicles, with £300m committed between now and 2025
- Manage the transition of our company car fleet to electric
- Publish our CDP rating and develop clear targets and timeframe for CO_2 reduction
- Embed specific environmental targets as part of our remuneration structure
- Implement a range of premises initiatives to reduce our footprint through improved purchasing practices, reduced consumption of materials, energy and water

>10%
of applications now for electric vehicles

63
electric vehicle charge points installed across our premises locations

100%
diversion of waste from landfill

Social



"We are focused on removing the barriers faced by our customers."

We recognise that by delivering affordable, worry-free mobility to our disabled customers we are in a unique position to deliver a positive social impact. We seek regular customer feedback to ensure that we continue to meet our customers' needs. We are focused on removing the barriers faced by our customers and, through the Motability Scheme, we enable our customers to remain mobile; to fully participate in family life and to have better access to work and education opportunities. Both directly and indirectly the Scheme delivers a positive socio-economic impact for the UK. In 2021 Motability commissioned a report from Oxford Economics to assess the economic impact of the Motability Scheme.

As we do not pay shareholder dividends we can focus purely on delivering for our customers. The profit that we generate is therefore available for reinvestment to support their current and future needs. To the extent that our retained profit (our capital reserves) exceeds the level required to underpin the sustainability of the Scheme, we periodically donate to Motability (the Charity) supporting the delivery of their broader aim of enhancing the lives of all disabled people with transportation solutions.

Our social commitment extends beyond our customers; we recognise our responsibility to our broader stakeholders. We are focused on empowerment and support for under-represented groups; this extends to wider society, including increasing diversity in our workforce and supporting the communities in which we live and work.

Progress to date

- Motability Operations is customer-focused, with 98% customer satisfaction
- Continued to subsidise adaptations and Wheelchair Accessible Vehicles
- Donated £170m to Motability to support the delivery of their wider mandate
- Issued inaugural bonds under our Social Bond Framework
- Employee culture and engagement scores ahead of UK high-performing organisation benchmark
- Introduced new initiatives overseen by our Equality, Diversity and Inclusion Committee
- We have recently been awarded Disability Confident Leader status

Next steps

- Continue to invest in our proposition to ensure that it meets our customers' needs
- Develop our Equality, Diversity and Inclusion strategy with clear targets for improving employment and progression opportunities for under-represented groups
- Introduce new opportunities for our employees to volunteer and support local communities
- Make our buildings available for disability groups and local charities
- Continue to raise funding under our Social Bond Framework

98%
customer satisfaction

Over 30,000
UK jobs supported by the Motability Scheme

94%
employee engagement

S

Governance

"We operate with a transparent governance structure, with clear accountabilities for directors and senior management."

G

We believe that accountability and transparency are essential for the effective operation of a modern, responsible business. As a Public Interest Entity (PIE) we are committed to meeting the full range of regulatory disclosure and reporting requirements; and in many cases seek to provide additional voluntary disclosure where this is considered helpful to stakeholders.

We operate with a transparent governance structure, with clear accountabilities for directors and senior management. As set out in our corporate governance report on pages 66-73, we apply the Wates Corporate Governance Principles for large private companies under the six principles of Purpose and leadership; Board Composition; Director Responsibilities; Opportunity and Risk; Remuneration; and Stakeholders.

We believe that a strong business culture is fundamental in underpinning our approach to governance and this is reinforced by clear policies and well-established working practices.

Progress to date

- Clear and transparent external reporting; fully compliant with relevant regulatory reporting requirements
- Adoption of Wates Principles
- Published Gender Pay Gap report, Payment Practices Report and Tax Strategy
- Pension arrangements feature a sustainable investment fund as default

Next steps

- Define roadmap for future reporting and disclosure including consideration of the early-adoption of TCFD reporting requirements
- Publish our ESG strategy with clearly defined targets, including those linked to remuneration structures
- Establish an ESG Committee to formalise our approach and provide prominence through our Executive Committee and Board
- Explore the appropriateness of potential frameworks and accreditations to reinforce our commitment and demonstrate progress made against our ESG ambitions

Investing in the electric vehicle transition

The Glide Path to Green: Supporting our customers in the transition to electric vehicles

The transition of our customers to electric vehicles over the next few years requires careful planning and support; we are focused on ensuring that our customers are not left behind on this transition. We aim to ensure that customers have access to suitable, affordable vehicles, with the availability of cost-effective and accessible charging options.

Progress to date

See more on page 24

Accelerating the transition

See more on page 25

Our future ambitions

See more on page 26

Investing in the electric vehicle transition continued

Why this is important

Sales of new petrol/diesel only cars and vans will be banned (under Government policy announced in 2020) from 2030 onwards. The Scheme needs to prepare for this and support customers transitioning to EVs as vehicle availability, costs and charging infrastructure evolve through this decade.

By paving the way for disabled people to be early adopters of EVs we will ensure their needs are represented as new services and solutions (e.g. accessible vehicle charging) required nationally are developed.

EVs offer potentially significant financial benefits for many customers as a result of lower fuel costs. The cost of 'fuelling' an electric vehicle at average domestic pricing tariffs is less than half the cost of petrol or diesel.

The Scheme recognises it has an important role to play in helping to reduce CO_2 emissions. We are committed to playing our part in addressing this global challenge.

Providing a worry-free proposition

We recognise that additional practical barriers are faced by disabled customers contemplating this transition, including cost, vehicle suitability, range-anxiety and the availability of an accessible charging infrastructure.

Our aim is to ensure that the Scheme's "worry-free" proposition translates seamlessly through the transition to electric vehicles.

Investing in the electric vehicle transition continued

Progress to date | Accelerating the transition | Our future ambitions

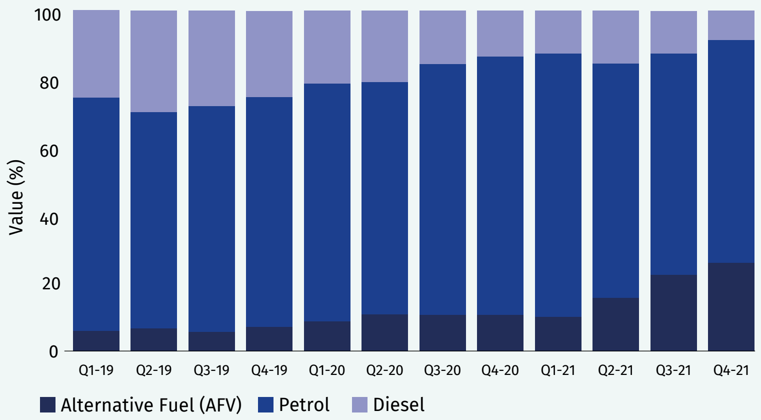
This year we have invested over £20m to subsidise pricing on applications for electric vehicles on the Scheme, including the installation of free-of-charge home charge points where this is viable.

We recognise that electric vehicles are not currently suitable for a proportion of our customers (often due to vehicle suitability, mileage-range anxiety or access to charge points).

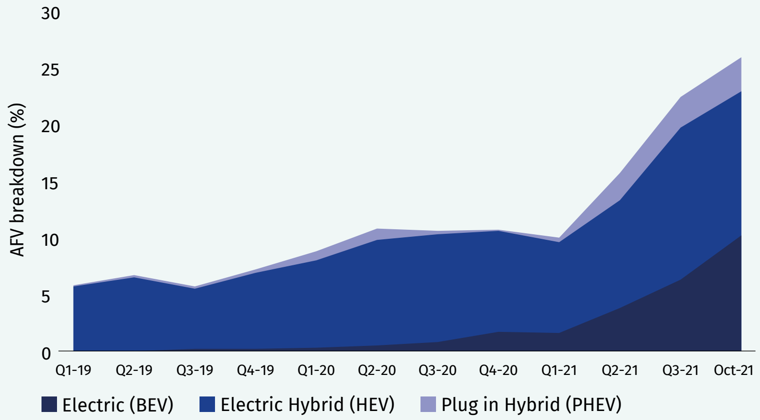
Therefore we now undertake a full suitability assessment prior to application to ensure that customers are making an informed decision and that selecting an electric vehicle is the right choice for them (including access vehicle charging, and understanding their expected mileage /usage in the context of battery ranges).

We also remain focussed on ensuring that we continue to provide a worry-free proposition for those customers who are not yet ready to make the transition to an electric vehicle.

Applications split by fuel type



Alternative fuel vehicle applications (%)



This investment and triaging of customers has supported an acceleration of applications into electric and hybrid-electric vehicles, with total alternative fuel vehicle applications increasing from 10.7% in the final quarter of 2020 to 26.5% in October 2021, with pure electric vehicle applications increasing from 1.7% to 10.2% in the same period.

There are currently 87 battery electric vehicles available on the price list, with 21 requiring no “advance payment” from customers (affordable through the assignment of the customer’s allowance alone, with no additional cost).

Without the current investment into lease pricing (subsidy), the current breadth of offering would be significantly reduced.

>10%

of applications for EVs in October 2021

Making electric vehicles available to all

£20m invested this year to subsidise EVs for customers

Supporting affordability and choice

Including the installation of free home charge points where viable

Investing in the electric vehicle transition continued

Further to the significant investment already made to support an increasing uptake of electric vehicles over the last year, the Board has committed an additional £300m of capital investment over the next five years. This has been ring-fenced to invest in support of the affordability of the Scheme's electric vehicle offering and for the continued provision of free-of-charge home charging points, with a hassle-free installation process.

This coincides with the launch of a number of exciting new EV model ranges from Original Equipment Manufacturers (OEM), including a number of larger vehicles in the "cross-over" segment which represent heartland vehicles for Scheme customers given their accessible characteristics. With battery ranges and charging infrastructure also improving, this means that an electric vehicle is becoming a viable option for an increasing proportion of Scheme customers.

Motability has partnered with the UK Government to set accessibility standards for electric vehicle charge points, with British Standards Institute (BSI), to develop accessibility standards for EV charge points across the country. This important development will help ensure that customers who choose an electric vehicle can be confident that charge points will be accessible to them.

We are enhancing the way in which we assess and triage customers who are contemplating the transition to an electric vehicle, ensuring that customers' needs are fully understood and that an electric vehicle is the right choice for them.

Recognising our responsibility around climate change we have also initiated a project to independently verify our carbon footprint and are engaging with the Carbon Disclosure Project's disclosure exercise, and as a next step we are committed to set transparent and measurable targets for CO_2 reduction, with our customer vehicle fleet and the electric vehicle transition being core to this strategy.

Commitment to invest additional capital

£300m over the next 5 years

Keeping electric vehicles affordable

Providing free home charging points

Investing in the electric vehicle transition continued

Progress to date | Accelerating the transition | **Our future ambitions**

We are committed to the Glide Path to Green and plan to set out a clear route map for carbon reduction and the route to net zero.

As part of our wider ESG strategy we will define specific targets in terms of electric vehicle adoption and CO_2 reduction. This strategy is broader than simply focussing on our customer car fleet and extends into minimising the environmental impact of premises footprint and our people. More detail is outlined in the ESG pages of this report.

We are also actively exploring how vehicle charging solutions can be optimised for our customers. This includes understanding the role we can play in ensuring customers are able to benefit from developments within the charging landscape such as smart charging hardware and software options and specific EV charging tariffs.

It is also clear that the transition to electric vehicles may disrupt the traditional OEM supply model, with a number of OEMs already focussing on direct to customer online routes for their electric offering. We will work closely with the OEMs and ensure that the Scheme offering remains sufficiently agile to adapt to these shifting routes to market.

Our overarching ambition is to accelerate the adoption of electric vehicles on the Scheme whilst balancing this with customers' disability-related needs, so that this transition does not lag behind the wider market, thereby ensuring that disabled customers are not left behind on this transition.

Ensuring a "Glide Path to Green" for our customers

Increasing EV uptake whilst minimising our environmental impact

Optimising charging solutions

Engaging with OEMs to ensure the right route to market

Ensuring disabled customers aren't left behind

Stakeholder engagement

Listening to our stakeholders

Our stakeholders	Customers	People
What they care about	Our business delivers worry-free motoring to nearly 649,000 disabled customers. Through an affordable leasing proposition, we aim to empower people to lead more independent lives; in short, to provide the pathway to everyday freedom that many others take for granted.	We pride ourselves on having a positive and inclusive working environment. The success of our business depends on attracting, retaining and motivating employees. From ensuring that we remain a responsible employer, from pay and benefits to our health, safety and workplace environment. More information on this can be found within the "People and culture" section on pages 36-42.
How we listen	Understanding our customers and their individual needs is critical to the success and sustainability of the Scheme. Twice a year we independently survey our customers, seeking formal feedback across all aspects of the proposition. Every year we receive over a million phone calls from our customers. Each call is different and is handled personally by our team of experts, and through our speech analytics, we are able to enhance our immediate understanding of customer needs and adapt to any changing requirements.	Our culture is the foundation upon which our approach to delivering excellent customer service is built. Every year we measure this through our annual employee survey. We work hard to ensure our teams are engaged in our strategic plans and progress. Two way communication is achieved through a combination of roadshows and webinars presented by our CEO and Directors, an employee forum representing employees across all business areas, Diversity networking groups and meetings with Simon Minty, our designated Non-Executive Director who engages with employees.
How that influenced us	During the year we have focused on ensuring our customers remain supported as the UK has navigated through the Covid pandemic; in total we have rebated over £100m directly back to customers since March 2020, reflecting the lower mileages during the period of national lockdown. We have committed a further £180m to support customers with affordability challenges linked to vehicle supply issues. We have also opened our online account, giving customers the opportunity to manage elements of their lease online and receive payments directly into their bank account.	Throughout the year we have proactively engaged with employees on the support available to assist with hybrid working, including the provision of home office equipment. We have launched our mental health allies programme, with 65 allies throughout our business, and formed our Equality, Diversity and Inclusion Committee in December 2020. Developing our internal talent remains a top priority, including formal training, involvement in strategic initiatives and projects and cross functional secondments.

Stakeholder engagement continued

Our stakeholders	Motability, the Charity	Manufacturers and dealers
What they care about	Motability, the Charity, has been responsible, since the Scheme's foundation, for securing support for disabled people, and overseeing the Scheme to ensure that it is dedicated to the interests of disabled people, provides access to a wide choice of vehicles, remains sustainable and provides excellent service and value for money. Motability also wants to ensure that the transition to 'green' transport is fairer for disabled customers.	We provide a significant and stable route to market for car manufacturers and we regard our partnership with them as extremely valuable to the Scheme; during the year we accounted for over 12% of UK car registrations. Our dealerships provide the 'shop window' of the Motability car scheme, and are incentivised to provide all-encompassing worry-free service to Motability customers; as a result of this consistently high delivery the dealership network has been rewarded through Motability Dealer Partnership programme payments.
How we listen	Motability sets the strategic direction and high-level policies for the Scheme in consultation with Motability Operations. At Motability Operations we work collaboratively with Motability and engage with them through various channels including the Charity's Scheme Oversight Committee and at their Board of Governors' meeting. We consult with Motability on key matters and value their input, feedback and constructive challenge.	We have developed strategic relationships with mainstream car manufacturers and support specialist training across the UK dealership network. We have a dedicated team which works with the manufacturers to ensure continual engagement and feedback. Dealers continue to work closely with us with support from our dedicated in house call centre, field teams and regular business briefings. This helps to improve awareness and understanding of the Scheme and understand the challenges faced.
How that influenced us	By understanding Motability's plans and priorities we ensure our investment plans are appropriately aligned. This helps inform our decisions in balancing how we deploy our capital to meet the scheme objectives whilst also making charitable donations in support of Motability's wider mandate. Performance is tracked through a range of contractual KPIs, thereby ensuring activity across the business is aligned to our strategic objectives and ultimately the strategic direction set in partnership with Motability.	While we take responsibility for the overall customer experience, around 14,000 trained Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. More than 4,400 dealers provide front line services for customers; through the national lockdowns, we continued to provide high quality training for Motability specialists through switching to online platforms.

Stakeholder engagement continued

Our stakeholders	Disability groups	Investors
What they care about	Disability organisations are a key stakeholder group for Motability Operations. Disability groups provide an important voice for our customer base and offer first-hand insight into the challenges faced by our customers and the wider disabled population.	Our bond holders need to be confident that the funds they invest in Motability Operations are secure. Our capital structure and approach to risk management are therefore key. Increasingly investors are interested in a company's ESG credentials. Whilst risk and return remain key considerations, our social purpose and environment impact are of increasing focus.
How we listen	We meet with disability groups to share and discuss developments within Motability Operations, but also aim to understand first hand the issues facing these organisations and their members and clients, stemming from a variety of conditions and impairments. We attend various AGMs and events, including the Disability Benefits Consortium. This interaction provides a valuable sounding board to feed back on MO plans and operational challenges, helping to ensure that the voices of people with disabilities are heard.	We have an established programme of engagement with our investors. We share our Annual Report and Half Year report with investors, providing visibility of company performance. We host global investor calls twice a year following the publication of these reports and invite an open dialogue and Q&A. We believe that transparency is key and as part of our rolling refinancing programme, the senior executive team make themselves available for a comprehensive investor road show prior to any new bond issuance.
How that influenced us	We have always encouraged the use of meeting space in our offices by disability organisations, and when the opportunity came to plan our new Edinburgh offices from scratch, we took advantage of this to plan state of the art accessible meeting spaces for use by community organisations. The insight from our broad engagement with disability groups helps us shape our customer proposition.	Investor feedback has shaped our thinking towards ESG. This led to the development of our Social Bond Framework in late 2020, with inaugural bonds issued under this framework in January 2021. Our first "impact and allocation" report demonstrating how proceeds have been utilised is now available.

Stakeholder engagement continued

Our stakeholders	Suppliers	Local communities
What they care about	Our Scheme partners are critical to the delivery of the worry free package and maintaining our high levels of customer service. Through nationwide coverage, Scheme partners enable us to provide MO customers with universal care and support, to meet their individual needs. For these partnerships to be sustainable into the long-term we recognise that our supplier relationships need to make commercial sense.	Our focus on empowerment and support for under-represented groups extends to wider society, including increasing diversity in our workforce and supporting the communities in which we live and work. We offer best practice disability access in and around our buildings. As a large UK-wide business, with offices in Bristol, Edinburgh and London, we want to make a positive social and economic impact for our local communities and wider society.
How we listen	Our twice yearly CSI survey allows feedback from customers on supplier experience, and we also hold regular performance reviews and periodic tenders overseen by our Supplier Management committee. Furthermore, we have carried out feedback questionnaires from those suppliers who work on our premises, to ensure we maintain the same high engagement standards, whether directly employed by MO or indirectly.	We engage with local charities, education bodies and businesses to understand how we can create a positive impact. Employee feedback and input is also important in shaping how we can support our local communities.
How that influenced us	Through the lockdown period, we worked closely with our suppliers to ensure delivery and standards could be maintained, and provided enhanced levels of flexibility and support, such as accelerated billing profiles, to assist with cash flow through these difficult times. We routinely carry out supplier reviews to monitor performance against KPIs, ensuring that suppliers implement action plans where necessary. We include insurance, roadside assistance and tyre replacement services on our Customer Satisfaction Index, enabling us to benchmark and align the performance of every provider.	We continue to support local initiatives and make donations through our “myCommunity” programme. We operate a Scholarship Programme providing financial support and work experience for a number of disabled and BAME students each year and have started an Apprenticeship Programme. During 2022 we plan to launch an employee volunteering scheme to enable employees to make a positive impact in their local communities. We make our premises available for local charities to use for meetings and events.

Strategy in action

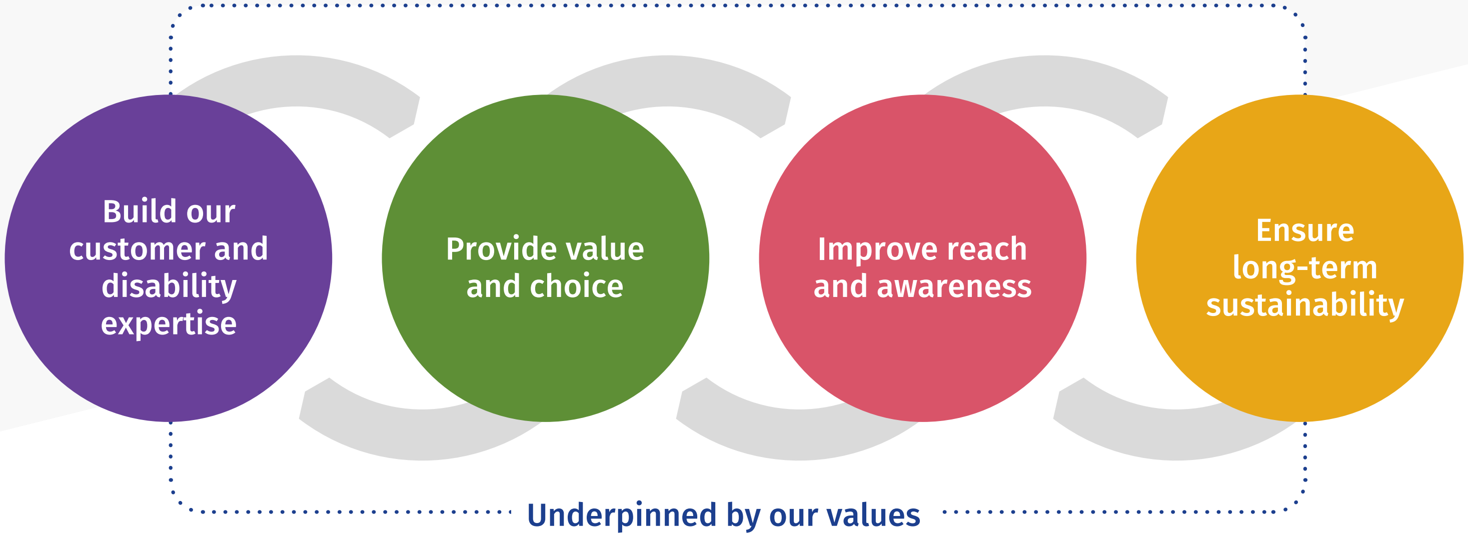
Our strategic framework

Our values help us deliver our strategy

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.

Turn to pages 32-35 for more information on 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.

Turn to page 36 for more information on our values

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.

Turn to pages 36-42 for more information on our people

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.

Turn to pages 32-35 for more information on our performance

Risk management

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

Turn to pages 55-64 for more information on risk

Strategy in action continued
Measuring our success

Building our customer and disability expertise

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

Delivery

We continue to invest in our front-line customer services team to address more complex customer needs that have arisen through the pandemic, and to manage the external supply side challenges which undoubtedly impact many customers moving into a new lease.

Throughout the national lockdowns, we kept our call centres open, allowing customers to reach us when they needed to. While this presented many challenges, the engagement and values of our call centre staff allowed us to continue providing high levels of service to our customers.

Speech analytics enhances our immediate understanding of customer needs and allows us to adapt our delivery, and remain agile to any changing requirements.

We continue to develop our customer digital services, providing customers with options on how they want to interact with us, as well as enabling customers with the ability to manage their account online, and receive payments via BACS if they so choose.

Expanded the digital offering to provide customers with access to information at any time of the day. This has been supported by extended hours of service, trialling of other channels of interaction e.g. Webchat, Twitter, WhatsApp chat. Our online channel has proven particularly popular with customers who are unable, or prefer not, to use the telephone.

Our Edinburgh office is now fully operational, a facility designed with disabled customers, disability organisations and colleagues in mind, enabling us to access more tools and additional resource to support our people and customers but also the wider disability community.

The Continuous mobility programme has ensured that our customers can continue with their day-to-day lives; this has been vital given Covid related repair backlogs and car supply shortages, leading to higher levels of customers' vehicles being off the road for a period of time.

Worked closely with the converters of our most complex vehicle solutions, understanding and supporting the challenges faced during a difficult period for these often more bespoke organisations.

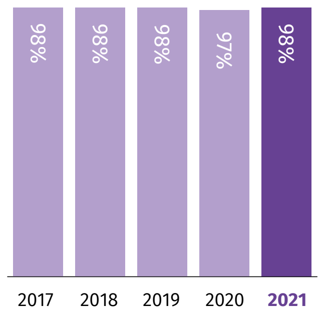
Our 'try before you buy' service has been invaluable for customers who may require a WAV. Customers are able to choose vehicles that are right for their needs, making informed decisions on the suitability of more complex vehicles.

Key performance indicators

Overall customer satisfaction

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

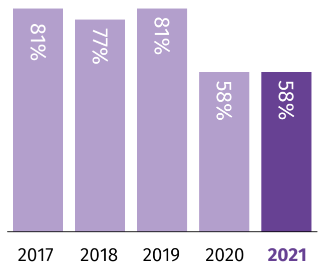
98% Target of >92%



Calls answered within 20 seconds

Throughout the year call volumes have been higher than expectation, driven by Covid related concerns and enquiries about the availability of new vehicles. Whilst the 80% target has not been met, on average we were able to answer calls within three minutes.

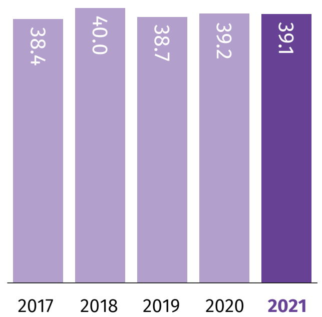
58% Target of 80%



Roadside assistance average response time

Mobility is a priority to our customers. In the event of a breakdown our customers receive priority assistance, and with an average response time of 39.1 minutes during the year (compared with a KPI target of <42 minutes), customers are quickly attended to and are mobile again.

39.1 mins Target of <42 mins



Strategy in action continued

Provide value and choice

Objectives

Provide stability in pricing and choice throughout the economic cycle

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

Delivery

Working alongside car manufacturers to maintain choice and affordability for customers with more than 205 cars available at no more than the allowance. This was achieved despite disruptions caused by Covid and supply issues caused by the global chip shortage.

Provided a large selection of vehicles available at less than the customer's full allowance, with on average 91 cars available through the year.

We have recognised the increasing profile of electric as a vehicle choice, and been able to offer customers an average of 86 electric vehicles options during the year. We have also sought to assist customers with electric charging options, including a home charger as part of the lease package for any battery electric vehicle chosen by customers.

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. An independent third-party end-to-end assessment of our residual value forecasting stated "MO's forecasting approach uses sophisticated techniques, is robust, fit-for-purpose and aligns to forecasting best practice".

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.

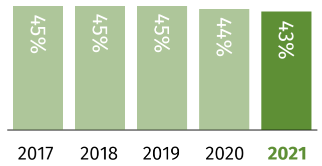
Continued activity on the long-term development of systems infrastructure for our online remarketing processes. The agile development will deliver a sustainable and secure platform for the future and provide opportunities to deliver enhancements to our existing remarketing capabilities.

Despite disruption in the market from national lockdowns and emerging competitors, VRM channel has performed strongly. We continue to invest in technology to ensure the proposition is robust to deal with new emerging channels of competition.

Key performance indicators

Relative affordability – % cheaper than alternative

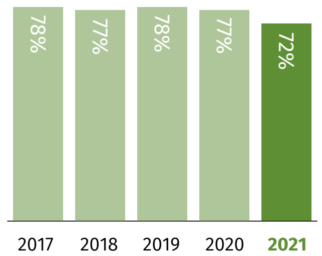
We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and a VAT concession (which is passed onto customers in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



43%

% of vehicles sold online at the end of lease

Selling via our online sales channel, 'mfldirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return. During the year to September 2021, 72% of vehicles were sold online.

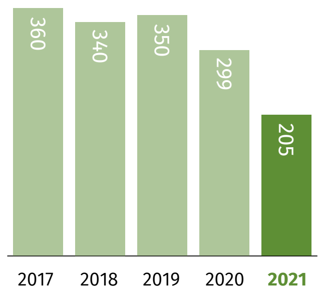


72%

Target of 70%

Affordable vehicle choice at 'nil advance payment'

We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. Whilst this target was met during the year, new vehicle supply challenges and manufacturer model range rationalisations have reduced the breadth of offering. We anticipate this pressure to intensify during 2022.



205

Target of >200

Strategy in action continued

Improve reach and awareness

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

Delivery

Due to Covid-19 and uncertainty around large events, we were once again unable to physically host our 'One Big Day' events this year. The events were once again held online with 10,225 people registered participants. 72% of attendees that completed our post event survey said they would attend another online event host by the Motability Scheme.

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 who are seriously ill or disabled but do not yet qualify for a government mobility allowance. This programme was endorsed by the DWP with funding to date provided by Motability (the Charity), and during the year more than 200 families were supported by the provision of an appropriate vehicle.

In July, we announced that Direct Group Limited will take over from RSA as our insurance partner. This new proposition will offer the potential to grow the Scheme and offer increased flexibility to customers. We are confident that the new relationship will support worry-free motoring and value for money to our customers.

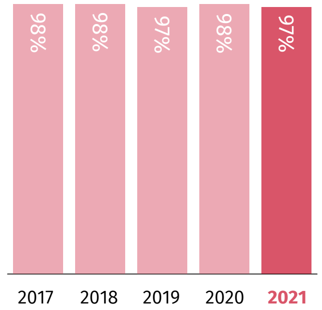
Key performance indicators

Trust in Motability

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

97%

Target of >85%

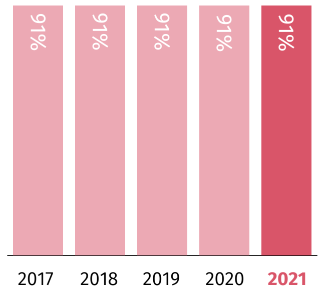


Customer renewal rate at the end of lease

Whether customers decide to renew at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year to September 2021 this was maintained at 91%, compared with a KPI target of 85%.

91%

Target of >85%

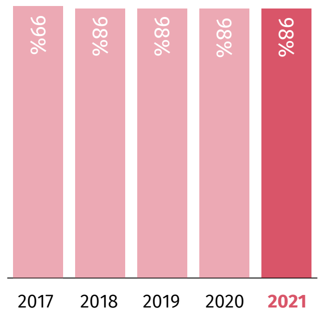


Customer advocacy

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

98%

Target of >85%



Strategy in action continued

Ensure long-term sustainability

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

Delivery

Financial results during the year have been buoyed by a significant increase in used-car values, caused by demand from new online dealers and supply shortages related to the semi-conductor crisis in the new car market.

We continue to apply capital modelling methodology and our applied risk appetite and confidence levels, and we benchmark our capital reserve levels against near-comparable companies. This Economic Capital approach has been confirmed as appropriate by Oliver Wyman and supports the Group's application of a 99.99% confidence level.

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

Our annual independent employee culture survey recorded an exceptionally high engagement score of 94%, significantly ahead of the benchmark of other high-performing organisations.

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.

Maintained a proactive engagement programme with key stakeholders, operating in a transparent and straightforward manner.

An investment of £20m to improve affordability for those customers applying for an electric vehicle on the scheme, with £300m ringfenced to invest over the next five years.

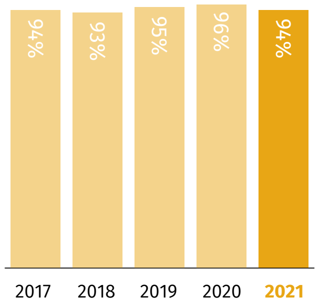
Key performance indicators

Employee engagement

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

94%

Target of 84%



Credit rating

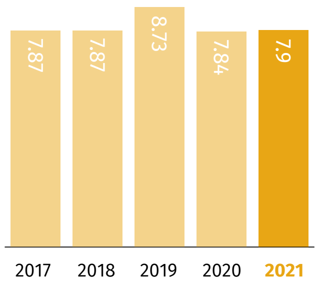
Our credit ratings underpin our ability to fund the Scheme in a sustainable and cost-effective manner. Our ratings are A / A1 with stable outlooks (from Standard & Poor's and Moody's respectively).

A/A1

Debt maturity profile

The Group aims to retain a well-laddered debt maturity profile in order to effectively manage refinancing risk. The average debt maturity remains appropriate at close to 8 years.

7.9 yrs



People and culture

Driving our success

The way we work is central to delivering the needs of our customers. At the centre of our culture are our employee values, which have been developed based on feedback from our customers, partners, employees and our leadership team.

Our values

Inclusion

- We trust and respect each other
- We value diversity and everyone's contribution
- We work together and communicate openly

Empathy

- We act honestly and with integrity
- We recognise when others need support
- We strive to understand the needs of our customers, both internal and external

Forward thinking

- We embrace change and look for continuous improvement
- We collaborate to seek opportunities to think differently
- We put our customers at the heart of what we do

Excellence

- We are resilient and professional
- We strive to be the best at what matters most
- We set high standards and go the extra mile

Empowerment

- We take ownership and are accountable
- We have a flexible and can-do approach
- We are confident in making informed and appropriate decisions

People and culture continued

Our values

At Motability Operations our culture and values are at the heart of everything we do. They lead the way in guiding our approach to how we do business and engage with our customers, suppliers and employees. Our aim is to provide an environment which encourages our employees to flourish whilst bringing their own perspectives and ambitions to work. We pride ourselves on having a positive and inclusive working environment.

We continually review our values to ensure they reflect our strategy, purpose and culture as we evolve and prepare our business for the future.

Our culture

Our culture is the foundation upon which our approach to delivering excellent customer service is built. Every year we measure this through our annual employee survey. Facilitated by an independent global employee research organisation, our results are compared against a benchmark of UK High Performing Organisations which we have consistently out-performed for over ten years. In 2021 we achieved a survey response of 90%, a marker of our continued strong levels of engagement given that we were just emerging from the third and arguably the most challenging lockdown period between January – April 2021.

Throughout the year, we have continued our focus on the health and wellbeing of our employees through regular and well-timed surveys and communications and our proactive approach in reassuring employees of the support available to them. This includes provision of home office equipment such as laptops, monitors, chairs and comfort packs through to webinars supporting our employees with the numerous challenges they experience, ranging from loneliness and mental health concerns to yoga and maintaining a healthy work-life balance. No Motability Operations employee was placed on furlough during the pandemic and flexibility in working arrangements enabled the majority of our employees to balance their home lives and continue working throughout.

“My teammates were always willing and eager to share their knowledge. By the time I left, I felt like an integrated part of the team.”

Josie Wright, Software Engineer

“I first joined MO through the Business Systems Placement Programme in the Cloud Platform Ops team. In this team I was provided with resources to learn about the AWS cloud and learned about MO’s cloud infrastructure. I was given the opportunity to meet with people in different roles across the company and encouraged to ask about anything that piqued my interest so that I could be given the opportunity to try working in those roles.

Having most enjoyed programming at university, I was eager to work in a role where I was primarily coding and was given the opportunity to do so. I moved onto the Digital Customer programme and then later Vehicle Remarketing as a software engineer. It was daunting to join a new team using unfamiliar software and frameworks but MO’s paired programming practices enabled me to feel supported in my development. My team leads and managers regularly asked if there was anything else I wanted to learn or explore and made sure I got the opportunity to experience those things. My placement experience was valuable during my final year of university for both my programming skills and following best practices.

Now I have returned to MO in a new product team as a software engineer. With some familiarity, I was able to hit the ground running when I returned. Whilst there’s still much to learn, I’m happy to be able to contribute to MO and the service we provide.”

Josie Wright
Software Engineer

People and culture continued

Independent employee survey

Through our annual independent employee survey we are able to benchmark our business culture.

Engagement

Our people are proud to work for us, highly engaged and feel aligned with our business strategy.

94%

Our values

Our values reflect the way we do business, an inclusive environment where our people do great things.

94%

Leadership

Employees feel that our leaders provide a clear sense of direction and motivate people to achieve their best.

88%

Customer focus

Our employees feel that the Company places our customers at the heart of what we do and every decision we make.

95%

Supportive culture

Our people feel supported both at work and in managing their everyday lives, and have welcomed support and understanding throughout the Covid pandemic.

92%

People and culture continued

"Motability Operations has always been a very supportive organisation, however the actions and investments made in the last year during Covid have really shown the importance that Motability Operations places on its people and have been hugely appreciated in getting us through the difficult time."

Employee Survey, May 2021

During 2021 we launched our Mental Health Allies programme, providing an internal network of trained individuals who volunteer and can provide support, signposting and trusted conversations about mental health in the workplace. We now have 65 Mental Health Allies throughout our business.

Our inclusive workplace

In December 2020 we established our Equality, Diversity and Inclusion Committee, which reports into our Executive Committee and is chaired by our CEO and supported by members of our senior leadership team. The Committee is responsible for defining our strategy and monitoring the development and implementation of Motability Operations' diversity and inclusion strategic goals.

One of the aims of the Committee is to act as a channel to direct and challenge the organisation in terms of our practice, approach and development of diversity and inclusion; particularly where progress is limited or in support of under-represented or disadvantaged individuals and groups. In 2021 the Committee commissioned an audit to review the policies and practices across the organisation through a D&I lens with a view to better understanding the lived experience of employees across all groups. The result of this has informed the development of a five year plan and a series of actions planned for 2022.

"When I joined Motability Operations in 2019 I was at a low point mentally due to various factors. I was concerned that the company wouldn't be able to deliver on its values. With other companies there seems to be a focus on either customers or colleagues and not both at the same time.

However, I've experienced first-hand that Motability Operations does all it can to put everyone at the heart of what it does, even during challenging times. And I've been proud to be part of that.

From assisting customers when processes have been changing on a regular basis to being part of the Disability Network Group to support employees during the uncertain period we've all gone through.

It's been empowering to witness first-hand that the company is determined to do all it can to help its employees, the effort that goes on to do this and the benefit this produces for everyone concerned.

Using my experiences I'm now a Mental Health Ally. In this role I'll be able to help colleagues when they need it and I'll take pride knowing that I work for a company that understands the importance of living by its values."

Neil Renton

Customer Contact Advisor

People and culture continued

"I really appreciate how the business has transitioned to a working from home environment through the pandemic and moving forward into the future how they have cascaded the plan to the business on our blended working. Management and senior management have also been open and encouraged people to provide their opinions and ideas on how they would like things to look in the future."

Employee Survey 2021

In 2021 the Committee championed a number of initiatives, including a reverse mentoring pilot and the roll-out of a Company-wide inclusion training programme called 'Valuing Difference at MO'. All employees will attend this mandatory training and it complements a suite of other training programmes supporting our focus on inclusion.

Whilst the pandemic presented our business with many challenges, it did provide an opportunity to review our future ways of working given the successful implementation of remote working at the start of the pandemic. During the summer of 2020 we made a commitment to the business to review how we could embrace the benefits realised from remote working, recognising the strengths this brought to our inclusive culture and employer brand, whilst at the same time acknowledging that there was still an important role for face-to-face collaboration in our welcoming and friendly offices.

In September 2020 we opened Forthstone, our new office in Edinburgh. Designed to facilitate inclusive, collaborative and hybrid working and with input from our Diversity networks, the office features modern purpose-built concepts such as video conference pods, gender neutral toilets and changing facilities, a restaurant and coffee shop together with a Wellbeing room for employees to take time out of their day. Built to exceptionally high standards and awarded BREEAM Excellent and SKA Gold Status, the offices were purposefully designed with our disabled colleagues and customers in mind, exceeding all accessibility requirements including a Changing Places room which is open for the public to use. We also offer the facilities of Forthstone to external friends of the Scheme to use for meetings.

"I first joined Motability Operations (MO) in 2019 for summer work experience as a Software Engineer in the Digital Customer Programme whilst studying for my A levels. After a year back at school, MO offered me a new one year contract.

This was my first job and after the 6 weeks of work experience, I knew exactly what I wanted for my future and fell in love with software engineering. I spent most of the year working online due to Covid, however MO made sure I was able to meet new people, work with others and have everything I need to work efficiently. As a young female in technology, I was so happy to discover that MO had a Women in Tech group. The community allowed me to meet people from across the company and being an advocate for young women wanting to work in technology is a big honour.

The Company was aware that I was considering going to university but they also presented me with another option. They gave me the opportunity of a higher-level apprenticeship, which I am extremely grateful for. Since recently starting the course, MO are making sure I have all the support I need and are helping me manage work and study.

Working at MO has given me the skills and through the apprenticeship I will get the qualifications to become a Full Stack Developer. I am so excited to keep going down this path and cannot wait to see what my future holds."

Abbie Henson
Software Engineer

People and culture continued

"We recognise each team has its own unique way of working and have empowered teams and managers to determine an approach that meets their business, customers' and teams' needs."

Employee Survey 2021

In August 2021 we launched our Hybrid-Working model which was collaboratively designed by teams, managers and senior leaders. This approach builds on our excellent inclusive culture, encouraging teams to combine both face-to-face collaboration in the office with the flexibility of working remotely. We recognise each team has its own unique way of working and have empowered teams and managers to determine an approach that meets their business, customers' and teams' needs.

We work hard to ensure that our teams are engaged in our strategic plans and progress. Through a combination of newsletters, employee webinars and roadshows presented by our CEO and Directors, an Employee Forum representing employees across all business areas, our Diversity Networking Groups and meetings with Simon Minty, our designated Non-Executive Director who engages with employees, we listen to employee feedback and use this to inform our plans.

Our talent pipeline

Critical to our success is the ability to recruit and retain people who will deliver excellence in their role and are aligned to our values.

We run a number of programmes across our business aimed at attracting early talent into our organisation, including our Graduate Programmes, Internship Programmes, a Disability Scholarship Programme, Apprenticeships and work experience initiatives. In 2021 we commenced two new programmes which included Degree Apprenticeships in our Risk and Business Systems division, and in partnership with early intervention mentoring charity, Urban Synergy, the delivery of a Scholarship Programme targeted at attracting candidates from BAME backgrounds. The programme provides financial support whilst at university together with paid work experience during the summer breaks. This complements the parallel programme we already run for students with disabilities.

We take pride in our on-boarding programmes, designed to ensure that each employee who joins us has an opportunity to find out about how our business works together to provide a valued service to our customers.

Developing our internal talent continues to be a priority. Employee development is supported and encouraged through a number of routes including formal training, involvement in strategic initiatives and projects and cross-functional secondments. Equipping our managers with the skills to develop and grow inclusive high-performing teams continues to be a priority in which we intend to invest further during the year ahead.

"I joined MO in 2019 on our Graduate programme and have loved every minute since. As a graduate, I've had the privilege of working across three different teams exploring my career interests. The programme is without a doubt challenging and has pushed me outside of my comfort zone but in a really supportive environment, which has really enabled me to grow and develop as an individual.

I've loved the responsibility I've been given, the latest project being the delivery of our inclusion training workshops 'Valuing Difference at MO' to all of our employees. During these workshops I facilitated discussions between 10 employees at a time, challenging our stereotypes, microaggressions and implicit biases which have brought up some really interesting conversations. It's been a great opportunity for my own development but more importantly it's been inspiring being able to play an important role in the progression of our diverse and inclusive culture.

The responsibility and exposure I've been given has not stopped there. I also act as secretary to our Equality, Diversity and Inclusion Committee who oversee and monitor the implementation of Motability Operations' Diversity and Inclusion strategic goals. It's been great having exposure to those conversations and seeing the great progress we are making as an organisation in this space."

Rob West

Graduate

People and culture continued

> **"Motability Operations produces regular updates on the work being done on equality and inclusion. Employees can access webinars, different working groups and many events to learn about these topics and are also encouraged to speak up and give their opinion, which I think is great."**
>
> Employee Survey 2021

We have high expectations of our people, but in turn we provide a fair and competitive reward package to reflect their contribution and recognise their success. Performance-related pay is discretionary and dependent on Company and individual performance. All employees are assessed on the basis of their results and behaviours, each carrying equal importance. Remuneration decisions are taken in line with our Remuneration Policy.

We are fully committed to paying our people at least the level of the current Living Wage, as calculated by the Living Wage Foundation, for their base location. Through our competitive tendering processes, we also ensure our suppliers follow the same principles.

Our core benefits package is regularly reviewed and is an important part of the total remuneration for all employees. Our flexible benefits system provides choices and options based on individual lifestyle needs.

Our pay gaps

Our Gender Pay Gap report in 2020/21 reported a mean gap of 24.6% (FY2020: 25.6%) and a gender bonus gap of 64.3% (FY2020: 64.2%). Our gap is primarily driven by the uneven distribution of men and women across different roles within the business, most notably in specialist, technical roles where competition for top diverse talent, particularly in the current employment market, is highly competitive.

Over the past three years we have grown the number of women in senior management roles and 58% of our Head of Function roles are held by women. We recognise that we are on a continued journey to close our gender pay gap further and our action plans continue to provide focus and direction.

We continue to capture broader diversity data to ensure we can take proactive steps to understand our workforce and shape our working practices in line with our aims of becoming a diverse and inclusive employer. Our inclusive recruitment processes are already yielding positive outcomes to attract future talent from diverse candidate pools, and we continue to work closely with our Diversity Networks to help identify and remove barriers to under-represented groups within the organisation.

36%
of vacancies filled internally

58%
of our Head of Function roles are held by women

Finance Director's review

Supporting customers through strong performance

A sustainable financial model designed to support current and future generations of customers.

Performance overview

During the year to September 2021, the business delivered strong performance across a broad range of financial and non-financial measures as we have continued to focus on supporting our customers through the uncertainty and challenges of the Covid-19 pandemic. We have placed a priority on keeping our customers mobile through the national lockdowns during the winter and spring months by providing flexibility around lease extensions and working closely with suppliers to ensure we continue to deliver a worry-free proposition.

As part of our support package, we have continued to offer customers the option to reschedule end of contracts awards and request an early receipt of their Good Condition Bonus (GCB). This option continued until June this year, consistent with FCA guidance on taking steps to alleviate financial hardship. 17.9k customers have taken up this option, accelerating £10.7m in payments.

As announced in the 2021 Half Year Report, we provided customers with a £50 rebate over the summer (additional to a £50 rebate paid in 2020) reflecting further insurance related cost savings due to the various regional and national lockdowns. This reduction in vehicle usage (and related running costs) underpins a further £60 rebate to customers, committed by the Board and accounted for in FY2021, that will be transferred to customers early in 2022. In aggregate we will have rebated over £100m to customers.

During FY2021, financial performance has tracked above target, particularly during the second half of the year, as the well-publicised new vehicle supply shortages and pent-up consumer demand have led to an exceptionally buoyant used-car market. We were also pleased to be in a position to release the Brexit and Covid-19 overlays reflected in our previous assessment of residual values.

"During FY2021, financial performance has tracked above target, particularly during the second half of the year, as the well-publicised new vehicle supply shortages and pent-up consumer demand have led to an exceptionally buoyant used-car market."

Finance Director's review continued

These factors have had a direct impact on the value of our fleet, which manifests in both enhanced vehicle-remarketing profitability and reduced depreciation charges as we assess the projected future value of the existing fleet. These effects are covered in more detail later in this report however, this financial upside has provided the headroom to enable not only the customer rebates referenced above (£70m in FY2021), but also a £170m charitable donation to Motability, which will enable the Charity to fulfil their ambitious plans to assist disabled people over the next three years.

Net of this support provided to existing customers and Motability, we report a post-tax profit of £559.9m. This financial result provides us with adequate capital headroom in the context of our growth expectations and in light of our commitment to invest £300m over the next five years to support the "worry-free" transition to electric vehicles for current and future generations of customers.

This result has also enabled us to provide additional affordability support to all new and renewing car-Scheme customers in the form of a £250 payment towards the cost of their next lease. This will be available for all existing customers as of 31 December 2021 and payable at the point at which they renew into their next lease and to any new to Scheme customers who either have a pending application which is delivered or who place an application during the 2022 calendar year. A support payment of £100, which will be based on the same criteria, will also be available to new and renewing PWSS customers. In total these payments represent an investment of up to £180m towards supporting customers' affordability.

Market context

New vehicle supply

Over the course of the year the UK has faced the challenge of new-vehicle supply-side constraints. This has been driven by the well-publicised processing microchip shortage which has resulted in manufacturing backlogs and as manufacturers have looked to rationalise their product ranges in light of stringent emission targets and an increasing focus on the production of electric vehicles. In October 2021, the SMMT reported that new car registrations in September 2021 were only 214,000 units, the lowest level for two decades. There are varying views regarding how long these supply challenges will continue however, the consensus is that these pressures will continue well into the middle of 2022.

The impact for the Motability Scheme (as across the sector as a whole) has been to put pressure on affordability, choice and lead times.

Whilst our teams have remained in constant dialogue with the manufacturers, working to mitigate these industry-wide challenges, the supply shortages have inevitably resulted in significant numbers of existing customers moving into lease-extension pending the availability of their new vehicle and brand-new customers facing an extended wait to take delivery of their first vehicle on the Scheme. These supply challenges and range rationalisation have also put pressure on the breadth of vehicles available at "nil advance payment".

Whilst it is hoped that the affordability support outlined above will help alleviate the cost pressures, we are more limited in our ability to resolve the challenges of extended lead times faced across the industry as a whole.

Used vehicle demand

The depth and duration of the new-vehicle supply shortages have taken the market by surprise and have had an unprecedented impact in driving a surge of demand in the used-car market. This demand has been amplified as the easing of lockdown measures has enabled the return to the office, with many workers opting to purchase a private vehicle as opposed to using public transport for their commute. One of the main challenges for the dealer networks and online sales operations alike has been gaining access to a sustainable supply of used vehicle stock to meet this demand.

As outlined below, these dynamics have resulted in positive impacts for Motability Operations in terms of both vehicle remarketing performance and as we assess the value of our existing fleet as this returns to the market over the next three years.

Financial performance

The Group targets a post-tax return on assets of 1.5% in order to provide sustainability into the long-run and ensure that there is in-built recoverability in the event of a market downturn. As ever, unanticipated movements in residual values have the potential to introduce significant volatility into our results. The unguaranteed residual value of the fleet was £7.59bn at September 2021, meaning that a 1% movement in used-car values could impact us by £75.9m. Whilst we hold capital reserves to provide protection against any downside movement in values (thereby insulating customers from these financial impacts), any positive market movements can lead to above target profitability.

The adjustment to used car values over the 3-year period is greater than the normal market price index (hence gap from ARV to FRV). However, this reduction is skewed, as per market supply dynamics and continued new-car restrictions due to the semi-conductor shortages, with much stronger than average used-car values expected to hold through the first-half of FY2022.

Finance Director's review continued

The release of these overlays and the positive market dynamics underpin an above target financial return for the year, with £416.4m in profit realised through vehicle remarketing and a £404.2m depreciation release in the year predicated on our assessment of the value of the existing fleet.

This financial upside has provided the headroom to enable two further rebates to customers (£110 per customer, £70m in aggregate FY2021), reflecting reductions in insurance and vehicle maintenance costs, and also a £170m charitable donation to Motability, which will provide the Charity with nearly two years of pipeline funding in the context of their published expenditure plans.

Having made these disbursements to existing customers and Motability, we returned a post-tax profit of £559.9m in the year to September 2021.

Capital reserves on the balance sheet have increased to £2,881m (FY2020: £2,322m), providing headroom above our policy position of maintaining capital headroom above a calculated 99.99% threshold, plus buffer. The capital reserves support the dual objectives of ensuring a stable and sustainable Scheme, and also of supporting the financing of the fleet. As we look ahead the Board is satisfied that the capital position provides us with adequate headroom in the context of our growth expectations and in light of our plans to invest £300m in the "worry-free" transition to electric vehicles for current and future generations of customers, and also the commitment of £180m of affordability support outlined above.

"As we look ahead the Board is satisfied that the capital position provides us with adequate headroom in the context of our growth expectations and in light of our plans to invest in the "worry-free" transition to electric vehicles for current and future generations of customers."

Customer numbers, renewal rates and affordability

During the previous financial year customer numbers remained relatively flat with the initial national lockdown resulting in a pause in the vehicle application and ordering process. The year to September 2021 has seen a return to growth (growing 2.2% from 634.8k to 648.7k) as new and existing customers have been placing applications for new vehicles. New customer volumes were 68.4k in FY2021 (FY2020: 57.9k), returning to a level closer to those experienced pre-pandemic (FY2019: 72.0k).

Whilst 2021 has seen a proportion of the pent-up demand from the pandemic flowing through as applications (with customers who had been placed into lease extension able to place an application, or take delivery of an existing order), this growth has undoubtedly been suppressed by the new-vehicle supply constraints noted earlier. The customer order bank at 30 September 2021 stood at 82k, and lead times (from application to delivery) were tracking at 17 weeks (compared to an order bank of 42k and a typical lead time of 10 weeks pre-pandemic, pre-supply challenges).

We aim to provide a suitable range of vehicles at affordable prices and to maintain the relative affordability of prices through the economic cycle. However, we are not insulated from general market or industry trends and, though we have been able to maintain relatively stable pricing, there has been a gradual reduction in the number of vehicles that we have been able to offer at "nil advance payment".

Whilst we were successful in meeting our target of providing at least 200 vehicles "nil advance payment" during the year, this position weakened during the final pricing quarter (July-September 2021), with 205 vehicles priced at nil. As we enter the new financial year, we anticipate further constraints on the availability of many vehicle models as manufacturers continue to rationalise their product ranges. This reduction reflects a general increase in the cost of new cars as manufacturers are required to invest in increasing safety and emissions technology. In addition, in a bid to achieve emissions targets, many manufacturers have opted to streamline the number of trims and engines available which by default, at least in the short term, reduces the range of different vehicles that are available to order. We continue to work closely with manufacturers as we aim to maintain an appropriate breadth depth of choice and affordability on our pricelist.

Revenue

Total revenue increased by 9.4% to £4,450m (FY2020: £4,064m):

- Rental revenue £2,054.4m (FY2020: £1,988.2m): The increase is largely driven by an increase in our customer numbers plus a small (0.5%) uplift in mobility allowances from April 2021 (allowances are uplifted each April based on the Consumer Price Index recorded in the previous September). This increase was partially offset by additional customer rebates (FY2021: £70m) reflecting a general reduction in vehicle usage through the Covid-19 pandemic (FY2020: £31.5m).

Finance Director's review continued

- Disposal revenue £2,357.6m (FY2020: £2,038.5m): The increase year on year reflects an increase in disposal volumes (up from 193k in FY2020 to 202k in FY2021), with FY2020 volumes having been more significantly impacted by the national lockdown between March and June 2020. Average sales values also increased significantly during the year, as outlined below.

Vehicle remarketing

Our vehicle remarketing activities were significantly disrupted in the year to September 2020, with the first national lockdown effectively shutting the used-car market from March to June. When trading resumed through the summer and autumn of 2020 sales volumes and values increased, reflecting pent up demand in the market.

The year to September 2021 saw continued disruption to the used-car market as the UK entered further lockdowns in November 2020 and again in January 2021. During this period we focused on balancing the volumes and timing of customer applications, lease extensions, vehicle deliveries and returns, with demand patterns through our online and auction remarketing programmes. With lockdown measures progressively easing from April 2021, the UK saw an unprecedented increase in demand for used cars. As noted above, this was due to a number of factors including lack of supply of new vehicles, pent-up demand (with many consumers having built up "involuntary" savings during the previous year) and increasing numbers opting for a private vehicle as opposed to public transport.

As widely reported in the trade and mainstream media, this has resulted in significant increases in used-car prices.

Consequently, MO has benefitted from this exceptionally buoyant market, particularly in the last six months of the year. Average gross sale values for car disposals were £17.4k in September 2021, an increase of 46% on average gross sale values in September 2020 (£11.9k). In addition to a modest increase (4%) in total disposal volumes, this significant increase in general market values underpin vehicle remarketing profits of £416m (FY2020: £233m), of which £338m was recognised in the second half of the year. We have maintained good control of stock levels with 10k vehicles in stock at year end (FY2020: 14k).

Assets and residual values

Operating lease assets were £8,791m at September 2021 with the unguaranteed fleet residual valued at £7,588m. It is the exposure to unexpected movements in this residual value that represents the Group's single largest financial risk.

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

This revaluation allows us to be agile and adjust residual values as appropriate to reflect market trends. This enables us to mitigate the risk of potential market volatility.

At each financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease.

The revaluation seeks to attribute a value to the existing fleet (which we will return to market over the next three years). At September 2021 the estimate of fleet value is significantly elevated by a positive underlying base (current market value of three-year old cars) and a buoyant medium-term outlook, reflecting favourable demand conditions predicated on continued new-vehicle supply challenges. The projected revaluation anticipates a gross gain of £1,366.3m, which after adjusting for selling costs and early termination leases, results in a net gain of £994.8m.

As noted above, the Brexit overlay (£110m) and Covid specific overlays (£98m) which were reflected in the September 2020 revaluation have been released in full. The release of these overlays manifests as incremental vehicle remarketing profitability in the current year and as reduced depreciation through FY2021 and prospectively in FY2022.

This positive outlook drives a depreciation credit of £404.2m in 2021. However, not all of the net revaluation gains can be recognised through adjusted (reduced) depreciation as assets cannot be appreciated to a point above the written down book value at the beginning of the financial period. The positive movement in forecast values has therefore resulted in £220.1m of blocked appreciation which providing the current assessment of future values holds, will result in vehicle remarketing profitability in future periods.

Taxation

For the year ending September 2021, the Group's underlying tax charge was £105.5m (15.5%) with an additional £15.1m deferred tax charge following the re-measurement of deferred tax. The tax rate is less than the headline rate of 19% because of non-taxable capital gains arising in the year. These gains occurred due to the strength of the used-car market which has seen vehicles being sold for net proceeds exceeding the original cost of the vehicles as incurred at the start of their leases. Following the substantive enactment of legislation in Parliament on 24 May 2021 the standard rate of corporation tax in the UK will change from 19% to 25% with effect from 1 April 2023 onwards and therefore deferred tax has been re-measured at the rate at which timing differences are expected to reverse.

Finance Director's review continued

Cost management

We focus on tightly managing our cost base to ensure that we deliver the Scheme in an efficient and effective manner. However, whilst continually seeking operational efficiencies we recognised the need for continued investment to ensure that our systems infrastructure is able to support the long-term sustainability of the Scheme and meet the evolving needs of our customers.

We have continued to make excellent progress against our strategic IT roadmap and the targeted replacement and upgrade of legacy systems and infrastructure. The investment to date has significantly reduced operational risk, underpins the development of our customer proposition and provides opportunities to improve the efficiency of our operations from vehicle purchase through to disposal. It also provides us with a flexible and agile platform as we contemplate the future evolution of our proposition.

The ability to operate effectively throughout this transition period was critical in being able to meet customer needs and work with our key partners and suppliers in continuing to deliver an excellent customer proposition.

Insurance performance

Motability Operations participates in a proportion of premium exposure via our A-rated reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme.

The Group financial statements include the consolidated results of MORL with segmental reporting to reflect the way we manage and report on this business activity. The segmental analysis can be found on pages 115-117, highlighting a profit of £14.6m in the year to September 2021 (September 2020: £30.9m). The positive result, supported by beneficial consolidated claim costs from lower vehicle usage, contributed to the customer rebate decisions noted above.

As previously disclosed the Group continues to benefit from rebates from the primary insurance agreement should claims costs be lower than previously anticipated in the insurer pricing. Our recognition of this rebate, which is netted-off with our fleet operating costs (see note 6, page 118) is in line with our accounting policy (see note 2, page 111).

During the year Motability Operations Group received dividends of £25m from MORL (FY2021: nil) consistent with the company capital management policy.

Capital management

We use an Economic Capital (EC) model to determine the level of capital appropriate to protect the business from economic shocks. The 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. Given the transformative opportunities the Scheme provides for those with mobility challenges, there is nothing more important to our customers than the sustainability and thus predictability of the Scheme. These capital reserves are used actively in meeting around a third of our total funding requirement; they are not held as cash but invested in the car fleet.

As noted last year we have completed a wider review of the detailed calculations within our EC model, including specific modelling recommendations suggested previously following a review, commissioned by Motability (the Charity), by Oliver Wyman in 2019. This development activity was supported by Deloitte to ensure the EC model developments were aligned to best practice and appropriate market benchmarks. The confidence level used for the EC model is unchanged at 99.99% which, as confirmed previously, remains an appropriately prudent position given Motability Operations' unique risk profile.

Further detail on Economic Capital is noted within the Risk management section of this report on page 62.

Motability Operations will continue to develop its EC modelling to ensure that it remains aligned to best practice and will seek regular independent benchmarking of its approach.

Cash and funding

The Group continues to pursue a strategy of maintaining appropriate liquidity headroom and a well-diversified ladder of funding maturities. To date this has been achieved through a combination of GBP and EUR denominated capital market bond finance and through committed bank facilities. MO intends to pursue this strategy which has served MO well to date.

Having begun the financial year with a modest cash drawing (net £187m) on the £1.5bn revolving credit facility, and with an expectation of increasing customer numbers (and so new vehicle purchases) as lockdown measures eased, MO accessed the debt capital markets in January 2021, issuing a dual tranche of GBP/EUR bonds (GBP £350m and EUR €500m) as inaugural bonds under MO's newly established Social Bond Framework. This refinancing provides liquidity to meet MO's medium-term financing requirements.

As part of MO's commitment under the Social Bond Framework (which is in accordance with the ICMA Social Bond Principles (SBP) 2020 as confirmed by a 'Second Party Opinion' (SPO), we have published our first "Annual Report on Eligible Social Projects", demonstrating how the bond proceeds have been utilised. This impact report has been verified by DNV GL under their Assurance Statement as complying with commitments given by MO in its Social Bond Framework.

Finance Director's review continued

At the year end the Group held cleared cash balances of £484.8m (of which £143.4m was ring-fenced in the Group's reinsurance captive on the Isle of Man).

The Group's average debt maturity was 7.9 years at the balance sheet date (FY2020: 7.8 years).

Treasury policy

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

We operate hedge accounting, and derivative financial instruments are 'marked to market' with their value being shown on the face of the balance sheet. The value (loss) of the hedging reserve at 30 September 2021 was £0.1m post-tax.

Outlook

Looking ahead there are challenges to navigate as the UK emerges from the impacts of Covid-19 and as the new-vehicle supply-side disruption continues to affect our order pipeline. The accelerating transition to electric vehicles for our customers will require careful planning and focus both financially and operationally.

The significant increase in used-car values over the past 18 months has led to a strong set of financial results, with upside profitability providing us with capital headroom to allow us to look ahead with confidence. This has also enabled us to make positive investments to support existing and future customers (including investments to support affordability and the worry-free transition to electric vehicles).

We will continue to carefully monitor the demand and supply dynamics affecting the used-car market, and whilst this year we have benefitted from positive movements in the value of our fleet, with an assumption that used-car demand and so values will remain buoyant during 2022, we are acutely aware that this volatility can of course move in the other direction.

We have strong liquidity as at 30 September 2021 and are confident that our financing structure (bank term loan, revolving credit facility and well-laddered bond maturity profile) provides us with flexibility as we look ahead. Our next bond maturity is in June 2022 (£400m).

Matthew Hamilton-James
Finance Director

Operational review

Excellent service levels and a consistent proposition

Overview

The year ended September 2021 saw the Group continue to deliver high levels of performance across a range of targets.

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

Customer awareness and advocacy of the Scheme

Recipients of higher-rate mobility allowances can choose to use their allowance to lease a vehicle, powered wheelchair or scooter on the Motability Scheme. We understand that this is a big decision for our customers and we are committed to providing clear and accessible information that supports customers in making an informed choice.

Our activity aims to increase awareness and understanding of the Scheme proposition by ensuring that information about the Scheme is widely and readily accessible through a range of communication channels. However, one of the most effective channels is word of mouth and we are pleased that research indicates that 98% of our customers would recommend the Scheme.

Unfortunately, due to Covid-19, we were again unable to run our successful annual programme of 'One Big Day' events. These very popular regional events, usually attended by more than 20,000 people, provide an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue.

During the year we welcomed over 67,000 new customers on the Scheme and 91% of existing customers chose to renew their leases at the end of contract.

Operational review continued

Product offering

We have managed to exceed targets to support affordability and provide a wide selection of vehicles to our customers, despite significant market disruption amid the supply constraints within the industry.

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

We set out to ensure that at least 200 cars are available at 'nil advance payment', including a wide choice of automatics and more recently battery electric vehicles. By working closely with manufacturers, we have met this target throughout the year although constraints on supply mean affordability targets are becoming very challenging to achieve. In order to support customers facing these affordability pressures, we have made available £180m of incremental investment to directly support our new and existing customers. More detail can be found on page 13. We also supply a range of affordable Wheelchair Accessible Vehicles (WAVs).

Despite the external challenges, our prices remain over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations.

We engage with manufacturers to support an affordable proposition across a broad range of vehicles. During the financial year, we offered vehicles from 30 manufacturers with approximately 2,000 vehicle derivatives on the price list. Our approach to the Powered Wheelchair & Scooter Scheme (PWS) is also to provide customers with a wide and representative choice.

Protecting the Scheme from abuse

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

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

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

During the past year, we dealt with nearly 22,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, some of which will have led to prosecution. Over 10,600 cases resulted in MO using a range of tools to address concerns, including terminating agreements and removing the cars from over 4,200 where appropriate. We continue to invest in Scheme protection activities both to safeguard the reputation of the Scheme and to protect the proposition for our customers.

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

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

£180m

to support current affordability

Fleet insurance arrangements

RSA provide our fleet insurance cover and provide policy and claims administration activities through its dedicated Motability unit in Liverpool. In July, after a comprehensive competitive tender process, we announced a move from RSAM, to the Direct Line Group (DLG). Under the new partnership, Motability Operations will continue to retain an element of insurance risk via its reinsurance captive MO Reinsurance Ltd (MORL) which was incorporated in 2013.

The new arrangements will take effect from mid-2023 for an initial 10 years.

MO Reinsurance Ltd (MORL) – Overview

MORL is a wholly owned subsidiary of Motability Operations Group plc, which was established for the sole purpose of reinsuring a proportion of the Company's fleet insurance exposure. Standard & Poor's, under their Group Rating methodology, assign the Group's A rating to MORL.

Operational review continued

MORL is domiciled in the Isle of Man (IOM) which is a centre of excellence for reinsurance captives with an appropriate regulatory regime for a business-to-business reinsurance structure, reflecting the relationship between MORL and RSA.

The Group structure ensures that any profits realised in the IOM through MORL are allocated to Motability Operations Group plc and charged to tax in the UK. The Group has obtained a letter of non-statutory clearance from HMRC agreeing this principle, confirming that all profits of MORL are chargeable to tax in the UK and that it does not benefit from a lower level of taxation than would be incurred if the captive were based in the UK.

MORL's net exposure is contained through a conservatively structured reinsurance programme which was successfully renewed during the year, thereby continuing to limit the Group's potential financial exposure.]

Our suppliers

We provide a significant and stable route to market for car manufacturers and we regard our partnership with them as extremely valuable to the Scheme; during the year we accounted for over 12% of UK car registrations.

We have achieved 90% brand availability based on market share, providing our customers with access to around 2,000 vehicle derivatives, delivered through a network of over 4,400 Motability-approved car dealerships.

While we take responsibility for the overall customer experience, around 18,000 trained Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. The Motability Dealer Partnership (MDP) programme is regularly refined to ensure that customers receive a consistently high level of service in the car dealerships. Feedback from our independent customer satisfaction surveys confirms that this investment in the MDP programme has been successful in delivering improvements that have led to a better customer experience at car and PWS dealerships.

Dealers continue to work closely with us to improve awareness and understanding of the Scheme and provide a warm welcome for Motability Scheme customers. The impact of Covid-19 has been a challenge for dealerships but we recognise their commitment and flexibility in continuing to provide excellent service and ensure any contact has been carried out in a Covid-19 secure manner.

In delivering the Scheme, we work closely with partner organisations, including RSA, Europcar, RAC and Kwik Fit, and this has been especially important through the lockdown restrictions of Covid-19 during which time we worked closer than ever to ensure any impacts on our customers were limited.

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

Remarketing

During the financial year ended September 2021, we sold 190,000 cars through our market-leading online process and augmented by a proactive auction programme.

Our online sales channel, 'mfldirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has several advantages over physical channels, including its lower cost and supporting a more targeted approach that increases the average value of disposals.

Recent investment has delivered a modern and sustainable platform that will underpin opportunities to enhance our digital offering as we respond to changing market dynamics and customer requirements. We listen carefully to our remarketing customers and in an independent satisfaction questionnaire our customers rated our remarketing team at 96% for trust.

Through 'mfldirect' we have established an efficient and competitive sales environment which ensures that we both maximise our sales return and minimise disposal costs.

Online sales accounted for 72% of all disposals during 2021. Cars that do not sell online are usually routed to auction and sold at one of our branded events.

Through the versatility of our remarketing strategies and proactive engagement with our buyer base, the remarketing team has delivered an excellent performance in 2021, contributing to significant gains.

Environment

Legislation to reduce vehicle emissions, including the UK Government's plan to bring forward the ban on new diesel and petrol cars to 2030, has driven an industry wide transition. We are focused on embracing the opportunity presented by the accelerating roll-out of vehicle electrification, and we know that our customers too are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We are focused on delivering a continued worry-free package into our electric vehicles range, as we have been with our internal combustion vehicles.

Battery electric vehicles can often carry added layers of complexity, including levels of range and charging anxiety for our customers, and so as part of the lease package, we provide a free at home charger to help support this transition. Electric vehicles also carry a much higher cost than their ICE counterpart, however customer choice and affordability remain paramount to the Scheme, and we have therefore committed £300m of investment into this transition over the next five years.

Operational review continued

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

We have committed to further transparency and are in the process of engaging with the Carbon Disclosure Project's (CDP) disclosure exercise.

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

Customer experience

We focus on providing customers with a worry-free experience and, though we have over 648,000 customers, ensure individual customers' disability-related requirements are appropriately considered.

We commission an independent research agency to conduct bi-annual customer surveys covering all key customer contact points on the Scheme. The latest results demonstrated our enduring commitment with an overall customer satisfaction at 98%, indicating first-rate levels of customer service.

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

Initiatives designed to support and enhance the customer experience include:

- Working with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions and to develop resilience training for our customer service teams in handling more difficult or emotionally challenging calls
- Improving customer communications, including a 'News and Views' section on our website and monthly customer email programme
- Removal of standard Interactive Voice Recognition (IVR) with customers able to reach a real person quickly when needed and web chat for customers who are unable, or prefer not, to use the telephone
- Availability of an online 'car search', which gives customers a user-friendly and readily navigable tool to find the vehicle that best meets their needs
- Flexibility to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- A full range of adaptations and conversions as options at the point of vehicle selection.

Excellent service underpins our customer recommendations and renewal rates at the end of lease. In fact, 98% of customers say they would recommend the Scheme to friends or family.

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

Examples include:

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

Section 172 Companies Act 2006

Compliance with Section 172 Companies Act 2006

This S172 statement explains how the Board of Directors:

- has engaged with employees, suppliers, customers and others; and
- has had regard to employee interests, the need to foster the Company's business relationships with suppliers, customers and others, and the effect of that regards, including on the principal decisions taken by the Company during the financial year.

The S172 statement focuses on matters of strategic importance to the Group, and the level of information disclosed is consistent with the size and the complexity of the business.

When making decisions, each Director ensures that he/she acts in the way he/she considers, in good faith, would most likely promote the Group's success for the benefit of its members as a whole, and in doing so have regard (among other matters) to:

S172(1)(A)

"The likely consequences of any decision in the long term"

The Directors understand the business and the evolving environment in which we operate, including the challenges of navigating through the impact of the pandemic, the changing customer base, ESG agenda and transition to mobility as a service. Based on the Group's purpose to provide customers access to affordable, worry-free mobility, the strategy set by the Board, and refreshed annually, is intended to strengthen our position as a leading provider of mobility solutions to disabled persons and in particular supporting our customers in the adoption of electric vehicles, while keeping safety and social responsibility fundamental to our business approach.

S172(1)(B)

"The interests of the company's employees"

The Directors recognise that our employees are fundamental and core to our business and delivery of our strategic ambitions. The success of our business depends on attracting, retaining and motivating employees. From ensuring that we remain a responsible employer, from pay and benefits to our health, safety and workplace environment, the Directors factor the implications of decisions on employees and the wider workforce, where relevant and feasible.

More information on this can be found within the "People and culture" section on page 36.

S172(1)(C)

"The need to foster the company's business relationships with suppliers, customers and others"

Delivering our strategy requires strong mutually beneficial relationships with suppliers, manufacturers and dealers, customers, Motability, disability groups and investors. Supplier engagement and ongoing supplier management are supported by the Company's purchasing policy and governance provided by the Supplier Management Committee, the terms of which are reviewed and approved periodically. The Board continuously assesses the priorities related to customers and those with whom we do business, and the Board engages with the business on these topics, within the context of its strategy and investment proposals.

Moreover, the Directors receive information updates on a variety of topics that indicate and inform how these stakeholders have been engaged. These range from information provided from the strategy, strategic projects and initiatives (digital customer account, CSI) to investment proposals.

S172(1)(D)

"The impact of the company's operations on the community and the environment"

The Board supports the Company's goals and initiatives with regard to reducing adverse impacts on the environment and supporting the communities that it touches. Please see page 72 of our Governance Report (Principle 6, stakeholders) for details.

The Directors recognise that having a clear ESG strategy is vital for future sustainability and to enable this, an ESG Committee was formed in October 2021 to push forward the ESG agenda and initiatives within the Company. More information on the Company's committed journey in relation to ESG can be found on pages 18-21. As a key part of this, the Company participated in the Carbon Disclosure Project ("CDP") in 2021. CDP is a not-for-profit charity which provides a report on our carbon footprint. CDP operates the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Our grading is expected by the end of 2021.

We also continue to take a proactive approach to managing our CO_2 emissions agenda with a number of initiatives that provide information and choice for our customers and we meet our environmental responsibilities by managing our internal infrastructure and creating a work environment which looks to minimise our carbon footprint. A copy of our Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR) is at page 90. Motability Operations is registered with the Carbon Trust.

Section 172 Companies Act 2006 continued

S172(1)(E)

"The desirability of the company maintaining a reputation for high standards of business conduct"

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. Our reporting against the Wates Principles has been included on pages 65 to 72. Throughout 2022, the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

S172(1)(F)

"The need to act fairly as between members of the company"

After weighing up all relevant factors, the Directors consider which course of action best enables delivery of our strategy through the long term, taking into consideration the impact on stakeholders. In doing so, our Directors act fairly as between the Group's members but are not required to balance the Company's interest with those of other stakeholders.

Culture

The Board recognises that it has an important role in assessing and monitoring that our desired culture is embedded in the values, attitudes and behaviours we demonstrate, including in our activities and stakeholder relationships. The Board has established inclusion, empathy, forward thinking, excellence and empowerment as Motability Operations' core values. Our key employee policies, including Bullying & Harassment, Disability Confidence, Diversity, Grievances and Environmental and Health & Safety, help everyone at Motability Operations act in line with these values and comply with relevant laws and regulations. Our Health and Safety Statement
is designed to help protect people and the environment. We also strive to maintain a diverse and inclusive culture.

The Board considers the HPO Survey to be one of its principal tools to measure employee engagement, motivation, affiliation and commitment to Motability Operations. It provides insights into employee views and has a consistently high response rate. The Board also utilises this engagement to understand how survey outcomes are being leveraged to strengthen Motability Operations' culture and values.

Stakeholder engagement (including employee engagement)

The Board recognises the important role Motability Operations has to play in society and is deeply committed to public collaboration and stakeholder engagement. This commitment is at the heart of Motability Operations' strategic ambitions. The Board strongly believes that Motability Operations will only succeed by working with customers, business partners, investors, Motability, the Charity, and other stakeholders. Working together is critical, particularly at a time when society, including businesses, governments and consumers, faces issues as complex and challenging as the pandemic.

Approved by the Board of Directors on 15 December 2021 and signed on its behalf by:

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

Andrew Miller
Chief Executive Officer

Risk management

Our dynamic and robust approach

Through our comprehensive risk management processes we continually identify and assess the potential risks that we face. Having understood the nature of these risks, we ensure that we have effective mitigation 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.

We have designed our risk management framework around the 'three lines model' for risk governance. We have ensured that our approach remains aligned to the revision of the three lines model, published by the Chartered Institute of Internal Auditors (IIA) in July 2020.

Risk identification and monitoring

Consistent with the three lines model 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 yet another challenging year as the Covid pandemic continued.

In line with the business strategy for a 'Glide Path to Green', we are enhancing the risk management framework and support to ensure the business remains focused on risk and controls through strategic change and transition activity.

"We recognise that sound risk management is fundamental to the successful and sustainable operation of the business."

Risk management framework

We have designed our risk management framework around the 'three lines model' for risk governance.

1st line
Primary risk management

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

2nd line
Risk control

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

3rd line
Assurance

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

* an image taken from our 2021 marketing campaign.

Risk management continued

Principal risks

Key						
Low	Medium	High	Very high	Increasing	Stable	Decreasing
●	●	●	●	↑	↔	↓

Key risk	1. Residual values	2. Insurance risk
Description	We provide our customers with a fixed price over their lease term, predominantly covering a three-year period; this underpins our most significant risk as we underwrite the exposure to unforeseen and material movement in the market value of second-hand vehicles. Total residual value risk is measured as the difference between the forecast values used for pricing and the net proceeds we ultimately realise on disposal.	Insurance is the second biggest risk we face, and as we fix this cost for our customers for between three and five years our exposure is larger than is typical in the market.
Net impact*	●	●
Net likelihood*	●	●
Risk status	↔	↔
Change to risk status	• Risk status is stable due to the current performance of the used-car market. There remains uncertainty linked to the long-term impact of Covid-19 on the UK used-car market and the resolution of new car supply-chain challenges	• An established reinsurance captive, managed through a wholly owned subsidiary (MORL), continues to deliver a robust and cost-effective insurance solution • A strategic decision to move to a new insurance provider, Direct Line Group, was confirmed in FY21
Potential impact	• Volatility in profitability, reserves and pricing • Potential impact on affordability and choice	• Financial impact of claims exceeding priced expectations • Failure of a reinsurer could transfer risk back to Motability Operations • Potential operational, financial and reputational risk
How we mitigate	• Sophisticated in-house residual value setting and forecasting process • Risk capital management for asset risk using Economic Capital principles • Market-leading remarketing approach	• Conservatively placed reinsurance programme effectively limits the Group's net risk • Risk capital in place to cover net risk • Access to extensive expertise • Diversification of supply across highly rated reinsurers
Link to strategy	• 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)	• Our insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term • Transition to new insurance provider managed by a dedicated team and overseen by the Executive will drive long-term benefits for our Scheme customers

* Net assessment incorporates mitigating controls.

Risk management continued

Key						
Low	Medium	High	Very high	Increasing	Stable	Decreasing
●	●	●	●	↑	↔	↓

Key risk	3. Treasury risk	4. Credit risk
Description	The availability of sustainable funding and liquidity is critical to our ongoing operation. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.	Customers assign their allowances to us, and this is paid directly from the DWP or Social Security Scotland. As a result, the credit risk is considered to be low. If the Government did transfer responsibility of payment to the customer, as with Housing Benefit under Universal Credit, MO could be exposed to significant credit risk.
Net impact*	●	●
Net likelihood*	●	●
Risk status	↔	↔
Change to risk status	• An increased risk status is linked to the impact of Covid-19 and the uncertainty surrounding Brexit on the financial markets as well as the potential impact to the UK credit rating	• This risk is stable following the first successful application under the Scottish Child Disability Payment (CDP) • We have an excellent working relationship with the DWP and Social Security Scotland both of whom are engaged in ensuring that our processes operate in an effective and efficient manner
Potential impact	• Volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• Potential impact on cash inflows and consequent write-off to income statement
How we mitigate	• Successful execution of a dual tranche bond issuance in January. Positive feedback from investors on robust response to Covid-19 and interest in the newly established Social Bond Framework • 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	• Principal income stream received directly from DWP or Social Security Scotland – therefore minimal credit risk • Residual credit risks are managed through credit assessments and an effective credit control function
Link to strategy	• The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk-averse	• The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme

* Net assessment incorporates mitigating controls.

Risk management continued

Key

Low	Medium	High	Very high	Increasing	Stable	Decreasing
●	●	●	●	↑	↔	↓

Key risk	5. Operational	6. Cyber risk and information security
Description	The efficiency of our business is key to delivering excellent customer service and also ensuring we maximise and protect the value of our assets.	Cyber risk and information security are key priorities for the business. We have a sophisticated layered approach to IT security and have implemented enhanced controls. We continue to monitor the ever-changing nature of the external threats faced and have established controls and an ongoing programme of development in this area.
Net impact*	●	●
Net likelihood*	●	●
Risk status	↔	↑
Change to risk status	• The ongoing investment in our IT infrastructure continues to replace legacy systems and continues to deliver as expected against our our IT strategic roadmap	• The risk status is linked to a general increase in the threats faced by all companies, particularly through the Covid-19 pandemic, in protecting information and maintaining system stability • Externally, we have seen increases in the size, scale and sophistication of cyber-attacks, with ransomware a more prevalent threat
Potential impact	• Potential operational, financial and reputational risk • Risk of business disruption	• Potential impacts to customer and stakeholder confidence • Potential financial and reputational risk • Risk of business disruption
How we mitigate	• 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 (now reverted)	• Information security framework aligned to best practice and industry standards • Dedicated security operations model in place monitoring threats 24/7 • Designated data protection officer • Ongoing employee awareness programme • Cyber Insurance and Incident Response plan in place and regularly reviewed
Link to strategy	• We ensure that we make appropriate strategic investments in our infrastructure, systems and processes	• Customer confidence in the Scheme underpins our strategy • The strategic pillar of ensuring long-term sustainability ensures compliance with key regulation

* Net assessment incorporates mitigating controls.

Risk management continued

Key						
Low	Medium	High	Very high	Increasing	Stable	Decreasing
●	●	●	●	↑	⇔	↓

Key risk	7. Supplier failure	8. Business continuity
Description	Our core product offering is delivered through contracts with key suppliers who provide the vehicles, the vehicle insurance services, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have significant financial implications as we seek alternative service providers.	Business operations are reliant upon people, and the systems and activities performed by our employees in conjunction with our key suppliers and partners. Any major and sustained disruption to these business activities caused by fire, flood, extreme weather, contamination, business systems, telecommunication or a natural or physical disaster such as a pandemic could have a significant impact on the customers and the wider business objectives.
Net impact*	● (High)	● (High)
Net likelihood*	● (Medium)	● (Medium)
Risk status	⇔	⇔
Change to risk status	• Appropriate due diligence processes are in place to ensure that we continue to engage with partners and suppliers on a commercial and sustainable basis	• The risk status has returned to a stable position as a result of the successful operation of the business through the Covid-19 pandemic
Potential impact	• Compromised customer service provision and potential financial impact of securing alternative supplier • In case of a manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties	• The impact of a continuity event could have severe operational, financial and reputational effects on our ability to operate the Scheme
How we mitigate	• Strong supplier relationships and communication • Active monitoring of performance, credit ratings and market announcements • Diversification of supply • Diversified portfolio • Temporary revision of payment terms through Covid-19 to support key suppliers (now reverted)	• Well-established continuity response plans including homeworking, 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	• 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	• Investment in our infrastructure ensures the effective and efficient operation of the Scheme and long-term sustainability in providing excellent customer service

* Net assessment incorporates mitigating controls.

Risk management continued

Key						
Low	Medium	High	Very high	Increasing	Stable	Decreasing
●	●	●	●	↑	↔	↓

Key risk	9. Climate risk	10. Inadequate skills
Description	Climate change and sustainability are key issues for UK businesses. We could experience losses and/or reputational damage as a result of climate change. This could be directly, through our customers and/or our third-party engagements. In addition, impacts could be seen through an increase in the economic disruption from extreme weather events.	Loss of highly skilled employees and / or the inability to develop, retain or attract skilled employees to support operations and growth activity.
Net impact*	●	●
Net likelihood*	●	●
Risk status	↔	↑
Change to risk status	• Increased political and social focus on climate change presents a significant opportunity • The UK Government brought forward the ban on the sale of new petrol and diesel vehicles to 2030 from 2035	• Recruitment and retention is becoming more challenging as UK businesses have varied the working model post the Covid-19 pandemic, which ranges from fully office-based to full time working from home, with hybrid variations in between • This is compounded by levels of employment at record levels with a shortage of candidates for particular roles
Potential impact	• Potential financial and reputational risk • Risk of business disruption • Volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• Potential operational risk • Delays to project and strategic activity • Could lead to failure to deliver Scheme KPIs
How we mitigate	• The Company strategy process has identified key areas of focus, including the transition to battery electric vehicles (BEV); they will underpin the Scheme proposition over the long term • We established a working group to look at the wider green agenda and define the key considerations for the business • The management approach and oversight being taken to ensure strategic opportunities are maximised through balanced risk-based decisions	• Business transitioned to hybrid working post-Covid, offering greater flexibility • Remuneration Committee oversees pay and benefits packages with market benchmarking • Diversity and Inclusion and Gender Pay Gap reviewed with defined action plans • Ethnicity, Diversity and Inclusion Committee established reporting to the Executive • Training and support delivered for employees in supporting mental health and wellbeing
Link to strategy	• The Glide Path to Green will underpin the strategic approach and initiatives that will support the development of the long-term customer proposition	• Delivery of the operational and strategic activity is dependent on highly skilled people

* Net assessment incorporates mitigating controls.

Risk management continued

Capital adequacy and Economic Capital

Although the Group is not regulated for capital purposes, our approach to balance sheet management aligns with best practice, with the overarching objective being to ensure that we have the financial resilience to withstand economic turbulence without compromising the customer offering. The Group holds capital in the form of 'restricted reserves' to provide the necessary financial shock-absorber against the majority of unexpected loss to ensure sustainability into the long term.

The Group uses Economic Capital (EC) principles to determine the appropriate level of capital.

The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. This enables us to determine an appropriate level of capital required to protect the Scheme from potential shock events.

The EC approach encompasses all material risks and the ability to recover from a shock, delivering an outcome that management views as reasonable and prudent in the context of the impact that failure of the Scheme would have on our customer base.

We undertake an annual review of our Economic Capital requirement and the key underlying assumptions inclusive of new or emerging Company-specific or wider environmental factors which are considered to have a bearing on the Group's capital requirements.

In line with NAO recommendations, Motability (the Charity) initiated an external review from Oliver Wyman, to examine our capital modelling methodology, our applied risk appetite and confidence levels and to benchmark our capital reserves levels against near-comparable companies. The review 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. There were some recommended future developments to the EC within the modelling of specific risks which were addressed as part of a wider development exercise undertaken by MO in 2020.

Motability commissioned Oliver Wyman to undertake an independent follow-up to their 2019 review, focussing on the previous recommendations made and to assess more generally the development of the EC model since their previous review.

Oliver Wyman's final report issued in 2021 noted the "improved quality of the economic capital framework and that all material changes are sound" and that MO's assessment of capital is "within a range of justifiable outcomes". 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.

Risk management continued

Calculating the Economic Capital requirement

Where applicable we use our own data and experience and independently review statistical models to calculate the EC requirement to a 99.99% confidence interval. We adopt a scenario-based approach with management judgement to provide a severe but plausible assessment of remaining risks.

Having defined the EC requirement, our policy is to maintain a buffer that provides an appropriate contingency to this minimum capital requirement and protects customer pricing for pipeline applications.

The selected confidence level is more prudent than the minimum requirements in certain regulatory environments (Basel III at 99.9%; Solvency II at 99.5%). However, we have maintained a consistent and transparent approach to capital management and have regularly sought independent review to validate our approach which reflects a limited capacity to raise new capital or readily take actions to de-risk or diversify.

We apply a correlation matrix to allow for diversification across risks leading to a 24% reduction in our risk assessment for 2021. This is in addition to the diversification impacts within the different risks themselves. Post diversification, the EC requirement, as assessed through modelling, stands at £1.95bn.

At the financial year end, the Group's closing capital position (represented by restricted reserves on the balance sheet of £2.9bn) was considered by Directors to be sufficient and appropriate given the current and emerging potential risks faced by the Scheme.

The largest risk MO is exposed to is the unforeseen and material movements in the value of used cars.

Forecasting residual values

An estimated residual fleet value of £7.59bn means that even a 1% error in our forecast equates to a £75.9m financial exposure for MO. To provide some market context, used-car values in the UK dropped by 22% in 12 months during the 2008/09 financial crash, demonstrating the volatility and complexity in estimating future used-car values in support of fixed customer pricing and revaluing our fleet.

We seek to recruit and retain the expertise to develop our processes, supported by leading third-party experts. We combine econometric modelling techniques with car industry expertise with our aim to ensure that customer pricing is based on a fair and reasonable assessment of future market values.

In 2019, an independent third-party, end-to-end assessment provided objective assurance of our forecast process, stating "MO's forecasting approach uses sophisticated techniques, is robust, fit-for-purpose and aligns to forecasting best practice". Whilst they confirmed there was "no evidence of systematic bias that results in either under- or over-forecasting" the review did highlight some minor recommendations that MO implemented over 2020.

The independent third party has subsequently validated that the recommendations have been completed, stating "we have found sufficient evidence to conclude that our recommendations have been addressed and are satisfied with MO's approach in interpreting them". Whilst the level of uncertainly is a challenge for all forecasters working with a long forecast horizon (over three years), we have a strong track record of outperforming alternative market benchmarks.

Risk management continued

Risk Appetite Framework

Our risk management approach is supported by the use of a clearly defined 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 now includes over 1,640 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."

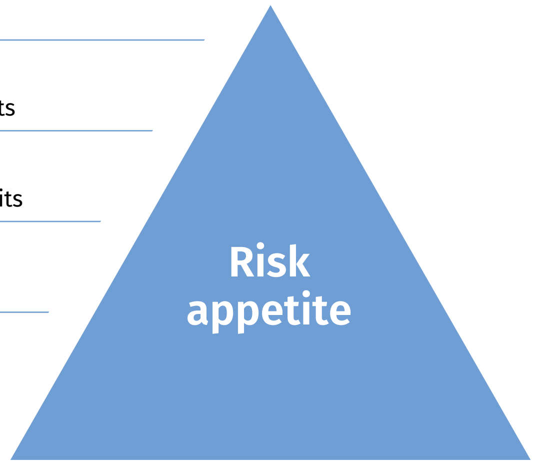
Strategic plan, business model, objectives and risk strategy

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



Business dimensions

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

Viability Statement

Whilst the Company is not required to comply with the 2018 UK Corporate Governance Code the Directors have voluntarily considered provision 31 as if it applied and have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Directors have assessed Motability Operations Group plc's viability over a three-year period to September 2024.

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

- Over 95% of customers take up a three-year lease product, and given the Group's objective of providing sustainability and affordability to customers, it is appropriate to assess the Company's viability across a period in which existing contractual obligations to customers can be fulfilled; and
- Linked to this, over 95% of the Group's existing residual value risk will unwind across this same time period.

This assessment has been made taking account of the current position of the Group, its core three-year lease product, corporate planning process and the Group's key risks and risk appetite as detailed in the Strategic report on pages 3-55.

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

The financial assessment focused on capital adequacy and liquidity under a range of stress scenarios, such as delayed/ failed bond issuance and varying levels of fleet volume. The review includes a specific assessment of severe but plausible reductions in residual values related to economic impacts from significant additional waves of Covid-19 infection, and/or the UK's economic recovery post-pandemic.

As detailed in the Finance Director's review (page 43), the Group's closing financial position reflects capital reserves of £2.9bn, which provides headroom above the policy position (to hold capital at 99.99% confidence plus buffer).

From an operational perspective, stress scenarios test the Group's ability to continue to provide affordable leases and consistent service levels across a three-year period. These financial and operational reviews provide Directors with appropriate confidence in making this viability statement.

The Directors also assessed the Group's ability to meet its outstanding bond and bank debt liabilities:

- The Group will be required to repay a bond in June 2022 (£400m). Directors assess that the Group has access to sufficient liquidity to make this repayment from existing cash balances (see page 47, cash and funding) and/or its committed bank credit facilities of £1.5bn in the event that refinancing in the debt capital markets is not viable.
- Whilst it is noted that the longer-term nature of these obligations can extend significantly beyond the three-year period adopted for this viability review, the Directors are satisfied that lenders are not only provided with robust protection through the relevant documentation, but that the Group will have the resources to meet these obligations under the full range of stress scenarios referenced above.

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

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

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

Corporate governance report

For the year ended 30 September 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ("FRC") in December 2018 and available on the FRC website).

Principle 1
Purpose and Leadership

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 almost 649,000 customers with a wide range of different disabilities, providing an opportunity to achieve freedom and independence.

Our purpose is
"To give our customers access to affordable, worry-free mobility"

Our goals defined by our strategic pillars to 'ensure long-term sustainability', 'build our customer and disability expertise', 'provide value and choice' and 'improve reach and awareness' set out a clear framework within which we align our business objectives, strategic initiatives, performance targets and business planning. Our people positioning principles, culture and values form the bedrock to deliver these objectives.

Our values of 'inclusion', 'empathy', 'forward thinking', 'excellence' and 'empowerment' 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.

The Group's purpose, goals and values focus on Motability Operations' commitment to good corporate governance with a clear focus on our environmental and social responsibility.

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. This financial year saw Motability Operations make a distribution to customers by way of two insurance rebate payments of £50 each, with a further commitment to make an additional £60 rebate to all customers, reflecting the reduced operating costs (insurance and maintenance) linked to lower mileages driven during the Covid lockdowns, and a donation of £170m to Motability (the Charity), to support their broader aim to enhance the lives of disabled people with transportation solutions.

It is also the intention of the Company to support the affordability challenges associated with the current supply constraints, the increasing costs of providing cleaner internal combustion engine (ICE) technology and electric vehicles through a £250 renewal payment to customers (new and renewing).

Principle 2
Board Composition

The Board comprises a Chairman, Chief Executive, Finance Director, four Non-Executive Directors (from the Shareholder Banks) and six Independent Non-Executive Directors. This size and composition is appropriate given the size and complexity of the business. The Group has a separate Chairman and Chief Executive to ensure that the balance of responsibilities, accountabilities and decision making across the Group is effectively maintained. Andrew Miller was appointed as the new Chief Executive effective as of 1 January 2021.

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

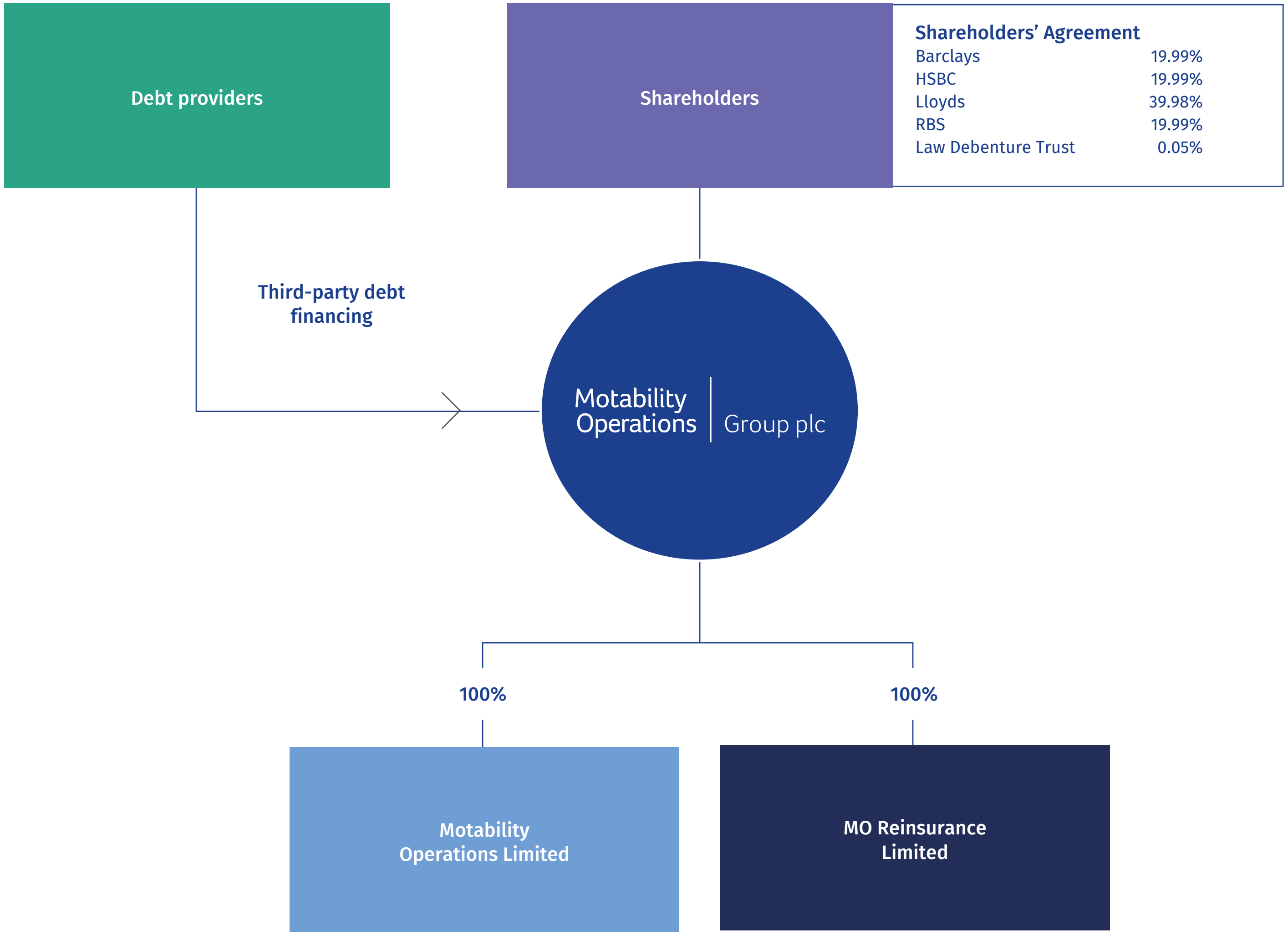
The Chief Executive is responsible for leading and managing the business on a day-to-day basis with authorities delegated by the Board, and is accountable to the Board for the financial and operational performance of the Group. This day-to-day management is effected through the Executive Committee, with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

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

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

Corporate governance report continued

Corporate structure



The Board's responsibilities

Matters reserved for the Board include:

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

Corporate governance report continued

Our Board

The Directors of the Company who were in office at the date of signing the financial statements were:

Chairman

Rt. Hon. Sir Stephen O'Brien KBE
Independent Non-Executive Chairman
Stephen was appointed as Non-Executive Chairman of Motability Operations Group plc on 1 April 2019.

Chair and member of Nomination Committee.

Executive Directors

Andrew Miller
Chief Executive
Andrew was appointed as Chief Executive of Motability Operations Group plc on 1 January 2021.

Matthew Hamilton-James
Finance Director
Matthew was appointed as Finance Director of Motability Operations Group plc on 1 October 2016 and was Interim Chief Executive from 1 April 2020 to 31 December 2020.

Non-Executive Directors

Lisa Bartrip
Non-Executive Director
Lisa was appointed as a Non-Executive Director of Motability Operations Group plc on 1 November 2017 (alternate – David Mudie, appointed 1 July 2021).

Member of Audit Committee.

Chris Davies
Independent Non-Executive Director
Chris was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 July 2020.

Member of Audit Committee and Remuneration Committee.

Alison Hastings
Independent Non-Executive Director
Alison was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 June 2018.

Michael Hordley
Non-Executive Director
Michael was appointed as a Non-Executive Director of Motability Operations Group plc on 16 July 2021 (alternate – Jayne Seaford, appointed 16 July 2021).

Daniel Meredith Jones
Non-Executive Director
Daniel was appointed as a Non-Executive Director of Motability Operations Group plc on 7 September 2016 (alternate – Simon Amess, appointed 1 December 2019).

Member of Audit Committee and Remuneration Committee.

Simon Minty
Independent Non-Executive Director
Simon was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 September 2018.

Designated Employee Non-Executive Director and member of the Remuneration Committee.

Ruth Owen
Independent Non-Executive Director
Ruth was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 June 2018.

Ruth Prior
Independent Non-Executive Director
Ruth was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 March 2018.

Chair of Audit Committee and member of the Remuneration Committee

Neill Thomas
Senior Independent Director
Neill was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 1 September 2014 and Senior Independent Director on 7 June 2018.

Member of Audit Committee, Nomination Committee and Chair of the Remuneration Committee.

Robert Whittick
Non-Executive Director
Robert was appointed as a Non-Executive Director of Motability Operations on 01 March 2021 (alternate - Peter Lord, appointed 01 March 2021).

Member of Audit Committee.

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

Corporate governance report continued

Principle 3
Director Responsibilities

Accountability

At Motability Operations, we believe that good governance supports open and fair business, ensures that the Group has the right safeguards in place and makes certain that every decision it takes is underpinned by the right considerations. Good governance is inseparable from our objective to run a high-performing business, delivering long-term value to our customers. It is critical for the Board that we have a clear strategy; strong and appropriate risk control; and the right people in place to ensure this is effectively overseen and delivered. We have a strong culture of control, and all Executive Directors and Heads of Function sign an accountability statement setting out expectations. This document (accountability statement) shares goals and objectives for the year, and provides the framework for performance assessment at an individual level.

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

Clearly defined lines of accountability and delegation of authority alongside well-established policies and procedures in respect of financial planning and reporting, the preparation of monthly management accounts, project governance and information security, all form part of our internal control systems that ensure the accuracy and reliability of financial reporting. The disclosures within the Annual Report and Accounts are reviewed by the Executive Directors and functional heads to ensure they reflect the developments within the Group and meet the requirement of being fair, balanced and understandable. The effectiveness of our Governance Committees was confirmed following a review and assessment of the performance, and all Company policies were also reviewed and relaunched.

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

Motability Operations' culture and people are core to its achievements, and we are committed to recruitment and retention of an engaged and motivated workforce. We are fully pledged to key representation on the Board, and aim to provide a strong balance and diversity of expertise, skills, experience and objectivity. The Company's culture, complexity and the scale of risks faced, as well as its annual performance, are all integral measures in addressing remuneration. Motability Operations regularly reviews remuneration against the market, and makes use of pay and benefit programmes which support the achievement of its objectives.

The Company's values are fundamental to delivering excellent performance, and this is exhibited at the most senior level.

Committees

The Board delegates authority for day-to-day management of the Company to the Executive Committee which meets monthly. The Executive Committee is chaired by Andrew Miller, Group Chief Executive, and includes Matthew Hamilton-James, Group Finance Director; Ian Goswell, Commercial Director; Jo Pentland, Corporate Services and HR Director; Ashley Sylvester, Risk & Business Systems Director; Lisa Thomas, Chief Marketing Officer; and Julie McManus, Company Secretary.

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

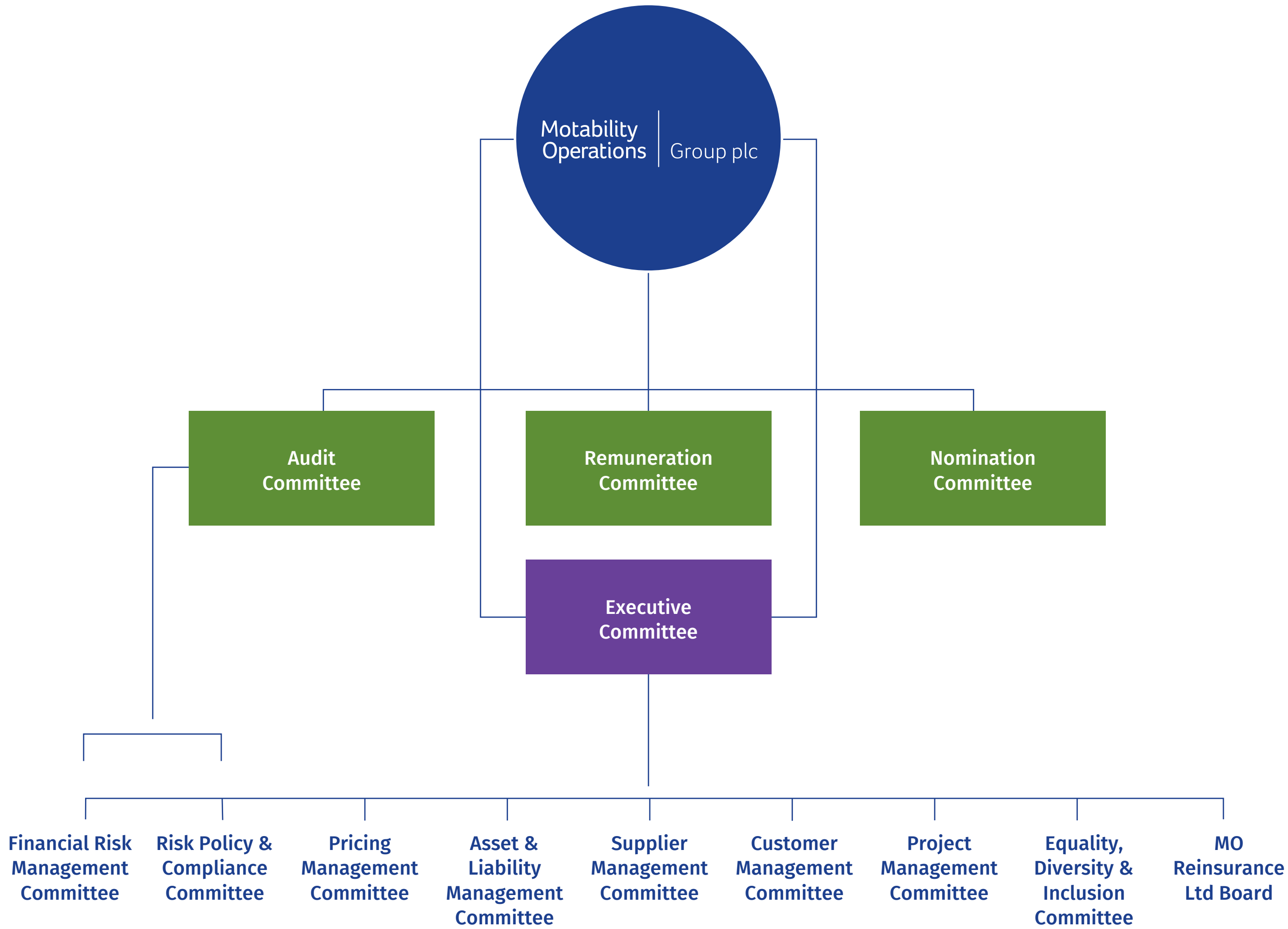
- Manage the day-to-day business operations of the Group and its subsidiaries
- Develop and set strategic objectives
- Agree policy guidelines
- Agree the Group's budgets and plans and, once these are adopted by the Board, be responsible for achieving them
- Ensure appropriate levels of authority are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

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

The Independent Non-Executive Directors are wholly independent in that they have no material business or relationship with the Group that might influence their independence or judgement. In addition, certain governance responsibilities are delegated to other Board committees (Audit, Remuneration and Nomination Committees). These committees include both Non-Executive Directors and Independent Non-Executive Directors, who support effective decision making and independent challenge.

Corporate governance report continued

Governance structure



Integrity of information

The Board receives regular and timely information (at least monthly) on all key aspects of the business including financial performance of the business, strategy, operational matters, risk and opportunities, health and safety, all supported by Key Performance Indicators (KPIs). The key financial information is collated from the Group's various financial reporting systems.

The finance function is appropriately qualified to ensure the integrity of this information and has access to necessary training to keep them up to date with regulatory changes. The financial statements are currently externally audited by KPMG LLP on an annual basis, and financial controls are reviewed by the Group's internal audit function.

Other key information is prepared by the relevant internal function. Processes for collecting data, as well as reporting of that data, are reviewed on a cyclical basis by the internal audit function with quarterly reporting to the Audit Committee.

Corporate governance report continued

Principle 4
Opportunity and Risk

The Board seeks out opportunity whilst mitigating risk.

Opportunity

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

This year's extensive strategy review focused on optimising the existing proposition alongside building capabilities to develop our customer digital roadmap and vehicle remarketing platform and how we support our customers in the adoption of electric vehicles (our Glide Path to Green). This provides a clear line of sight towards ensuring that our high performance is maintained and fully sustainable.

We continue to take a proactive approach to managing our CO_2 emissions agenda with a number of initiatives that provide information and choice for our customers and we meet our environmental responsibilities by managing our internal infrastructure and creating a work environment which looks to minimise our carbon footprint. Recognising that having a clear ESG strategy is vital to the future sustainability, an ESG Committee was formed in October 2021 to push forward the ESG agenda and initiatives within the Company. As a key part of this, the Company participated in the Carbon Disclosure Project ("CDP") in 2021 to report on our carbon footprint. CDP operates the global disclosure system for investors, companies, cities, states and regions to manage their environmental impacts. Our grading is expected by the end of 2021. Details of our initiatives and approach can be found in the Environment section at page 45 and a copy of our Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR) is at page 79. Motability Operations is registered with the Carbon Trust.

Risk

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 an Executive 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.

We have designed our risk management framework around the 'three lines model' for risk governance. 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.

Further details of our risk management framework and approach, together with the Company's principal risks and mitigations are outlined in the Risk management report (on pages 55-64.)

Corporate governance report continued

Risk management framework

We have designed our risk management framework around the ‘three lines model’ approach to risk governance:

Please see pages 55 to 64 for more information on our risk management

Principle 5 Remuneration

The Remuneration Committee has clearly defined terms of reference and is responsible for making recommendations to the Board concerning the Group’s remuneration strategy and recruitment framework. In doing so, the Committee takes advice from independent external consultants who provide updates on legislative requirements, best market practice and remuneration benchmarking, drawing evidence from across the sector in which the Company operates and from other relevant sectors.

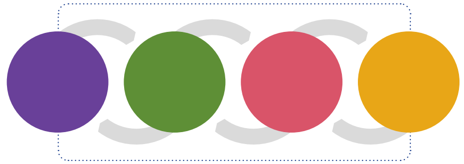
Motability Operations has a clearly defined strategic agenda and framework which underpins its core purpose of providing worry-free mobility to people with a wide range of different disabilities, offering a wide choice of vehicles at affordable prices. The strategic framework, represented by the four pillars (detailed on pages 31 to 35), ensures the alignment of business objectives, performance targets and business planning.

Our aim is to design a competitive remuneration package that is sufficient to attract and retain individuals with the necessary skills, experience and expertise to run a business of the size and complexity of Motability Operations on a sustainable basis. Our policy ensures we do not encourage inappropriate behaviours or actions and we do not reward poor performance or failure.

In the interests of continued transparency in relation to the remuneration of the Executive Directors, Motability Operations voluntarily elects to publish a Remuneration Report. The aim of the report is to set out the key elements of our Remuneration Policy that ensure a robust and reasonable balance is achieved between financial reward and performance. The report also demonstrates how the Remuneration Policy has been applied in the current year and the intended approach for the forthcoming year. The detailed report can be found at page 79.

While we pay equally for equal roles, in 2020 we identified a mean gender pay gap of 24.6%. The Group is an active equal opportunities employer and promotes an environment free from discrimination, harassment and victimisation, where everyone receives equal treatment and career development regardless of age, gender, nationality, ethnic origin, religion, marital status, sexual orientation or disability. All decisions relating to employment practices (including remuneration) are objective, free from bias and based solely upon work criteria and individual merit.

Our strategic framework



- Build our customer and disability expertise
- Provide value and choice
- Improve reach and awareness
- Ensure long-term sustainability
- Underpinned by our values

Please see pages 31 to 35 for more information on our strategy and KPIs

Corporate governance report continued

Principle 6
Stakeholders

The Board is clear that good governance and effective communication are essential on a day-to-day basis to deliver our purpose and protect the Company's reputation and relationships with all our stakeholder community including customers, people, Motability (the national Charity), manufacturers and dealers, disability groups, investors, suppliers and the local communities in which we work.

External impacts

The Board is committed to social responsibility, community engagement and environmental stability. It achieves this in part through its commitment to: a culture of zero harm (ensuring the safety, health and well being of everyone who works with us); creating positive environmental and social impact; being an employer of choice where everyone is valued and respected; and continuing to ensure the long-term sustainability of the Scheme. For more information please see our strategic framework and KPI report from page 31.

Stakeholders

The Board promotes accountability and transparency with all external stakeholders. Details of what is important to our stakeholders, how we listen to them and how that has influenced Motability Operations are set out at pages 27 to 30 of the report.

Audit Committee

The Audit Committee plays an important role in overseeing and ensuring the effectiveness of the financial control and risk management framework at Motability Operations.

The Audit Committee comprises three Independent Non-Executive Directors and four shareholder-appointed Non-Executive Directors and Motability (the Charity) has observer rights. In my capacity as an Independent Non-Executive Director I chair the Committee, with other members during the year being Lisa Bartrip, Christopher Davies, Daniel Meredith Jones, Michael Hordley, Neill Thomas and Robert Whittick. Chris Davies and I are serving Company CFOs. The Executive Directors, other members of senior management, the Head of Internal Audit and the external auditors (KPMG LLP) are in attendance where appropriate, together with senior representatives of Motability, the Charity.

Robert Whittick and Michael Hordley joined the Committee on 1 March and 16 July 2021 respectively as Non-Executive Directors, following the resignation of Paul Thwaite and Barry O'Byrne.

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

- Review and recommend the annual assurance plan to the Board and receive progress reports from Internal Audit
- Oversee all assurance activity and monitor the adequacy and effectiveness of such activity
- Review audit reports and monitor management's progress against agreed actions
- Appoint and dismiss the external auditors
- Monitor the objectivity, independence and effectiveness of the external auditors, including the sanction of non-audit work
- Oversee the operation of the risk management framework, including the risks identified in the corporate risk register

"Effective risk management is crucial to protecting the Scheme's sustainability."

Ruth Prior
Audit Committee Chair

Audit Committee continued

- Receive and review periodic reports from the Financial Risk Management Committee and Risk Policy & Compliance Committee
- Review key areas of management judgement which may have a material bearing on the financial statements including, but not limited to, the periodic revaluation of residual values, the assessment of the adequacy of MORL's insurance reserves and other accounting estimates such as maintenance accruals and end-of-contract payments
- Receive periodic reports from MORL's Audit & Risk, Underwriting and Investment Committees to ensure that risk management within the subsidiary is managed in a manner consistent with Group policies
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee internal and statutory financial reporting, recommending to the Board adoption of the half-year and full-year accounts.

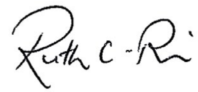
The Committee meets quarterly in advance of meetings of the main Board, at which the Committee chair reports. Matters considered on a regular basis during the year included:

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

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

- Received updates and considered how the Group responded to the pandemic and the actions taken against the key priorities of the Group at this time, namely the health, safety and wellbeing of employees and business continuity and the continuation of service provision to customers. This included a review by Internal Audit on the 'exceptions to policy' as a result of the Covid-19 pandemic
- Received an update on the review carried out by Oliver Wyman at Motability's request following a strategic review to rebuild key elements of the Economic Capital model calculations working with a number of external third parties
- Reports were received from management on a continued proactive programme of security initiatives including the outputs from the Cyber Incident Management response exercise and how these are being factored into Group's cyber incident plans as part of Group's ongoing programme of Cyber Security assurance and the establishment of the Cyber Risk and Security Forum to provide additional oversight and governance of MO's management of cyber risk
- Presentations from the respective chairs of MO Reinsurance Limited's (MORL) Underwriting, Investment and Audit & Risk Committees. This included an update on the impact of the Class 12 Definition and Insurance (Non long term valuation and solvency) Regulations on MORL capital requirements and the proposal to add tri-party repos to the investment portfolio
- Validation of the annual risk review process, including a review of how the major risks are presented to ensure greater consistency in internal and external risk reporting, a clear demonstration of trends/changes in risk, with explicit links to potential impacts to the business model and strategy
- The potential impact on residual values arising from sustained negative sentiment towards diesel vehicles and the economic uncertainty related to the UK's exit from the European Union and the impact of the pandemic
- The financial statement for the half year and full year which is considered in depth at the Committee's December meeting, with the benefit of a detailed report on the findings of the external auditors, KPMG, who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2020 the auditors provided appropriate assurance and identified no matters of material concern either to themselves or to the Committee.

Significant financial reporting/judgements and changes in relation to the Group's Financial Statements considered by the Committee are set out on page 76.

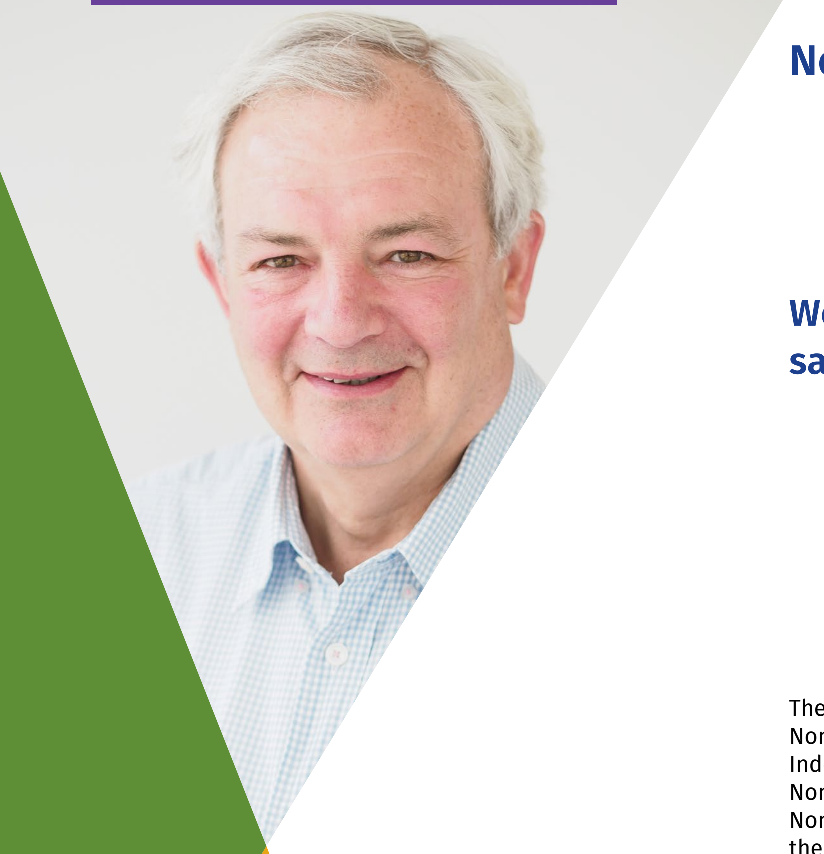


Ruth Prior
Audit Committee Chair

Audit Committee continued

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

Key judgements in financial reporting	Audit Committee review and conclusions
Residual values	
The estimation of the residual values of the vehicle fleet is subject to a number of economic, industry and portfolio-specific factors. Volatility and/or inaccuracy in estimating residual values could have a material impact on the Group's reported financial position.	• The estimation of residual values is identified as a key business risk and was subject to regular scrutiny and review by the Audit Committee during the year. • The Audit Committee reviewed management's accounting estimates of residual values as part of the financial reporting cycle to understand and evaluate assumptions and estimates. • Assurance was provided through an Internal Audit of the residual value forecasting process. • The Audit Committee was satisfied that residual value estimates were appropriate and processes well controlled.
Insurance reserves	
Insurance reserves are set aside in anticipation of insurance claims where accidents in the Group's cars have occurred but are yet to be reported. The assessment of these claims results in a provision being recognised, which will affect the reported financial result. The Group's assessment of insurance reserves is based on a detailed independent actuarial assessment.	• The Group's assessment of insurance reserves was initially reviewed by the MORL Underwriting Committee and MORL Board to consider the appropriateness of the methodology and assumptions applied. • The Audit Committee reviewed insurance reserve updates from management and the MORL Audit Committee chair, this satisfying the Committee that estimates were appropriate.
Other accounting estimates	
Other areas of accounting estimates include maintenance accrual and end-of-contract payments. Changes in estimates of future expenditure or payout rates may affect the reported financial result.	• The Committee assessed accounting estimates as part of the review process for the financial statements. • The Committee discussed the work and findings of Internal Audit, independent actuarial projections and peer review exercise to assess the robustness and appropriateness of estimates. • On this basis, the Audit Committee was satisfied that accounting estimates were appropriate and processes well controlled.



Nomination Committee

We have reviewed the composition of the Board and are satisfied that it has the right skills, knowledge and experience.

The Nomination Committee comprises the Non-Executive Chairman, the Senior Independent Director and an Independent Non-Executive Director. It is chaired by the Non-Executive Chairman, Stephen O'Brien, and the other members are Neill Thomas and Ruth Prior. The Chief Executive and Corporate Services & HR Director attend where appropriate. The Head of Human Resources acts as secretary to the Committee.

The Committee meets twice yearly, or at such other times as required, and has delegated authority from the Board to:

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

Nomination Committee continued

- Make recommendations to the Board in relation to membership of the Audit and Remuneration Committees.
- Approve any Executive Director's external non-executive director appointment.
- Make recommendations to the Board concerning any matters relating to the termination of a Director's contract of employment or service.
- Evaluate the effectiveness of the Committee every two years.

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

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

- The composition of the Board was reviewed and it was recommended to the Board the re-appointment to the Group Board of Alison Hastings, Ruth Owen and Simon Minty, each for a second three-year term.
- Recommended to the Board an extension of the third term for Paul Helps and Mike Gardner, for one year and two years respectively, to the MO Reinsurance Limited Board to ensure continuity during the insurance transition.
- Approved the Chief Marketing Officer role for Motability Operations Limited and the appointment of Lisa Thomas.
- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and continue to meet business needs.
- Agreed the position of the Executive Directors within their remuneration ranges.

Stephen O'Brien

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

Remuneration Committee

Motability Operations has a clear strategic agenda and performance framework, with remuneration structures linked to the delivery of sustainable measures of Company performance.

Letter from the Committee Chairman

I am pleased to present the Directors' Remuneration Report for the year ending September 2021.

Linking performance and pay

The aim of this report is to set out the key elements of our Remuneration Policy that ensure a robust and reasonable balance is achieved between financial reward and performance.

The report will also demonstrate how the Remuneration Policy has been applied in the current year and the intended approach for the forthcoming year.

Remuneration approach

Motability Operations has a clearly defined strategic agenda and framework which underpins its core purpose of providing worry-free mobility to people with a wide range of different disabilities, offering a wide choice of vehicles at affordable prices.

The strategic framework, represented by the four pillars (detailed on pages 31 to 35), ensures the alignment of business objectives, performance targets and business planning.

Our aim is to design a competitive remuneration package that is sufficient to attract and retain individuals with the necessary skills, experience and expertise to run a business of the size and complexity of Motability Operations on a sustainable basis. Our policy ensures we do not encourage inappropriate behaviours or actions and we do not reward poor performance or failure.

> "Ensuring a clear linkage between performance and financial reward."

Neill Thomas
Remuneration Committee Chairman

Remuneration Committee continued

Current year application and context

This year saw the continuation of the impact of Covid-19, with varying national and regional lockdowns and restrictions in place presenting a challenging backdrop for customers and our operations. With the successful roll-out of the vaccine programme and as these restrictions eased through the summer months, activity has been substantially restored to business as usual, although supply-side constraints have resulted in longer lead times for customers and an elevated volume of lease extensions. Assessment of performance this year has focussed on how effectively management have supported customers and employees through this period, and the financial sustainability and autonomy with which the business has been able to operate and respond to these challenges.

As announced in 2020, Andrew Miller joined Motability Operations as CEO on 1 January 2021, with Matthew Hamilton-James having led the business as Interim CEO between April and December 2020.

Remuneration of Interim CEO

Upon Mike Bett's resignation as CEO, Matthew Hamilton-James was appointed Interim CEO. For the period in this role, Matthew Hamilton-James received in addition to his remuneration as Finance Director, a "standing-up" allowance of £5,000 per month. This amount is non-pensionable but is included for the purposes of bonus determination. During the year to 30 September 2021, Matthew Hamilton-James served as Interim CEO for the three months from 1 October – 31 December 2020.

Remuneration of new CEO

As planned Andrew Miller joined the Company as CEO in January 2021. Andrew Miller's salary is £410,000. He receives core benefits in line with the policy for Executive Directors and the Group will provide either a Defined Contribution pension scheme payment or cash allowance in lieu of pension of 15% of salary. He is eligible for a bonus in accordance with the terms and conditions of the Remuneration Policy for Executive Directors. The maximum incentive opportunity for the CEO is 150% of salary.

Annual performance-related payments

Annual performance-related payments are linked to the clear and sustainable measures of Company performance, including the success of strategic projects or initiatives.

Performance against these challenging corporate targets has been given significant weighting and for the year in question accounts for 75% of the Directors' maximum target bonus payment. The remaining 25% is aligned to individual objectives that are agreed at the start of the performance year.

The maximum potential annual performance incentive for the new CEO and Finance Director has been set at 150% and 125% of salary respectively. These maximum levels provide the Committee some discretion to reward for exceptional step-change events or performance during the year but ensure that there is an absolute limit on individual payments that can be made.

A detailed breakdown of performance against the underlying metrics is set out in the Remuneration Report below; however, key performance outcomes in the year are set out below:

- Customer: A score of 94.5% (2020: 94.4%) overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 76.8% and a sector average (Bank & Building Societies) of 78.3%
- Culture: Business culture scores, as independently measured through Willis Towers Watson's 'High-Performing Organisations' culture survey, significantly outperformed the UK 'High-Performing Organisations' Norm groups across all 11 categories (including a Customer Focus score of 95% (2020: 96%) and Employee Engagement at 94% (2020: 96%))
- Financial: Financial metrics in relation to capital adequacy and liquidity remain in line with target. Current credit ratings are A/A1 (stable outlooks) from S&P and Moody's respectively.

Performance against the scorecard resulted in a bonus expressed as a percentage of the maximum potential (pro-rated for time in role) of 47% for Andrew Miller and 69% for Matthew Hamilton-James. In considering whether the out-turns were appropriate, the Committee, as it does each financial year, took into account performance against individual objectives and that of the Group as a whole.

"With the successful roll-out of the vaccine programme, activity has been substantially restored to business as usual."

Remuneration Committee continued

Bonus deferral and release

To support a culture of long-term decision-making in the ordinary course of business, 50% of bonus awards are deferred for a period of three years with performance criteria used to assess the final release of this payment.

Based on performance in the three-year period ended 30 September 2021, the Committee determined that the underpin conditions attached to deferred bonus awards made in respect of FY2018 were achieved and as such the awards were released to the Executive Directors (as noted above).

In addition, the Committee agreed to release the 25% of the bonus awarded in FY2020 which was deferred for a year recognising at the time the uncertainty of the impact on the business of the Covid-19 pandemic.

Salary

The Remuneration Committee determines the salary of each Executive Director with regard to the role and responsibilities, the experience of the individual currently undertaking the role, the criticality of the role and the individual to the business, performance and market comparatives. Changes are made as appropriate taking these factors into account and giving due consideration to increases awarded to the wider workforce.

Core benefits

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

Pension

The Group provides a Defined Contribution scheme contribution or cash allowance in lieu of pension for Executive Directors. The normal contribution rate for all employees (including Executive Directors) is 15% of base salary (other than where legacy agreements exist).

Approach for FY2022

The arrival of a new CEO provides a natural opportunity for the business to re-evaluate its objectives and strategic priorities. Against this backdrop, the Remuneration Committee took the opportunity to ensure that the Remuneration Policy remains aligned as the business evolves. Whilst the review noted the absence of a long-term incentive scheme it otherwise found the current structure fit for purpose. The Committee does, however, intend to change the way in which performance is assessed for the purpose of bonus determination to ensure bonus awards reflect both the delivery of the day to day business whilst also focussing the Executive Directors on innovation and strategic planning. Further details are set out below.

Revised annual performance incentive

Whilst the development of the specific criteria is yet to be finalised, the revised performance framework will in principle:

- Include revised criteria for minimum threshold performance (below which no performance-related payments are paid)
- Ensure robust objective measurement of individual performance and contribution
- reflect revised, measurable, and stretching corporate targets
- include defined long-term (multi-year) targets in relation to strategic implementation
- reflect specific objectives aligned to the business's commitment to reduce its environmental impact, reflecting the Board's commitment and intent to define specific targets in this important area of its operations (as highlighted in earlier sections of this year's Annual Report)
- not increase the current caps on maximum potential annual performance incentive
- retain the three-year deferral for payment of 50% of any annual performance award

Details of the revised annual performance framework will be set out in next year's Remuneration Report.

Neill Thomas

Neill Thomas
Remuneration Committee Chairman

Remuneration report

Executive Directors' remuneration

The table below sets out the Directors' remuneration structure consisting of base salary, annual performance-related pay, core benefits and pension. The amounts for Andrew Miller cover nine months to 30 September 2021 having commenced as CEO on 1 January 2021. The amounts for Matthew Hamilton-James cover three months to 31 December 2020 as Interim CEO and nine months to 30 September 2021 as Finance Director.

Base salary	Andrew Miller – £308k (FY2020: £0k) Matthew Hamilton-James – £324k (FY2020: £337k) Andrew Miller's salary reflects nine months as CEO from January 2021 (annual base salary of £410k). Matthew Hamilton-James' salary includes a non-pensionable 'stand-up' salary award of £5k per month whilst undertaking the role of Interim Chief Executive Officer between October and December 2020.
Benefits	A standard range of benefits provided: Company car, medical insurance and travel insurance.
Pension Contribution	Comprises payments made into the Company's non-contributory Group personal pension (money purchase) scheme, plus any payments made in lieu of pensions where the Director has opted to take taxable income instead of pension contribution entitlements Andrew Miller – £46k (FY2020: not applicable) 15% of salary Matthew Hamilton-James – £46k (FY2020: £46K) 15% of salary
Annual performance incentive paid	The maximum potential bonus is 150% and 125% of salary respectively for the CEO and Finance Director. The bonus is substantially based on key performance measures and individual objectives set at the start of the financial year with additional consideration given to reflect exceptional step-change events or performance within the year Andrew Miller – £108k, representing the cash component (50%) of the bonus award in respect of FY2021, which paid out at 47% of maximum. (FY2020: not applicable) Matthew Hamilton-James – £146k, representing the cash component (50%) of the bonus award in respect of FY2021, which paid out at 69% of maximum. (FY2020: 25% of the award paid out at £65k*) * the cash component of the FY2020 award was 25%, with 25% deferred until October 2021 pending the successful navigation of the impacts of Covid-19, with the remaining 50% deferred for three years.
Vesting of deferred bonus	Payment in the year relates to the release of deferred bonus awards earned in FY2018. The Committee determined that the performance criteria attached to the awards were met in full and therefore the award was released Andrew Miller – £0k (FY2020: not applicable) Matthew Hamilton-James – £121k (FY2020: £103k)

Remuneration report continued

Annual performance incentive – measurement

Annual performance-related payments are not guaranteed and are linked to clear and sustainable measures of business and individual performance, with levels of stretch incorporated to encourage and reward outstanding performance.

In the event that 'threshold performance' is achieved, then a bonus of up to 25% of salary may be awarded. Threshold criteria include the achievement of, amongst other measures, the contractual Key Performance Indicators set by Motability. Performance at this level is regarded as a floor for releasing any potential award up to 25%, whereas higher bonus levels are only receivable in the event that stretch performance targets are met.

Any bonus award beyond threshold levels must be individually justified in relation to stretch performance criteria directly linked to a number of corporate objectives including customer service and culture targets which are independently benchmarked against other high-performing organisations. The Company's results must outperform these benchmarks for an above-threshold bonus to be considered.

In terms of corporate objectives, performance is set with reference to customer service, business culture and financial targets as well as governance, risk management and the delivery of strategic initiatives.

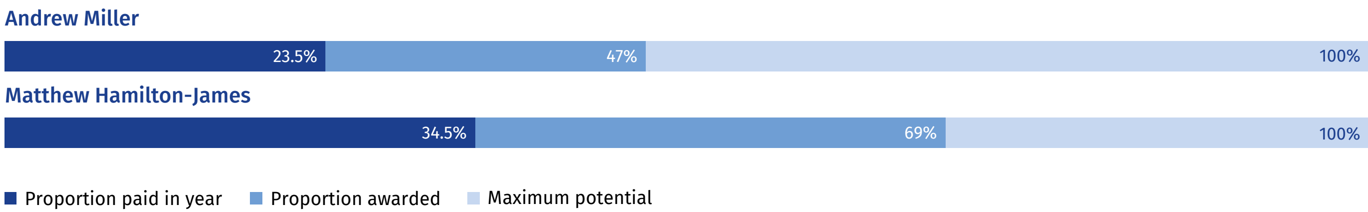
Individual objectives

In relation to individual performance targets, objectives are defined each year as part of the annual planning process and include, in addition to the elements outlined above, responsibility for the delivery of divisional plans.

In determining out-turns, the Remuneration Committee considered performance against both the objectives set at the start of the year and performance in the round over the course of the year. For the period in question both Andrew Miller and Matthew Hamilton-James demonstrated very strong performance against their objectives and in managing the organisation through both the CEO transition and the continuing impact of Covid-19.

Overall out-turns for FY2021

Annual performance incentive awards were based on the Remuneration Committee evaluation of Company and individual performance across a broad range of criteria and paid out 47% of maximum potential award for Andrew Miller as pro-rated for his period of CEO (from 1 January 2021 to 30 September 2021) and 69% of the weighted average maximum potential award for Matthew Hamilton-James reflecting his roles as Finance Director and Interim Chief Executive.



Remuneration report continued

FY2021 Outcomes

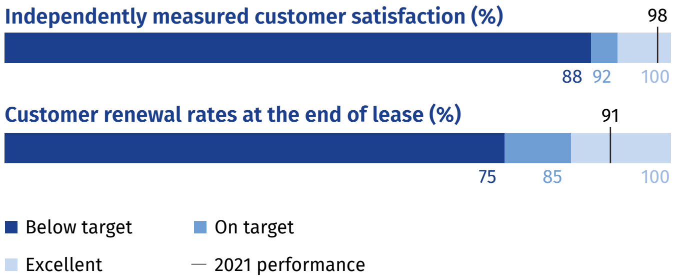
The table below sets out the remuneration outcomes for the Executive Directors for FY2021

	Base salary		Benefits[1]		Expenses reimbursed in performance of duties[2]		Pension[3]		Bonus[4]		Vesting of deferred bonuses[5]		TOTAL	
£k	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive Directors														
Andrew Miller (since Jan 2021)	308	–	14	–	–	–	46	–	108	–	–	–	476	–
Matthew Hamilton-James	324	337	14	16	–	–	46	46	146	65	121	103	651	567

1. Benefits include car allowance, private medical cover and travel insurance.
2. Certain expenses reimbursed relating to the performance of a Director's duties are classified as remuneration by HMRC (travel to and from Company meetings and the related accommodation), so added to emoluments in the month they are paid.
3. Pensions benefits comprise payments made into the Company's non-contributory Group personal pension (money purchase) scheme, plus payments made in lieu of pensions where the Director has opted to take taxable income instead of pension contribution entitlements.
4. Bonus reflects the proportion of the annual award (50%) that is payable for the current year. The remaining 50% is deferred for a period of three years. In FY2020, 25% was payable in the current year, 25% deferred for a further year and 50% deferred for three years.
5. This reflects the vesting of deferred bonuses awarded in December 2017 and released in December 2020.

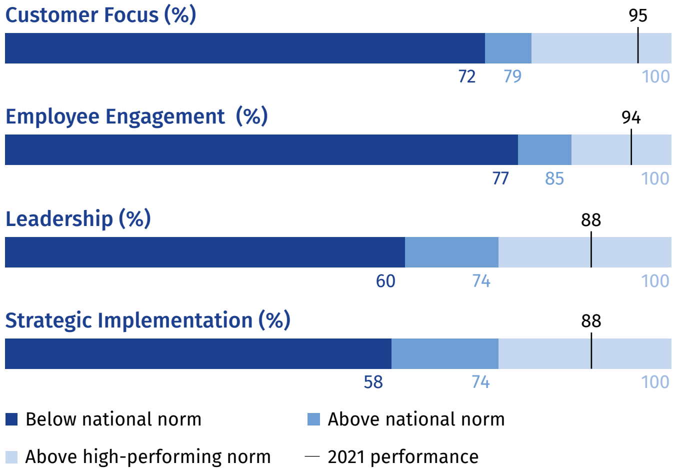
Customer service

The Group is targeted to deliver first-class levels of customer service and excellent value for money. Customer service is measured through two satisfaction surveys (UKCSI, and an internally commissioned independent review by Ipsos MORI) alongside other measures including customer renewal rates at the end of lease. There are also targets for the number of models available on the price list at 'nil advance payment' thereby ensuring that customers can choose from a wide range of affordable vehicles that meet their disability needs.



Business culture

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



Financial performance

Financial performance targets are in place to ensure that the Company remains robust and sustainable through the economic cycle, thereby safeguarding the future of the Scheme in the long term. Financial performance measures include the assessment of capital adequacy, liquidity and cost efficiency. Management is set targets against these measures. During the year to September 2021:

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

Remuneration report continued

Future incentives – Summary table of scheme interests awarded but not yet receivable

Deferred bonuses	Date of awards	Performance period	Date receivable	Maximum vesting value £k	Value expected at vesting £k
Future payments for current Executive Directors					
Andrew Miller	Oct 2021	2021-2024	Dec 2024	108	108
Matthew Hamilton-James	Oct 2020	2020-2021	Oct 2021	65	65
	Oct 2018	2018-2021	Dec 2021	132	132
	Oct 2019	2019-2022	Dec 2022	142	142
	Oct 2020	2020-2023	Dec 2023	130	130
	Oct 2021	2021-2024	Dec 2024	146	146
Future payments for former CEO					
Mike Betts	Oct 2020	2020-2021	Oct 2021	72	72
	Oct 2018	2018-2021	Dec 2021	264	264
	Oct 2019	2019-2022	Dec 2022	275	275
	Oct 2020	2020-2023	Dec 2023	143	143

All of the above are subject to malus and clawback provisions.

Deferred bonuses cannot increase in value. However, these can reduce in value depending on performance criteria.

Whilst Mike Betts' tenure as CEO ended on 31 March 2020, under the terms of the Executive Director bonus scheme, he continues to receive amounts earned in previous years but where payment was deferred for three years.

Non-Executive Directors' remuneration

The Non-Executive Chairman and the Independent Directors receive a base annual fee which reflects their expected time commitment. In addition, the Independent Directors receive fees for chairing the Audit Committee and the Remuneration Committee.

The remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors typically changes in line with overall changes implemented for employees.

Remuneration report continued

Total remuneration

The table below summarises the total remuneration for the Group Executive Directors and Independent Non-Executive Directors of Motability Operations Group plc in line with the Remuneration Policy.

	Salary		Benefits[1]		Expenses reimbursed in performance of duties[2]		Pension[3]		Bonus[4]		Vesting of deferred bonuses and long-term incentives[5]		TOTAL	
£k	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020	2021	2020
Executive Directors														
Andrew Miller^ (since Jan 2021)	308	–	14	–	–	–	46	–	108	–	–	–	476	–
Matthew Hamilton-James	324	337	14	16	–	–	46	46	146	65	121	103	651	567
Former Executive Directors														
Mike Betts^	–	390	–	29	–	–	–	97	–	72	263	2,407	263	2,995
Independent Non-Executive Directors														
Sir Stephen O'Brien (Chairman)	152	152	–	–	6	–	–	–	–	–	–	–	158	152
Neill Thomas	75	75	–	–	–	–	–	–	–	–	–	–	75	75
Ruth Prior	65	65	–	–	–	–	–	–	–	–	–	–	65	65
David Smith^	0	38	–	–	–	–	–	–	–	–	–	–	–	38
Ruth Owen	50	49	–	–	–	–	–	–	–	–	–	–	50	49
Alison Hastings	50	49	–	–	1	1	–	–	–	–	–	–	51	50
Simon Minty	51	50	–	–	–	–	–	–	–	–	–	–	51	50
Chris Davies^^	51	17	–	–		–	–	–	–	–	–	–	51	17

1. Benefits include car allowance, private medical cover and travel insurance.
2. Certain expenses reimbursed relating to the performance of a Director's duties are classified as remuneration by HMRC (travel to and from Company meetings and the related accommodation), so added to emoluments in the month they are paid.
3. Pensions benefits comprise payments made into the Company's non-contributory Group personal pension (money purchase) scheme, plus payments made in lieu of pensions where the Director has opted to take taxable income instead of pension contribution entitlements.
4. Bonus reflects the proportion of the annual award (50%) that is payable for the current year. The remaining 50% is deferred for a period of three years. In FY2020, 25% was payable in the current year, with 25% deferred until October 2021 and 50% deferred for three years.
5. This includes the vesting of bonuses deferred for three years under the conditions of the Remuneration Policy. The 2020 figure for Mike Betts includes final payments in respect of LTIS/LTPP and retention incentive schemes disclosed previously.

All Directors served throughout the year unless marked ^ (and prior year unless marked ^^). The amounts for Mike Betts in 2020 cover six months to 31 March 2020 as CEO and two months to 31 May 2020 as an employee of the Company, during which time he took on the role of leading the Company's response to the Covid-19 pandemic. When his employment ceased on 31 May 2020 (as previously disclosed) he continued in this role as a consultant until 20 November 2020.

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

Remuneration report continued

Membership of the Remuneration Committee

Members of the Remuneration Committee are appointed by the Group Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The majority are Independent Non-Executive Directors. During 2021 the Committee members were Neill Thomas, who chaired the Committee, Daniel Meredith Jones, Sir Stephen O'Brien, Ruth Prior, Simon Minty and Chris Davies.

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

Remuneration Policy

Responsibilities of the Remuneration Committee

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

- The overall positioning of competitive remuneration with reference to market data
- Base salaries and increases for the Executive
- Design, terms and eligibility of performance-related pay schemes including annual awards and any long-term incentives
- Whether any circumstances exist which would result in the need to withhold or claw-back any element of variable pay
- The policy for pension arrangements and other benefits for the Executive
- The remuneration arrangements on appointment of a new Executive, including any buy-out awards (if applicable)
- The policy on exit payments for the Executive and the remuneration terms of exit on departure of the Executive
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive
- Oversight of the Gender Pay Gap reporting in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. The fourth Gender Pay Gap report, highlighting a mean pay gap of 24.6% compared to 25.6% the previous year, was published in March 2021. Our gender pay gap continues to be driven by gender imbalance influenced by a number of factors including the competition for female talent in specialist technical roles and a large proportion of females in our customer contact centre where roles are offered on flexible shift patterns (for further detail please refer to the People and culture section on pages 36 to 42)

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

The effectiveness of the Committee is evaluated at least every two years. A review was undertaken in October 2020 with positive feedback being received from the Committee members concluding that the Committee was effective and had discharged all its duties and responsibilities.

Advisers

The Committee draws on the expertise of external independent specialists for benchmarking, advice on best practice and to confirm that a well governed process is applied. In accordance with the Remuneration Policy which states that the remuneration advisers should be reviewed every three years, a review took place in 2020 which resulted in Deloitte being awarded the role. Since March 2020 Deloitte has continued to advise the Committee.

Remuneration Policy

Activities of the Remuneration Committee during the year

The Committee met four times in the financial year ending 30 September 2021 and its main activities during the year were to:

- Review and agree any changes to Executive base salaries and annual performance-related payments
- Consider whether any of the underpinning conditions relating to the release of the Executive deferred bonus payments apply
- Review the annual performance incentive framework ahead of the FY2021/22 performance year
- Review Executive remuneration ranges with reference to market data
- Review and agree the remuneration package of the new Chief Marketing Officer
- Consider Executive remuneration in light of the Covid-19 pandemic
- Review and agree any annual salary increase for employees and payment of performance related bonuses
- Review pension and benefits
- Review the Gender Pay Gap report
- Review of the Chairman's and Independent Non-Executive Directors' fees
- Review the Remuneration Policy to ensure best practice
- Review the terms of reference and the Committee's effectiveness

Remuneration Policy

Executive Remuneration Policy

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

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

The Group's culture is regarded as central to delivering excellent performance and based on our principles of:

- We always treat customers fairly
- We're competitive on value and professional expertise
- We always provide value for stakeholders
- We work hard to make sure our finances will sustain our efforts into the future
- We make sure we are an outstanding, responsible employer

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

Leaving and joining arrangements for Executive Directors

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

Other matters

Equal & fair pay – The Group's Remuneration Policy recognises Equal Pay. The Group is also committed to paying at least at the level of the current Living Wage (as calculated by the Living Wage Foundation) for an individual's base location.

Employees – A key underlying principle is that, as far as practicable and appropriate, decisions in relation to pay and reward for the Executive Directors should be applied consistently with the application to other employees.

Non-executive appointments at other companies – The Group considers that the release of Executive Directors to serve as non-executive directors elsewhere can be beneficial as part of their ongoing development, enabling Executives to broaden their experience and expertise. Any potential appointments are reviewed and agreed by the Nomination Committee. Under the Group's Remuneration Policy Executives may retain any fees received for non-executive activities.

Basis of employment

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

Neill Thomas.

Neill Thomas
Remuneration Committee Chairman

Other statutory information

Non-financial information

We aim to comply with the new Non-Financial Reporting requirements contained within sections 414CA and 414CB of the Companies Act 2006. We believe that disclosure of non-financial information is fundamental to understanding how we evaluate the impact of different social, environmental and ethical issues and delivering a sustainable business for all our stakeholders.

We have a range of policies and guidance to assess performance and progress in delivering positive outcomes for stakeholders.

Environment

We continue to take a proactive approach to emissions and seek to provide our customers with relevant information to support their decision when selecting a vehicle appropriate to their needs; further detail is available on pages 22-26. We also seek to minimise the footprint of our work environment (see page 90 for details of initiatives and SECR).

Social matters & people

We actively embrace Corporate Social Responsibility obligations and recognise that the calibre and commitment of our people are key to our success, requiring a working environment that promotes collaboration and supports diversity, inclusivity, personal development and respect. Our approach and key initiatives are described in further detail in the section on ESG (pages 18-21).

Human rights

We aspire to conduct business in a way that values and respects the individual rights of all stakeholders we work with. We are committed to building our employees' and suppliers' knowledge and awareness of human rights, encouraging them to speak up about any concerns without fear of retribution.

Motability Operations has the following policies readily accessible to all employees:

- Information Security & Data Protection Policy together with Data Privacy Notices, Modern Slavery Statement, Whistleblowing Policy, Pre-employment vetting guidelines, Anti-Money Laundering and Bribery & Fraud Policy.

We are committed to the highest standards of ethics, honesty and integrity. Our Anti-Money Laundering and Bribery & Fraud Policy outlines the expected standard of conduct that employees, contractors, suppliers, business partners and third parties are obliged to follow. In addition our Gifts and Entertainment Policy includes detailed procedures around the giving and receiving of gifts, hospitality and entertainment.

Customer service and complaints handling

We are committed to delivering excellent customer service.

- In 2021, the UK Institute of Customer Service (UK ICS) rated Motability Operations as the highest-performing organisation in the UK with regard to customer service, achieving 94.5%
- Our customer services are UK based and can be reached via a low cost 0330 number – during the year ending 30 September 2021 they took approximately 1,248,000 calls
- Vast majority of calls/enquiries are resolved at the first point of contact
- For issues that cannot be resolved at first point of contact, a team of account managers is ready to assist.

Customer service data

Our customer services team handled 1,248,000 telephone calls in the year ending 30 September 2021.

Motability Operations has a customer base of circa 649,000.

Our approach to complaints

Customers are at the heart of everything that we do. However, if things go wrong we encourage our customers to tell us in order that we can put things right as quickly as possible.

We have robust processes in place to ensure we handle all complaints fairly and in a timely manner.

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

The figure below represents the number of FCA reportable customer complaints received in the year.

Period covered	Volume of complaints
1 October 2020 – 30 September 2021	2,964

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

Other statutory information continued

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

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

Customer satisfaction levels with our complaints handling

We use customer satisfaction surveys to ask customers how we handled their complaint. In April 2021 we contacted a representative sample of customers who had complained to us between December 2020 and February 2021. They rated us with an overall score of 8.6 out of 10 for our complaint handling.

There were 79 customers who asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2021. During the FY2021 period the FOS has found 38 cases in the favour of Motability Operations, with 41 cases pending FOS decision.

Statement of carbon emissions in compliance with Streamlined Energy and Carbon Reporting (SECR)

Our SECR reporting covers energy use and associated greenhouse gas emissions relating to gas and electricity, intensity ratios and information relating to energy efficiency actions.

	2021	2020
Total energy consumption incl gas and electricity	5,104,206 kWh	4,416,520 kWh
Total CO_2 emissions	1,126,914 kg CO_2	998,330 kg CO_2
Intensity ratio (total emissions)	6.36 kg CO_2	7.00 kg CO_2

Year on year data will be provided in future reports. Future reporting will also include data in relation to Motability Operations' recently acquired Edinburgh office space.

Energy efficiency actions

We are committed to responsible energy management and will practise energy efficiency throughout our organisation, wherever it is cost effective. We recognise that climate change is one of the most serious environmental challenges currently threatening the global community and we understand we have a role to play in reducing greenhouse gas emissions.

We have implemented the policies below for the purpose of increasing the business's energy efficiency in the current financial year:

- Awarded BREEAM Excellent for our Edinburgh office refurbishment.
- Incorporation of environmental activities within our Health and Safety policy statement and working in alignment with ISO14001 and 45001 as an Integrated Management System.

The methodology used in the calculation of disclosures:

All emissions have been converted and expressed in terms of their carbon dioxide equivalent using the UK Government GHG Conversion factors.

Proposed dividend

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

Directors' indemnity

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

Directors' report

The Directors present their Annual Accounts and Reports for the year ending 30 September 2021. The report must be read in conjunction with pages 3 to 64, the Chairman's statement on page 6 and the Chief Executive's review on page 10.

For the year ended 30 September 2021, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Wates Corporate Governance Principles for Large Private Companies (published by the Financial Reporting Council ("FRC") in December 2018 and available on the FRC website).

Engagement with employees

Our employees are the key to our success and we strive to ensure all employees feel they have a say in how we run the business. Our engagement with employees is achieved in a number of ways: the Employee Forum where elected Employee Representatives and senior management meet regularly to ensure two-way sharing of ideas and questions; and the Diversity Networking Groups which comprise the Women's Network, the LGBTQ+ Network, the Disability Network and the Ethnicity Network. In addition, we conduct an all employee survey which benchmarks against High Performing Organisations, which allows employees to make anonymous comments on both their immediate teams and managers together with the Company as a whole. We also periodically conduct pulse surveys on such issues as Diversity and Inclusion.

Supplier engagement

We work closely with our service providers to ensure that they maintain our required standards, and routinely carry out supplier reviews to monitor performance against key performance indicators, ensuring that suppliers implement action plans where necessary. We include insurance, roadside assistance and tyre replacement services on our Customer Satisfaction Index, enabling us to benchmark and align the performance of every provider.

Directors’ responsibilities statement

The Directors are responsible for preparing the Annual Report, Strategic Report, the Directors’ Report and the Group and parent company financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare Group and parent company financial statements for each financial year. Under that law they have elected to prepare both the Group and the parent company financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and applicable law.

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and parent company and of the Group’s profit or loss for that period. In preparing each of the Group and parent company financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable, relevant and reliable;
- state whether they have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- assess the Group and parent company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and
- use the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company’s transactions and disclose with reasonable accuracy at any time the financial position of the parent company and enable them to ensure that its financial statements comply with the Companies Act 2006. They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the company’s website. Legislation in the UK governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Responsibility statement of the Directors in respect of the annual financial report

We confirm that to the best of our knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole; and
- the strategic report includes a fair review of the development and performance of the business and the position of the issuer and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis. In addition to the going concern statement, the 2020 Annual Report and Accounts includes a Viability Statement. This can be found on page 65 of this report.

Independent auditors

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

Directors

Lisa Bartrip, Stephen O’Brien, Chris Davies, Matthew Hamilton-James, Alison Hastings, Daniel Meredith Jones, Simon Minty, Ruth Owen, Ruth Prior, and Neill Thomas served as Directors throughout the year. Simon Amess and Peter Lord served as alternate Directors throughout the year.

Andrew Miller was appointed Chief Executive on 1 January 2021.

Paul Thwaite resigned as a Non-Executive Director on 1 March 2021 and Rob Whittick was appointed as his successor.

Barry O’Byrne resigned as a Non-Executive on 16 July 2021 and his alternate Michael Hordley was appointed as his successor. Jayne Seaford was appointed as an alternate to Michael Hordley on 16 July 2021.

Steve Bolton resigned as an alternate Director on 30 June 2021 and David Mudie was appointed his successor.

Directors’ interests

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

Signed by order of the Board

Jo Pentland
Group Company Secretary

15 December 2021

Independent auditor's report

to the members of Motability Operations Group plc

1. Our opinion is unmodified

We have audited the financial statements of Motability Operations Group plc ("the Company") for the year ended 30 September 2021 which comprise the Group income statement, the Group statement of comprehensive income, the Group and Company balance sheets, the Group and Company statements of changes in equity, the Group and Company statements of cash flows and the related notes, including the accounting policies in note 2.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006;
- the parent Company financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of, and as applied in accordance with the provisions of, the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation to the extent applicable.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion. Our audit opinion is consistent with our report to the audit committee.

We were first appointed as auditor by the shareholders on 6 March 2019. The period of total uninterrupted engagement is for the 3 financial years ended 30 September 2021. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality: Group financial statements as a whole	£34.0m (2020: £30.0m) 0.7% (2020: 0.7%) of total revenue	
Coverage	100% (2020: 100%) of Group profit before tax	
Key audit matters		vs 2020
Recurring risks of the Group	Residual values of used cars	◀▶
	Valuation of incurred but not reported (IBNR) reserves	◀▶
Recurring risks of the Parent	Recoverability of parent Company's loans to subsidiaries	◀▶

Independent auditor's report continued

2. Key audit matters: our assessment of risks of material misstatement

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters, in decreasing order of audit significance, in arriving at our audit opinion above, together with our key audit procedures to address those matters and, as required for public interest entities, our results from those procedures. These matters were addressed, and our results are based on procedures undertaken, in the context of, and solely for the purpose of, our audit of the financial statements as a whole, and in forming our opinion thereon, and consequently are incidental to that opinion, and we do not provide a separate opinion on these matters.

Key Audit Matter	The risk	Our response
Residual values of used cars Refer to page 76 (Audit Committee Report), page 105 (Note 2, accounting policy) and page 122 (Note 13, financial disclosures)	**Subjective estimate:** The Group leases a fleet of cars to customers which are held as operating leases. These cars are depreciated to their residual value over the life of the operating lease. The residual values are set at the start of each lease, based on a model that takes into account a number of variables and assumptions. These are an estimate of the amount that would currently be obtained on disposal at the end of the lease if the cars were already of the age and condition at the end of the lease. Every six months, the Group reviews the residual values for the fleet, and if appropriate, updates these to represent their current best estimate, based upon the latest available information. There are a number of elements to the Group's estimation that require judgement, such as the impact of past events and the expected condition of the vehicle at the end of the lease, that collectively create significant uncertainty in the estimation of residual values. There continues to be a high degree of uncertainty and therefore subjectivity in the assumptions as a result of the uncertainties arising from current market conditions, particularly given the increases in used car values during the period, and COVID-19. The change in estimate of residual values of used cars impacts the amount of depreciation recognised over the life of the lease as follows: • An upwards revision of residual value estimates leads to the recognition of a lower depreciation charge for the year and in future years; • A downwards revision of residual value estimates leads to the recognition of a higher depreciation charge for the year and in future years. The effect of these matters is that, as part of our risk assessment, we determined that the residual value of used cars has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole, and possibly many times that amount. The financial statements disclose the sensitivities estimated by the Group.	Our procedures included: • **Historical comparisons**: We assessed the Group's historical forecasting performance, comparing the Group's residual value forecasts to the actual re-sale value of different cohorts of cars; • **Benchmarking assumptions**: We assessed the Group's forecasts against alternative industry benchmarks such as CAP index; • **Our expertise**: We used our own economics specialists to assess the assumptions over the macroeconomic outlook; • **Test of detail**: We assessed the completeness and accuracy of key data inputs including current sales price and economic data; • **Test of detail**: We calculated our own range for the estimate, by assessing the variability used in car sales data experienced by the Group. We focussed on similar transactions, carried out at similar points in time, such that we were able to narrow this range to only reasonable values. We compared the Group's estimate to our range, and, having determined that it fell within our range, we understood the rationale of the Group's for choosing that point in the range; and • **Assessing transparency**: We assessed the adequacy of the Group's disclosures in respect of the residual values of used cars, associated sensitivities and changes in estimates during the year. This included an assessment of the sensitivities disclosed in light of the increased uncertainty arising from the current market conditions. **Our results** We found the resulting estimate of the residual values of used cars and the related disclosures to be acceptable (2020 result: acceptable).

Independent auditor's report continued

2. Key audit matters: our assessment of risks of material misstatement continued

Key Audit Matter	The risk	Our response
Valuation of incurred but not reported (IBNR) reserves Refer to page 76 (Audit Committee Report), page 105 (Note 2, accounting policy) and page 129 (Note 24, financial disclosures)	**Subjective estimate:** The valuation of IBNR reserves is an area requiring significant judgement in the Group financial statements. Valuation of these liabilities is highly judgmental as it requires a number of assumptions to be made that have high estimation uncertainty and can have material impacts on the valuation. Key assumptions include expected loss ratios and estimates of the frequency and severity of claims, likely to be impacted due to COVID-19, used to value the IBNR reserves. Certain areas of the claims outstanding balance contain greater uncertainty, for example third party bodily injury claims exhibit greater variability and are more long tailed than the damage classes. Similar estimates are required in establishing the reinsurers' share of insurance provisions, in particular share of IBNR claims. A margin is added to the actuarial best estimate ('ABE') of insurance liabilities to make allowance for risks and uncertainties that are not specifically allowed for in establishing the ABE. The appropriate margin to recognise is a subjective judgement and estimate taken by the Directors, based on the perceived uncertainty and potential for volatility in the underlying claims. The effect of these matters is that, as part of our risk assessment, we determined that the valuation of IBNR reserves has a high degree of estimation uncertainty, with a potential range of reasonable outcomes greater than our materiality for the financial statements as a whole.	Our procedures included: • **Independent re-performance**: We carried out alternative projections of the gross and net IBNR reserve balances using standard actuarial methods; • **Sector experience and benchmarking**: We compared the assumptions, reserving methodologies and estimates of gross and net IBNR (of reinsurance) losses to expectations based on the Group's historical experience, current trends, externally-derived data and benchmarking against industry trends including information relating to new legislation that may affect claims settlement; • **Margin evaluation**: We evaluated the appropriateness of the margin applied to the actuarial best estimate. In order to do this we assessed the Directors' approach to, and analysis performed, in setting the margin with respect to recognised actuarial methods. In particular we considered the allowance for uncertainties inherent in the data and assumptions in developing the actuarial best estimate through inquiry with the Directors and with respect to our understanding of any changes in Group's risks and our own sector experience of approaches to setting the margin and the level of margin held by the Group's peers; and • **Assessing transparency**: We assessed the appropriateness of the accounting policy and disclosures relating to valuation of IBNR reserves. **Our results** We found the resulting estimate of the valuation of incurred but not reported reserves to be acceptable (2020 result: acceptable).
Recoverability of parent Company's loans to subsidiaries	**Low risk, high value** The carrying amount of the parent Company's loans to subsidiaries represents 91.6% (2020: 92.4%) of the Company's total assets. Their recoverability is not at a high risk of significant misstatement or subject to significant judgement. However, due to their materiality in the context of the Parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.	Our procedures included: • **Test of detail**: We have assessed 100% of the loans to Group companies to identify, with reference to the relevant subsidiaries' draft balance sheet, whether they have a positive net asset value and therefore coverage of the debt owed, as well as assessing whether those subsidiaries have historically been profit-making. **Our results** We found the Group's assessment of the recoverability of parent Company's loans to subsidiaries to be acceptable (2020 result: acceptable).

Independent auditor's report continued

3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £34.0m (2020:£30m), determined with reference to a benchmark of total revenue, of which it represents 0.7% (2020: 0.7% of total revenue).

Materiality for the parent Company financial statements as a whole was set at £23.8m (2020: £21.0m), determined with reference to a benchmark of Company total assets, of which it represents 0.7% (2020: 0.7%). This was capped at a percentage of Group materiality.

In line with our audit methodology, our procedures on individual account balances and disclosures were performed to a lower threshold, performance materiality, so as to reduce to an acceptable level the risk that individually immaterial misstatements in individual account balances add up to a material amount across the financial statements as a whole.

Performance materiality was set at 65% (2020: 65%) of materiality for the financial statements as a whole, which equates to £22.0m (2020: £19.5m) for the Group and £15.4 (2020: £13.6m) for the parent Company. We applied this percentage in our determination of performance materiality based on our assessment of the increased level of aggregation risk.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.7m (2020: £1.5m) in addition to other identified misstatements that warranted reporting on qualitative grounds.

We subjected all three of the Group's reporting components to full scope audits for Group purposes. The components within the scope of our work accounted for 100% of Group revenue, profit before tax and total assets.

The Group team instructed component auditors as to the significant areas to be covered, including the relevant risks detailed above and the information to be reported back. The Group team approved the following component materialities, having regard to the mix of size and risk profile of the Group across the components:

Motability Operations Group plc: £23.8m (2020: £21.0m)

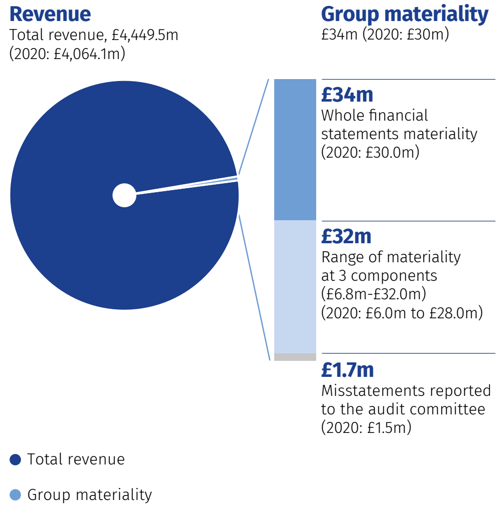
MO Reinsurance Limited: £6.8m (2020: £6.0m)

Motability Operations Limited: £32.0 (2020: £28.0m)

KPMG LLC in the Isle of Man is the component auditor of MO Reinsurance Limited. The audit work on the other two components was performed by the Group team.

The Group team reviewed the audit work of the component auditor in the Isle of Man to assess the audit risk and strategy. Meetings were also held with the component auditor and the Group auditor attended Audit Committee meetings of the components.

At these meetings, the findings reported to the Group team were discussed in more detail.



Independent auditor's report continued

4. Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group's and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements ("the going concern period").

We used our knowledge of the Group, its industry, and the general economic environment to identify the inherent risks to its business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources and metrics relevant to the debt covenant over this period were:

- Reduced proceeds from disposal of operating lease assets; and
- Economic uncertainty impacting the fleet valuations.

We considered whether these risks could plausibly affect the liquidity and covenant compliance in the going concern period by comparing severe, but plausible downside scenarios that could arise from these risks individually and collectively against the level of available financial resources and covenants indicated by the Group's financial forecasts.

Our procedures also included:

- Consideration of the Directors' assessment of the sources of risk for the Group's business and financial resources compared to our own understanding;
- Assessment of the Group's forecast profitability, capital and liquidity in order to identify key assumptions;
- Assessment of the severe but plausible downside scenario, with particular focus on whether these downside scenarios reflect the plausible impacts of COVID-19 on the Group in forecasting profitability, capital and liquidity; and
- Assessment of the impact on the covenants in place under stressed scenarios.

We considered whether the going concern disclosure in note 2 to the financial statements gives a full and accurate description of the Directors' assessment of going concern, including the identified risks and related sensitivities.

Our conclusions based on this work:

- we consider that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate;
- we have not identified, and concur with the Directors' assessment that there is not, a material uncertainty related to events or conditions that, individually or collectively, may cast significant doubt on the Group's or Company's ability to continue as a going concern for the going concern period; and
- we found the going concern disclosure in note 2 to be acceptable.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the above conclusions are not a guarantee that the Group or the Company will continue in operation.

5. Fraud and breaches of laws and regulations – ability to detect

Identifying and responding to risks of material misstatement due to fraud

To identify risks of material misstatement due to fraud ("fraud risks") we assessed events or conditions that could indicate an incentive or pressure to commit fraud or provide an opportunity to commit fraud. Our risk assessment procedures included:

- Enquiring of Directors, the Audit Committee and Internal Audit and inspection of policy documentation as to the Group's high-level policies and procedures to prevent and detect fraud, including the internal audit function, and the Group's channel for "whistleblowing", as well as whether they have knowledge of any actual, suspected or alleged fraud.
- Reading Board and Audit Committee minutes.
- Considering remuneration incentive schemes and performance targets for management/Directors.
- Using analytical procedures to identify any unusual or unexpected relationships.

We communicated identified fraud risks throughout the audit team and remained alert to any indications of fraud throughout the audit. This included communication from the Group to the component audit team of relevant fraud risks identified at the Group level and request to component audit teams to report to the Group audit team any instances of fraud that could give rise to a material misstatement at Group.

As required by auditing standards, we perform procedures to address the risk of management override of controls, in particular the risk that management may be in a position to make inappropriate accounting entries and the risk of bias in accounting estimates and judgements. On this audit we do not believe there is a fraud risk related to revenue recognition because there is limited opportunity to commit fraud due to the lack of inherent complexity in revenue recognition and there is limited perceived pressure on management or incentives to achieve an expected revenue target.

We identified fraud risks in relation to: residual values of used cars and the valuation of IBNR reserves due to significant judgement involved in the estimates. Further detail is set out in the key audit matter disclosures in section 2 of this report.

We also performed procedures including:

- Identifying journal entries to test based on risk criteria and comparing the identified entries to supporting documentation. An example of our high risk criteria is those journals posted by unauthorised users.
- Assessing significant accounting estimates for bias.

Independent auditor's report continued

Identifying and responding to risks of material misstatement due to non-compliance with laws and regulations

We identified areas of laws and regulations that could reasonably be expected to have a material effect on the financial statements from our general commercial and sector experience and through discussion with the Directors and other management (as required by auditing standards), and from inspection of the Group's regulatory and legal correspondence and discussed with the Directors and other management the policies and procedures regarding compliance with laws and regulations.

As the Group is regulated, our assessment of risks involved gaining an understanding of the control environment including the entity's procedures for complying with regulatory requirements.

We communicated identified laws and regulations throughout our team and remained alert to any indications of non-compliance throughout the audit. This included communication from the Group to component audit teams of relevant laws and regulations identified at the Group level, and a request for component auditors to report to the Group team any instances of non-compliance with laws and regulations that could give rise to a material misstatement at Group.

The potential effect of these laws and regulations on the financial statements varies considerably.

Firstly, the Group is subject to laws and regulations that directly affect the financial statements including financial reporting legislation (including related companies legislation), distributable profits legislation and taxation legislation and we assessed the extent of compliance with these laws and regulations as part of our procedures on the related financial statement items.

Secondly, the Group is subject to many other laws and regulations where the consequences of non-compliance could have a material effect on amounts or disclosures in the financial statements, for instance through the imposition of fines or litigation. We identified the following areas as those most likely to have such an effect: regulatory capital and regulatory compliance, recognising that there are operations of the Group authorised and regulated by the Isle of Man Financial Services Authority.

Auditing standards limit the required audit procedures to identify non-compliance with these laws and regulations to enquiry of the Directors and other management and inspection of regulatory and legal correspondence, if any. Therefore if a breach of operational regulations is not disclosed to us or evident from relevant correspondence, an audit will not detect that breach.

We discussed with the audit committee matters related to actual or suspected breaches of laws or regulations, for which disclosure is not necessary, and considered any implications for our audit.

Context of the ability of the audit to detect fraud or breaches of law or regulation

Owing to the inherent limitations of an audit, there is an unavoidable risk that we may not have detected some material misstatements in the financial statements, even though we have properly planned and performed our audit in accordance with auditing standards. For example, the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely the inherently limited procedures required by auditing standards would identify it.

In addition, as with any audit, there remained a higher risk of non-detection of fraud, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. Our audit procedures are designed to detect material misstatement. We are not responsible for preventing non-compliance or fraud and cannot be expected to detect non-compliance with all laws and regulations.

6. We have nothing to report on the other information in the Annual Report

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report

Based solely on our work on the other information:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Independent auditor's report continued

7. We have nothing to report on the other matters on which we are required to report by exception

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

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

We have nothing to report in these respects.

8. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 69, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

9. The purpose of our audit work and to whom we owe our responsibilities

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's 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 and the Company's members, as a body, for our audit work, for this report, or for the opinions we have formed.

Simon Clark (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor

Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

15 December 2021

Financial statements

Annual Report and Accounts 2021

Financial statements

Income statement

For the year ended 30 September 2021

	Note	2021 Group £m	2020 Group £m
Revenue	4	4,449.5	4,064.1
Net operating costs excluding charitable donations		(3,432.6)	(3,681.6)
Charitable donations		(170.2)	–
Net operating costs	6	(3,602.8)	(3,681.6)
Profit from operations		846.7	382.5
Finance costs	9	(166.2)	(165.3)
Profit before tax		680.5	217.2
Taxation			
Taxation excluding the impact of changes in the UK corporation tax rate	10	(105.5)	(41.6)
Remeasurement of deferred tax due to changes in the UK corporation tax rate	10	(15.1)	(25.8)
Profit for the financial year		559.9	149.8

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.

Statement of comprehensive income

For the year ended 30 September 2021

	Note	2021 Group £m	2020 Group £m
Profit for the financial year		559.9	149.8
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
(Losses)/gains on movements in fair value of cash flow hedging derivatives	25	(66.4)	3.2
Gains/(losses) on cash flow hedges reclassified to the income statement	25	93.7	(33.5)
Tax relating to components of other comprehensive income		(5.1)	5.7
Other comprehensive income/(loss) for the year, net of tax		22.2	(24.6)
Total comprehensive income for the year		582.1	125.2

The notes on pages 105 to 152 form an integral part of these financial statements

Financial statements continued
Balance sheets

As at 30 September 2021

	Note	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Assets					
Non-current assets					
Intangible assets	11	94.1	78.4	–	–
Property, plant and equipment	12	67.8	70.4	–	–
Assets held for use in operating leases	13	8,790.7	7,812.0	–	–
Financial assets at amortised cost	15	126.4	145.5	–	–
Investment in subsidiaries	16	–	–	110.9	110.9
Loans to Group companies	16	–	–	5,719.4	5,324.4
Trade and other receivables	19	20.7	21.4	1.0	2.0
Derivative financial instruments	26	70.5	107.7	70.5	107.7
Deferred tax assets	27	–	–	0.2	5.4
		9,170.2	8,235.4	5,902.0	5,550.4
Current assets					
Corporation tax receivable		11.0	–	–	–
Inventories	14	109.8	140.3	–	–
Financial assets at amortised cost	15	80.9	58.1	–	–
Cash and bank balances	17	484.8	316.2	341.1	211.4
Insurance receivables	18	46.2	75.8	–	–
Trade and other receivables	19	209.8	291.5	1.0	1.0
Reinsurers' share of insurance provisions	24	454.5	404.3	–	–
Derivative financial instruments	26	–	–	–	–
		1,397.0	1,286.2	342.1	212.4
Total assets		10,567.2	9,521.6	6,244.1	5,762.8
Liabilities					
Current liabilities					
Corporation tax payable		–	(8.6)	–	–
Deferred rental income	20	(190.9)	(172.3)	–	–
Provision for customer rebates	21	(157.9)	(99.7)	–	–
Insurance payables	22	(71.4)	(71.2)	–	–
Trade and other payables	23	(156.0)	(194.6)	(209.6)	(120.5)
Provision for insurance claims outstanding	24	(584.0)	(512.9)	–	–
Financial liabilities	25	(487.0)	(128.4)	(430.8)	(29.3)
Derivative financial instruments	26	(0.3)	(0.5)	(0.3)	(0.5)
		(1,647.5)	(1,188.2)	(640.7)	(150.3)
Net current (liabilities)/assets		(250.5)	98.0	(298.6)	62.1
Non-current liabilities					
Deferred rental income	20	(252.8)	(239.5)	–	–
Provision for customer rebates	21	(75.5)	(67.5)	–	–
Financial liabilities	25	(5,360.2)	(5,458.3)	(5,315.6)	(5,416.2)
Derivative financial instruments	26	(42.7)	(13.3)	(42.7)	(13.3)
Deferred tax liabilities	27	(308.0)	(256.4)	–	–
		(6,039.2)	(6,035.0)	(5,358.3)	(5,429.5)
Total liabilities		(7,686.7)	(7,223.2)	(5,999.0)	(5,579.8)
Net assets		2,880.5	2,298.4	245.1	197.6
Equity					
Ordinary share capital	28	0.1	0.1	0.1	0.1
Hedging reserve		(1.0)	(23.2)	(1.0)	(23.2)
Restricted reserves*		2,881.4	2,321.5	246.0	206.1
Total equity		2,880.5	2,298.4	245.1	183.0

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

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the Company income statement and statement of comprehensive income. The Company's profit for the financial year was £39.9m (2020: £10.0m), of which £25.0m (2020: £nil) was a result of dividends received from subsidiaries (see note 16).

These financial statements on pages 101 to 152 were approved by the Board of Directors on 15 December 2021 and signed on behalf of the Board.

Andrew Miller
Chief Executive
Motability Operations Group plc
Registered number 6541091

The notes on pages 105 to 152 form an integral part of these financial statements

Financial statements continued

Statements of changes in equity

For the year ended 30 September 2021

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2019	0.1	1.4	2,171.7	2,173.2
Comprehensive income				
Profit for the year	–	–	149.8	149.8
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	3.2	–	3.2
Losses on cash flow hedges reclassified to the income statement	–	(33.5)	–	(33.5)
Tax relating to components of other comprehensive income	–	5.7	–	5.7
Total comprehensive (loss)/ income	–	(24.6)	149.8	125.2
At 1 October 2020	0.1	(23.2)	2,321.5	2,298.4
Comprehensive income				
Profit for the year	–	–	559.9	559.9
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(66.4)	–	(66.4)
Gains on cash flow hedges reclassified to the income statement	–	93.7	–	93.7
Tax relating to components of other comprehensive income	–	(5.1)	–	(5.1)
Total comprehensive income	–	22.2	559.9	582.1
At 30 September 2021	0.1	(1.0)	2,881.4	2,880.5

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2019	0.1	1.4	196.1	197.6
Comprehensive income				
Profit for the year	–	–	10.0	10.0
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	3.2	–	3.2
Losses on cash flow hedges reclassified to the income statement	–	(33.5)	–	(33.5)
Tax relating to components of other comprehensive income	–	5.7	–	5.7
Total comprehensive (loss)/income	–	(24.6)	10.0	(14.6)
At 1 October 2020	0.1	(23.2)	206.1	183.0
Comprehensive income				
Profit for the year	–	–	39.9	39.9
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(66.4)	–	(66.4)
Gains on cash flow hedges reclassified to the income statement	–	93.7	–	93.7
Tax relating to components of other comprehensive income	–	(5.1)	–	(5.1)
Total comprehensive income	–	22.2	39.9	62.1
At 30 September 2021	0.1	(1.0)	246.0	245.1

The notes on pages 105 to 152 form an integral part of these financial statements

Financial statements continued

Statements of cash flows

For the year ended 30 September 2021

	Note	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	29	291.4	62.4	(305.1)	(269.1)
Interest (paid)/received		(159.5)	(166.2)	29.9	20.2
Income tax paid		(93.9)	(45.1)	(8.0)	(20.5)
Charitable donations		(170.2)	(52.4)	–	–
Net cash used in operating activities		(132.2)	(201.3)	(283.2)	(269.4)
Cash flows from investing activities					
Dividend received	16	–	–	25.0	–
Purchase of intangible assets	11	(27.8)	(23.3)	–	–
Purchase of property, plant and equipment	12	(8.6)	(12.7)	–	–
Proceeds from sale of property, plant and equipment	12, 29	0.5	0.5	–	–
(Investment in)/divestment of financial assets at amortised cost	15	(3.9)	0.7	–	–
Net cash (used in)/generated from investing activities		(39.8)	(34.8)	25.0	–
Cash flows from financing activities					
New loans raised		–	400.0	–	400.0
Loans settled		(400.0)		(400.0)	
Bonds issued	25	787.9	–	787.9	–
Bonds redeemed		–	(300.0)	–	(300.0)
Proceeds from settlement of derivatives		–	–	–	–
Payments of principal portions of lease liabilities		(3.6)	(3.0)	–	–
Net cash generated from financing activities		384.3	97.0	387.9	100.0
Net increase/(decrease) in cash and cash equivalents		212.3	(139.1)	129.7	(169.4)
Cash and cash equivalents at beginning of year		220.1	359.2	211.4	380.8
Cash and cash equivalents at end of year	17	432.4	220.1	341.1	211.4

The notes on pages 105 to 152 form an integral part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out on pages 2 to 3 and the Group's shareholders are detailed in the Corporate Governance report on page 67.

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

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

Accounting convention

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

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

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

Except as described below, the accounting policies have been applied consistently to the years 2021 and 2020.

Adoption of new or revised standards

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

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

Notes to the financial statements continued

2. Significant accounting policies continued

At the date of authorisation of these financial statements, the following standards, amendments and interpretations were in issue but not yet effective; or effective but not adopted by the EU and have not been early adopted by the Group, except for the amendment on Interest Rate Benchmark Reform described below.

IFRS 17	*Insurance Contracts*
IAS 37 (Amendments)	*Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*
Annual improvements to IFRS Standards 2018-2020	
IAS 16 (Amendments)	*Property, Plant and Equipment: Proceeds before Intended Use*
IAS 1 (Amendments)	*Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*
IFRS 3 (Amendments)	*Reference to the Conceptual Framework*

IFRS 17 *Insurance Contracts*

IFRS 17 was issued on 18 May 2017 and now 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 IFRSs in advance of their required dates.

Other standards, amendments and interpretations not described above are not material to the Group or the Company's financial statements.

Interest Rate Benchmark Reform

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). 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. They are effective for periods beginning on or after 1 January 2020. The Group chose to adopt these amendments early (in the 2020 financial statements).

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 30 September 2021 are expected to remain effective and will mature before the IBOR cessation date.

The Group has LIBOR exposures on its bank facilities as at 30 September 2021. The facilities under which these bank drawings are made will be amended in time to address the cessation of LIBOR and the adoption of the new Risk Free Rate. Following the scheduled transition date of 31 December 2021 drawings made on these facilities will adopt the new Risk Free Rate (SONIA).

	2021 £m	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 at 30 September	400.0	400.0

	2021 £m	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

Notes to the financial statements continued

2. Significant accounting policies continued

Interest Rate Benchmark Reform continued

	2021 £m	2020 £m
Carrying value of hedged items hedged by LIBOR swap contracts	399.5	399.2

	2021 £m	2020 £m
Carrying value of hedged items hedged by LIBOR swap contracts which mature before the end of 2021	399.5	–
Carrying value of hedged items hedged by LIBOR swap contracts which mature after 2021	–	399.2
Total	399.5	399.2

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 3 to 55. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Strategic report on pages 43 to 48. In addition, note 36 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

The Directors continue to adopt the going concern basis in preparing the financial statements, which is deemed appropriate for the reasons described below.

The Group has considerable financial resources, with restricted reserves of £2,881.4m at 30 September 2021, together with a long-term contract with Motability to operate the 'Motability Scheme'.

Throughout the year ended 30 September 2021, 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. In addition, the used-car market has remained operational and, due to chip shortages constraining new vehicle supplies, used-car values remain buoyant.

The Directors have prepared budgets and cash flow forecasts for the period to 31 March 2023 by means of a baseline forecast. The baseline forecast is based on economic conditions and forecasts as at 30 September 2021.

In addition, the Directors have applied severe, yet plausible, downside scenarios to the baseline forecast, reflecting the potential effects to operations and financial performance as the country and economy recover from the Covid-19 pandemic. These include a deterioration in revenue from disposal of operating lease assets and an inability to issue debt under the Euro Medium Term Note Programme, should it be required.

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, detailed in note 25;
- meet the objectives of its capital and reserves management policy, detailed in note 36; and
- comply with its debt financing covenant, detailed in note 36.

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.

Basis of consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to or has rights to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In terms of subsidiaries, the Group:

- Consolidates subsidiaries from the date on which control passes to the Group and deconsolidates from the date control ceases
- Changes the accounting policies of subsidiaries, where necessary, to ensure consistency with the policies adopted by the Group
- Eliminates intercompany transactions and balances in the Group results

Notes to the financial statements continued

2. Significant accounting policies continued

Investment in subsidiaries

The Company's investments in its subsidiaries are stated at cost less any charge for impairment in the Company's balance sheet. Impairment adjustments are charged to the income statement. In accordance with IAS 36, impairment is considered as part of the Group's going concern analysis.

Intangible assets

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and includes capitalised internal labour where appropriate. These costs are amortised on a straight-line basis over their estimated useful lives, between three and seven years. Annually intangible assets are reviewed for impairment triggers which in these cases would be idleness or loss of use of the assets.

Property, plant and equipment

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

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

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

The estimated useful life of right-of-use assets is to the end of the lease contracts. The lease maturity dates are disclosed in note 31.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within net operating costs in the income statement. Property, plant and equipment assets are reviewed annually for impairment triggers meaning loss/cessation of use.

Assets held for use in operating leases

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

Assets are reviewed annually for impairment whenever events or changes in circumstances indicate that the carrying amount (including any recalibration arising from the review of residual values) may not be fully recoverable, considering both external as well as internal sources of information. If such an indication for impairment exists, an analysis is performed to assess whether the carrying value of the assets exceeds the recoverable amount. An impairment charge is booked for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the "value in use". The value in use is determined as the present value of the future cash flows expected to be derived from each monthly tranche of leases by lease inception date (as "cash generating units"). This is done at a monthly tranche level as the lowest possible level of aggregation given the portfolio characteristics of the leased fleet in terms of future costs and the uncertainty of future early termination rates which would impact the prospects of individual vehicle assets.

Any impairment charge is unwound when either the tranche of leases affected comes to an end or there has been a change in the estimates used to determine the recoverable amount. An impairment charge is reversed only to the extent of the asset's carrying amount that would have been determined, net of depreciation, if no impairment charge had been recognised.

Inventories

In accordance with IAS 2, operating lease assets are transferred to inventories at their carrying amount when they cease to be leased and become held for sale. Inventories are subsequently measured at the lower of their transfer value and net realisable value.

Notes to the financial statements continued

2. Significant accounting policies continued

Revenue recognition – leasing (under IFRS 16)

Revenue comprises both advance rentals payable directly by lessees and periodic rentals receivable from lessees by means of mandated payments of: the Higher Rate Mobility Component of the Disability Living Allowance; the War Pensioners' Mobility Supplement; the Enhanced Rate of the Mobility Component of the Personal Independence Payment; or the Armed Forces Independence Payment. The total rental receivable under each leasing contract is then split further into leasing revenue, in-life service costs revenue and insurance cover related revenue. The terms of payment of the overall rental are as described above – a single upfront payment where applicable followed by mandated four-weekly payments from the relevant Government agency.

The rental revenue comprises the fair value of the consideration received or receivable for the goods and services provided. Rental revenue (including advance rentals) from operating leases is recognised on a straight-line basis over the lease term.

Proceeds from disposal of operating lease assets are recognised when the physical vehicles have been sold and control of the vehicles has been passed to the buyer at the point of sale (usually to a car dealership or at auction). For insurance reimbursements, revenue is recognised when the claim has been accepted by the insurer and a valuation provided for the compensation amount.

Provisions for customer rebates

Rental income received in respect of conditional customer rebates is not recognised as revenue to the extent that it is expected to be repaid to customers on the return of their leased assets.

Revenue recognition – in-life service costs and insurance services (under IFRS 15)

Rental income received in respect of in-life service costs ("ILSC") or insurance services is deferred to the extent that it relates to future performance obligations under each of these two elements of the contract. For each of these two revenue streams, the measure of progress selected as the most appropriate measure to depict the Group's performance in transferring control of services promised to the customer is the 'cost-to-cost' input method (that is, costs incurred relative to total estimated costs). These are performance obligations which are satisfied at specific times as routine or recurring services during the period of contract, so using relative costs to determine the completion rate is appropriate.

Management has made a judgement in applying the disaggregation of the contractual obligations to treat ILSC and insurance cover rentals as separate revenue streams (and not to disaggregate any further). This is due to a) maintenance, servicing, tyres, windscreens and breakdown cover all being similar in nature in terms of keeping vehicles on the road in good condition and having a well-established history of timing effects in terms of the historic spend curve of such services and b) the insurance element being a separate obligation with different timing characteristics. All other services provided relate to the leasing of the vehicle itself and are outside the scope of IFRS 15.

ILSC spend curves occur because such services are back-loaded for a new vehicle, as maintenance costs are lower in the first year of a vehicle's life compared with later years. For insurance, premium payments to the Group's fronting insurer are generally expected to rise every six months, so that the obligation to pay premiums in the latter stages of a lease is typically higher than the early stages, requiring a deferral of revenue recognised.

Margins have been applied to each of these revenue streams giving due consideration to possible future increases to prices in both the ILSC and insurance sectors, to protect these revenue streams from impairment in the event of such increases. To do so, past changes in historical spending curves are reviewed.

All historical spending curves are reviewed periodically to ensure that they remain a fair representation of the expected changes in cost profiles as a proxy for performance obligations in line with the leasing contracts.

Net operating costs

Net operating costs comprise: net book value of disposed operating lease assets, depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance, charitable donations and other Scheme-related costs including the Motability levy (see note 33) and overheads. An analysis is provided in note 6.

The Group's insurance costs are presented net of a "profit sharing" arrangement with the fronting insurer. These premium rebates are recognised as receivable by the Group once loss ratios are determined following actuarial review, in line with IAS 37 "Provisions, Contingent Liabilities and Contingent Assets".

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

Charitable donations

Charitable donations are recognised when paid, or when a constructive obligation is established by the creation of a clearly communicated expectation in sufficient detail to effectively make the obligation irrevocable.

Notes to the financial statements continued

2. Significant accounting policies continued

Finance costs

Finance costs are recognised as an expense on an accruals basis using the straight-line method, as this is materially equivalent to the effective interest rate method for the Group.

Retirement benefit costs

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

Taxation

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

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

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

Long-term incentive arrangements

Payments falling due under long-term incentive arrangements depend upon length of service and performance criteria (see note 34). The cost is recognised during the years in which services are rendered subject to meeting specific performance requirements.

Share capital

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

Financial instruments

Financial assets and liabilities include trade and other receivables, cash and cash equivalents, trade and other payables, preference shares and derivative instruments.

Recognition and initial measurement

Trade receivables are initially recognised when originated, and initially measured at the transaction price. Other financial assets and liabilities are recognised when the Company within the Group becomes a party to the contractual provisions of the instrument and are initially valued including transaction costs directly attributable to their acquisition or issue.

Classification and subsequent measurement

Financial assets are measured at amortised cost, and this classification would only be changed if the Group changed its business model (in which case all affected financial assets would be reclassified on the first day of the first reporting period following the change in the business model).

In classifying these assets at amortised cost, both of the following conditions have been found to apply: the business model has an objective to hold assets to collect contractual cash flows and its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The business model

The financial assets at amortised cost are held at MORL, the reinsurance captive. MORL holds investments in a managed bond solution segregated into portfolios with differing maturity profiles, reflecting the fact that cash arises from two sources: capital and reinsurance premiums. The portfolios are managed with the main aim of capital preservation, with key restrictions set by the treasury policy on credit quality, asset type, duration of assets and maximum exposures. Over the life of these portfolios no early sales have ever been made. The only provision for making an early disposal is where a significant increase to an asset's credit risk occurs (e.g. a significant downgrade in a bond's rating to below investment grade – with the Group's minimum rating requirement being A- or A3 this would mean a four-notch fall in the bond's rating).

The remainder of the Group's financial assets (trade and other receivables, cash and cash equivalents) are held to collect.

Notes to the financial statements continued

2. Significant accounting policies continued

Financial instruments continued

Assessment whether contractual cash flows are solely payments of principal and interest

The Group has considered the contractual terms of the instruments, including assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition, including contingent events that would change the timing of cash flows, variable-rate features, prepayment and extension features and non-recourse features.

The treasury policy adopted by the Group in respect of financial assets does not allow for investments in instruments with trigger events which could change the amounts or timing of cash flows, callable bonds, or arrangements denominated in foreign currencies. The allowable investments are corporate and Government debt instruments which pay interest as per the bond issue and principal at maturity.

Subsequent measurement

Financial assets at amortised cost are subsequently measured using the effective interest method, where relevant reduced by impairment losses with interest income and impairment recognised in profit or loss. Any gain or loss on derecognition would be recognised in profit or loss.

Financial liabilities – classification, subsequent measurement and gains and losses

Trade and other payables

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

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

Financial liabilities

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

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

Right-of-use asset lease liabilities

Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance costs. The finance cost is charged to profit or loss over the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. The right-of-use asset is depreciated over the shorter of its useful life and the lease term on a straight-line basis. In determining the lease term, we consider all the facts and circumstances that create an economic incentive to exercise an extension option or not exercise a termination option over the planning horizon of five years. In general, it is not expected that the discount rate implicit in the lease is available so the lessee's incremental borrowing rate is used. This is the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

Any lease modification to our property leases will be accounted for as a separate lease if both a) the modification increases the scope of the lease by adding the right to use one or more underlying assets and b) the consideration for the lease increases by an amount commensurate with the stand-alone price for the increase in scope.

Insurance receivables and payables

Receivables and payables arising under insurance contracts are recognised when due. A provision for impairment is established when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows have been impacted.

Derecognition

Financial assets are derecognised when contractual rights to the cash flows expire or are transferred along with substantially all the risks and rewards of ownership. Financial liabilities are derecognised when the contractual obligations are discharged or cancelled, or expire. The Group would also derecognise a financial liability when its terms are modified and the cash flows of the modified terms are substantially different, in which case a new financial liability based on the modified terms would be recognised at fair value.

Notes to the financial statements continued

2. Significant accounting policies continued

Financial liabilities – classification, subsequent measurement and gains and losses continued

Offsetting

Financial assets and financial liabilities are offset and the net amount presented in the balance sheet when, and only when, the Group currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

Derivative financial instruments and hedge accounting: cash flow hedges

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk, chiefly on the Group's Eurobonds. Further details of derivative financial instruments are disclosed in note 26.

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

Note 26 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance sheet date. When a derivative is designated as a cash flow hedging instrument, the effective portion of changes in fair value of the derivative is recognised in OCI and accumulated in the hedging reserve. Any ineffective portion would be recognised immediately in profit or loss.

Impairment policy: financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date and impaired where there is objective evidence that, as a result of one or more events (such as a default or a significant increase in credit risk) that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been reduced.

On investments held to collect, the Group considers that the low credit risk practical expedient in IFRS 9 applies as the treasury policy limits the range of investments such that the instruments have a strong capacity to meet their contractual cash flow obligations, they are resilient to adverse changes in economic and business conditions, and have a strong external rating (see "The business model" above). This means that only 12-month expected credit losses ("ECL") will be recorded for these financial instruments, and these are not material for the Group.

In terms of ECL on trade receivables, the Group's policy is to collect all trade debt via direct debit at the point of sale for vehicle disposals, or monthly in other cases. Customer rentals are either paid upfront or by assignment of Government allowances which are collected electronically on a four-weekly basis. No trade receivables include a significant financing component. For trade receivables, cash equivalents and inter-company loans the key elements used in the calculation of ECL are: the probability of default, the loss given a default occurring, and the exposure at default. The measurement is a probability weighted estimate of credit losses over the expected life of the financial instrument.

IFRS 9 allows for a simplified approach (rather than a "staging" approach) in such circumstances and the Group uses a provision matrix combining historical provision rates with current conditions and reasonable and supportable forecasts about the future.

Foreign currency translation

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

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

Notes to the financial statements continued

2. Significant accounting policies continued

Financial liabilities – classification, subsequent measurement and gains and losses continued

Insurance contracts

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

Recognition and measurement

Insurance and reinsurance claims and loss adjustment expenses are charged (and credited) to the income statement as incurred based on the best estimate of liabilities for compensation owed to contract holders together with a risk margin. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The measurement of insurance liabilities and reinsurance recoveries is described in more detail in note 24. Reinsurance commissions are described in note 3.

The Group does not discount its insurance liabilities as they are generally short-term in nature. Liabilities for unpaid claims are estimated using the input of data for individual cases reported to the Group and statistical analysis for the claims incurred but not reported, including an estimate of the impact on claims that may be affected by external factors such as court decisions and legislative changes.

Payments made by the insurance subsidiary in respect of Group-owned fleet vehicles written off are eliminated on consolidation (see note 5).

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).

The Company has no significant accounting estimates.

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 13, and the impact of the change in estimates during the year is also disclosed in note 6. Included in the estimate of residual values in the prior year were two adjustments with regards to downside risk to vehicle resale values. The first adjustment of £109.8m was due to uncertainty around Brexit negotiations and the European/domestic political landscape and the second adjustment of £98.1m was due to uncertainty around Covid-19 and the future economic disruption and ramifications for the used-car market. These adjustments are no longer applicable. The inclusion of these two overlays in 2020 drove an impairment charge of £16.6m as disclosed in note 13.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2021, if the value of the expected net sales proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used-car market), the effect would be to increase/decrease the depreciation on these vehicles by £75.9m (2020: £62.4m). 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% fall would increase this year's depreciation charge by approximately £15.1m (2020: £20.1m) and there is no impact on impairment charges (2020: a £3.8m increase to the impairment charge). A 1% rise would decrease this year's depreciation charge by approximately £14.8m (2020: £20.1m) and there would be no impact on impairment charges (2020: a £3.0m reduction to the impairment charge).

Notes to the financial statements continued

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

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 some claims 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 note 24.

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. Personal injury claims are affected by the Personal Injury Discount Rate ("the Ogden rate"). The objective of the Ogden rate 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. Whilst the latest rate was set at -0.25% in 2019 (with the next review date being no later than 2024), Scotland and Northern Ireland have their own separate processes, and a new Ogden rate for Northern Ireland of -1.75% became effective on 31 May 2021.

During the year, management reassessed the critical estimates and critical judgements and resolved that the following were no longer considered critical:

Commission receivable - The level of commission receivable has decreased significantly from previous years and hence is no longer a critical estimate as the possible impact resulting from various assumptions applied by management is not considered material.

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 actuarial best estimate has taken account of the known impacts of Covid-19 where possible, in particular the substantial frequency reduction. There is an off-setting impact from inflation and notification delays, which has been factored in to the actuarial analysis.

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 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 years' reserving exercise it has been temporarily moved to a higher confidence interval (85th), giving an additional risk margin on the retained risk layer of £2.8m (2020: £2.8m). The actuary has provided a number of models and sensitivity tests to evaluate the adequacy of this 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 and the prior year reserves deterioration noted in Note 24 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 24 for details of claims reserves balances.

Sensitivity analysis

A 1% change in the insurance loss ratio would impact pre-tax profits by £2.7m in the year (2020: £2.5m). The precise outcome of such changes would depend on the impacted layer and frequency of claims in each scenario. Note 24 describes in more detail the sources of uncertainty in the estimation of future claims payments.

Notes to the financial statements continued

4. Revenue

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

	2021 £m	2020 £m
Proceeds from disposal of operating lease assets (I)	2,357.6	2,038.5
Rentals receivable from operating lease assets	1,346.4	1,290.0
Rentals receivable from operating lease in-life services (II)	177.2	194.6
Rentals receivable from operating lease insurance (III)	530.6	503.6
Insurance reimbursements from disposal of operating lease assets	33.3	31.9
Finance income	2.1	3.1
Other income	2.3	2.4
Total revenue	4,449.5	4,064.1

(I) During the year the Group made a gain of £416.4m on the disposal of operating lease assets (2020: £232.7m).
(II) Presented net of £38.6m in-life services related rental rebates which will be paid to customers during winter 2021/22 as a reduction to transaction prices to recognise the beneficial impact of reduced usage through the national lockdowns (2020: £nil).
(III) Presented net of £31.5m insurance related rental rebates paid to customers during the year as a reduction to transaction prices to recognise the beneficial impact on claim volumes from reduced traffic levels through the national lockdown (2020: £31.5m).

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 the 'worry-free' service package.

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

Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

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

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

Segmental performance

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

Notes to the financial statements continued

5. Segmental analysis continued

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

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 30 September 2021 and 30 September 2020.

Year ended 30 September 2021	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	1,346.4	–	–	1,346.4
Rentals receivable for operating lease in-life services	177.2	–	–	177.2
Rentals receivable for operating lease insurance	530.6	–	–	530.6
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,390.9	–	–	2,390.9
Inter-segment proceeds	43.1	–	(43.1)	–
Insurance income	–	267.2	(267.2)	–
Other revenue	2.5	1.9	–	4.4
Total revenue	4,490.7	269.1	(310.3)	4,449.5
Net book value of disposed operating lease assets	(2,000.0)	–	–	(2,000.0)
Fleet operating costs	(772.3)	–	267.2	(505.1)
Insurance claims and commission costs	–	(250.0)	43.1	(206.9)
Depreciation on assets used in operating leases	(485.9)	–	–	(485.9)
Other operating costs	(233.8)	(0.9)	–	(234.7)
Charitable donations	(170.2)	–	–	(170.2)
Net operating costs	(3,662.2)	(250.9)	310.3	(3,602.8)
Profit from operations	828.5	18.2	–	846.7
Finance costs	(166.2)	–	–	(166.2)
Profit before tax	662.3	18.2	–	680.5
Taxation	(117.0)	(3.6)	–	(120.6)
Profit for the year	545.3	14.6	–	559.9
PPE & intangible assets	161.9	–	–	161.9
Assets held for use in operating leases (including inventories)	8,900.5	–	–	8,900.5
Derivative financial instruments	70.5	–	–	70.5
Insurance receivables	–	46.2	–	46.2
Reinsurers' share of insurance provisions	–	405.7	48.8	454.5
Trade and other receivables including corporation tax	241.5	–	–	241.5
Financial assets	442.5	350.8	(101.2)	692.1
Total assets	9,816.9	802.7	(52.4)	10,567.2
Deferred rental income and provisions for rebates	(677.1)	–	–	(677.1)
Insurance payables	–	(71.4)	–	(71.4)
Trade and other payables	(155.7)	(0.3)	–	(156.0)
Financial liabilities	(5,847.2)	–	–	(5,847.2)
Deferred taxation	(308.0)	–	–	(308.0)
Provision for insurance claims outstanding	–	(535.2)	(48.8)	(584.0)
Derivative financial instruments	(43.0)	–	–	(43.0)
Total liabilities	(7,031.0)	(606.9)	(48.8)	(7,686.7)
Net assets	2,785.9	195.8	(101.2)	2,880.5
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(1.0)	–	–	(1.0)
Restricted reserves	2,786.8	94.6	–	2,881.4
Total equity	2,785.9	195.8	(101.2)	2,880.5

Notes to the financial statements continued

5. Segmental analysis continued

Year ended 30 September 2020	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	1,258.5	–	–	1,258.5
Rentals receivable for operating lease in-life services	194.6	–	–	194.6
Rentals receivable for operating lease insurance	535.1	–	–	535.1
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,070.4	–	–	2,070.4
Inter-segment proceeds	41.1	–	(41.1)	–
Insurance income	–	249.3	(249.3)	–
Other revenue	2.9	2.6	–	5.5
Total revenue	4,102.6	251.9	(290.4)	4,064.1
Net book value of disposed operating lease assets	(1,865.0)	–	–	(1,865.0)
Fleet operating costs	(703.2)	–	249.3	(453.9)
Insurance claims and commission costs	–	(212.5)	41.1	(171.4)
Depreciation on assets used in operating leases	(961.6)	–	–	(961.6)
Impairment charge for assets used in operating leases	(16.6)	–	–	(16.6)
Other operating costs	(211.9)	(1.2)	–	(213.1)
Charitable donations	–	–	–	–
Net operating costs	(3,758.3)	(213.7)	290.4	(3,681.6)
Profit from operations	344.3	38.2	–	382.5
Finance costs	(165.3)	–	–	(165.3)
Profit before tax	179.0	38.2	–	217.2
Taxation	(60.1)	(7.3)	–	(67.4)
Profit for the year	118.9	30.9	–	149.8
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)	–	–	(256.2)
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

Notes to the financial statements continued

6. Net operating costs

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

	2021 £m	2020 £m
Net book value of disposed operating lease assets	1,941.2	1,805.8
Net book value of operating lease assets derecognised as insurance write-offs	58.8	59.2
Charitable donations	170.2	–
Fleet operating costs including insurance, maintenance and roadside assistance costs*	505.1	453.9
Insurance claims expense	206.9	171.4
Other operating costs	38.1	32.0
Employee costs	69.4	64.2
Other product costs including continuous mobility costs, adaptations support, communications	66.6	61.9
Legal and professional fees	37.6	32.7
Bad debt charges and movement in bad debt provisions	(0.9)	1.2
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	3,093.8	2,683.1
Depreciation on assets used in operating leases	485.9	961.6
Impairment charge for assets used in operating leases	–	16.6
Depreciation and amortisation of property, plant and equipment and intangible assets	23.1	20.3
Net operating costs	3,602.8	3,681.6

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

The depreciation charge on assets used in operating leases includes a £404.2m release (2020: £22.9m charge) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditor remuneration

	2021	2020
Auditor remuneration: Audit fees for Group and Company financial statements	£369,000	£389,000
Total audit fees for Group and Company financial statements	£369,000	£389,000
Audit fees paid on behalf of subsidiaries	£214,050	£171,900
Audit-related assurance services*	£112,000	£41,500
Tax compliance services	£0	£0
Tax advisory services	£0	£0
Internal audit services	£0	£0
Other assurance services	£28,000	£27,500
Corporate finance services	£0	£0
Total other fees payable to the auditors	£354,050	£240,900

* In 2020 these services related to work done on the voluntary consolidated interim financial statements prior to their cancellation due to Covid-19.

The audit fee for 2020 has been restated to reflect the full and final costs charged for that year (an additional £45k).

8. Employee costs

The employee costs for the Company are £nil (2020: £nil). All employee costs for the Group are borne in full by its subsidiary Motability Operations Ltd. The average monthly number of persons employed on a full-time equivalent basis (including Executive Directors) was:

Group

	2021	2020
Administrative staff	1,095	1,076

	2021 £m	2020 £m
The breakdown of staff costs is as follows:		
Wages and salaries	56.1	52.4
Social security costs	6.6	5.8
Other pension costs	6.7	6.0
Total employee costs	69.4	64.2

Notes to the financial statements continued

9. Finance costs

The finance costs for the Group are:

	2021 £m	2020 £m
Interest and charges on bank loans and overdrafts	9.5	11.8
Interest on debt issued under the Euro Medium Term Note Programme	155.4	152.2
Interest on right-of-use leased assets	0.6	0.6
Preference dividends	0.7	0.7
Total finance costs	166.2	165.3

10. Taxation

The major components of the Group's consolidated tax expense are:

	2021 £m	2020 £m
Current tax		
Charge for the year	74.0	74.2
Adjustment in respect of prior years	0.2	–
Total	74.2	74.2
Deferred tax		
Origination and reversal of temporary differences	31.5	(32.6)
Adjustments recognised in the current year in relation to the deferred tax of prior years	(0.2)	–
Impact of change in UK tax rate	15.1	25.8
Total	46.4	(6.8)
Tax on profit	120.6	67.4

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

	2021 £m	2020 £m
Profit before tax	680.5	217.2
Tax calculated at appropriate tax rates applicable to profit (2021: 19%, 2020: 19%)	129.3	41.3
Non-taxable capital gains	(24.4)	
Expenses not deductible for tax purposes	0.6	0.3
Adjustments relating to prior year's deferred tax	(0.2)	–
Adjustments recognised in the current year in relation to the current tax of prior years	0.2	–
Taxation excluding the impact of future changes in the UK corporation tax rate	105.5	41.6
Non-recurring items		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	15.1	25.8
Total tax on profit	120.6	67.4

Following the substantive enactment of legislation in Parliament on 24 May 2021 the standard rate of corporation tax in the UK will change from 19% to 25% with effect from 1 April 2023 onwards. Accordingly, profits are taxable at 19% for both this and the previous accounting year (2020: 19%) but deferred tax has been re-measured at the rate at which timing differences are expected to reverse (see note 27).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 15.5% (2020: 19.2%). This is different to the standard rate due to non-taxable capital gains on disposals of motor vehicles for values above cost, and non-deductible expenses consisting predominantly of depreciation on leasehold improvements and preference dividends payable.

The Group's effective tax rate for next year is expected to be 19.2%.

Tax paid

Under HMRC's quarterly instalments regime for corporation tax, with effect from this accounting period all four instalments become payable during the year (for the Group, in December, March, June and September). During 2021, the Group paid £85.3m towards the overall current tax charge of £74.2m (2020: £65.5m towards a tax charge of £74.2m) and the Group also paid £8.6m relating to prior years. The cumulative effect is a debtor balance of £11.0m (2020: a creditor balance of £8.6m), shown as corporation tax receivable at the year end.

Notes to the financial statements continued

11. Intangible assets

Group

Cost	Total £m
At 1 October 2019	103.8
Additions	23.3
At 1 October 2020	127.1
Additions	27.8
At 30 September 2021	154.9

Accumulated amortisation and impairment	
At 1 October 2019	36.8
Amortisation charge for the year	11.9
At 1 October 2020	48.7
Amortisation charge for the year	12.1
At 30 September 2021	60.8

Carrying amount	
At 1 October 2019	67.0
Additions	23.3
Amortisation	(11.9)
At 1 October 2020	78.4
Additions	27.8
Amortisation	(12.1)
At 30 September 2021	94.1

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

At 30 September 2021, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £3.1m (2020: £4.8m). These amounts relate to IT system projects.

Notes to the financial statements continued

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Right-of-use leased assets (property) £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2019	2.3	25.0	–	11.6	38.9
Implementation of IFRS 16	–	–	48.1	–	48.1
Additions	1.2	10.6	–	0.9	12.7
Disposals	(1.0)	(0.2)	–	(5.5)	(6.7)
At 1 October 2020	2.5	35.4	48.1	7.0	93.0
Additions*	1.0	7.2	0.1	0.3	8.6
Disposals	(0.7)	–	–	–	(0.7)
At 30 September 2021	2.8	42.6	48.2	7.3	100.9

Accumulated depreciation					
At 1 October 2019	0.9	10.3	–	9.3	20.5
Charge for the year	0.6	1.8	4.5	1.5	8.4
Eliminated on disposals	(0.6)	(0.2)	–	(5.5)	(6.3)
At 1 October 2020	0.9	11.9	4.5	5.3	22.6
Charge for the year	0.6	3.5	5.3	1.5	10.9
Eliminated on disposals	(0.4)	–	–	–	(0.4)
At 30 September 2021	1.1	15.4	9.8	6.8	33.1

Carrying amount					
At 1 October 2019	1.4	14.7	–	2.3	18.4
Implementation of IFRS 16	–	–	48.1	–	48.1
Additions	1.2	10.6	–	0.9	12.7
Disposals	(0.4)	–	–	–	(0.4)
Depreciation	(0.6)	(1.8)	(4.5)	(1.5)	(8.4)
At 1 October 2020	1.6	23.5	43.6	1.7	70.4
Additions*	1.0	7.2	0.1	0.3	8.6
Disposals	(0.3)	–	–	–	(0.3)
Depreciation	(0.6)	(3.5)	(5.3)	(1.5)	(10.9)
At 30 September 2021	1.7	27.2	38.4	0.5	67.8

* Leasehold improvements additions include the capitalisation value of the provision for restoration works disclosed in Note 25 which will be depreciated over the remaining life of the assets.

At 30 September 2021, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £nil (2020: £nil).

At the initial date of application for IFRS 16 (1 October 2019) the Group and Company valued the right-of-use leased property assets at the equivalent of the present value of the matching lease liabilities at the same date. Subsequently these assets are depreciated on a straight-line basis over their lease terms. No changes to leased property asset leases or rentals payable occurred in the year ended 30 September 2021.

Notes to the financial statements continued

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2019	8,840.7
Additions	3,193.6
Transfer to inventory	(2,609.0)
At 1 October 2020	9,425.3
Additions	3,434.1
Transfer to inventory	(2,714.0)
At 30 September 2021	10,145.4

Accumulated depreciation	
At 1 October 2019	1,344.8
Charge for the year	961.6
Impairment charges	16.6
Eliminated on transfer to inventory	(709.7)
At 1 October 2020	1,613.3
Charge for the year	485.9
Impairment charges	–
Eliminated on transfer to inventory	(744.5)
At 30 September 2021	1,354.7

Carrying amount	
At 1 October 2019	7,495.9
Additions	3,193.6
Depreciation	(961.6)
Impairment charges	(16.6)
Transfer to inventory (note 14)	(1,899.3)
At 1 October 2020	7,812.0
Additions	3,434.1
Depreciation	(485.9)
Impairment charges	–
Transfer to inventory (note 14)	(1,969.5)
At 30 September 2021	8,790.7

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 could differ from the sum anticipated at the inception of the lease.

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

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

Years in which unguaranteed residual values are recovered

	2021 £m	2020 £m
No later than one year	2,753.1	1,895.1
Later than one year and no later than two years	2,290.4	2,148.3
Later than two years and no later than three years	2,436.5	2,098.9
Later than three years and no later than four years	52.7	45.5
Later than four years and no later than five years	55.6	51.4
Total exposure	7,588.3	6,239.2

Notes to the financial statements continued

13. Assets held for use in operating leases continued

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

	2021 £m	2020 £m
Amounts released in prior years	67.8	86.5
Amounts released/(charged) in current year*	404.2	(22.9)
Total adjustments to depreciation carried at 30 September**	472.0	63.6
Amounts to be released/(charged) in future years	302.7	(76.1)
Total increase/(decrease) in estimated residual value	774.7	(12.5)

* The amounts released in the current year are recognised as depreciation on assets used in operating leases (see note 6).
** The total adjustment to depreciation carried at 30 September 2021 of £472.0m (2020: £63.6m) is included within the accumulated depreciation balance of £1,354.7m (2020: £1,613.3m) on assets held for use in operating leases.

Impairment charges included in the net book value of operating leases

	2021 £m	2020 £m
Impairment charges brought forward at 1 October	(16.6)	–
Impairment charges arising during the year	–	(16.6)
Impairment releases during the year	16.6	–
Impairment charges carried at 30 September	–	(16.6)

The impairment charges carried at 30 September 2021 of £nil (2020: £16.6m) are included within the accumulated depreciation balance of £1,354.7m (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 of that year, an impairment review was undertaken which resulted in impairment charges of £16.6m (2019: £nil), all of which were unwound during the current year. Due to the short-term nature of this timing, no discounting was applied.

Years in which impairment charges are expected to unwind

	2021 £m	2020 £m
No later than one year	–	16.6
Later than one year and no later than two years	–	–
Later than two years and no later than three years	–	–
Later than three years and no later than four years	–	–
Later than four years and no later than five years	–	–
Total	–	16.6

The Group and Company 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:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
No later than one year	1,045.3	985.4	–	–
Later than one year and no later than two years	530.8	498.2	–	–
Later than two years and no later than three years	170.8	155.4	–	–
Later than three years and no later than four years	10.0	8.7	–	–
Later than four years and no later than five years	3.1	2.7	–	–
Total	1,760.0	1,650.4	–	–

Notes to the financial statements continued

14. Inventories

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Ex-operating lease assets held for sale (net)	109.8	140.3	–	–

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

The total value of inventories recognised as expense and included in net operating costs amounted to £2,000.0m (2020: £1,865.0m).

The movements of the inventories in 2021 and 2020 are as follows:

At 1 October 2019	106.0
Transfer from operating lease assets (note 13)	1,899.3
Disposals (including insurance write-offs)	(1,865.0)
At 1 October 2020	140.3
Transfer from operating lease assets (note 13)	1,969.5
Disposals (including insurance write-offs)	(2,000.0)
At 30 September 2021	109.8

15. Financial assets at amortised cost

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Financial assets at amortised cost				
Fixed-income bonds	207.3	203.6	–	–
Reverse sale and repurchase agreements	–	–	–	–
Total	207.3	203.6	–	–
Included in non-current assets	126.4	145.5	–	–
Included in current assets	80.9	58.1	–	–
Financial assets at amortised cost	207.3	203.6	–	–

Financial assets at amortised cost are presented net of expected credit loss (“ECL”) provisions of £0.4m (2020: £0.3m).

The following table details the contractual maturity of the Group’s financial assets at amortised cost:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
On demand or no later than one year	80.9	58.1	–	–
Later than one year and no later than two years	37.5	76.7	–	–
Later than two years and no later than five years	64.5	58.1	–	–
Later than five years	24.4	10.7	–	–
Total	207.3	203.6	–	–

Allowances for impairment (ECL) of financial assets at amortised cost during the year increased by £0.1m (2020: £0.2m).

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

	2021 Group carrying amount £m	2021 Group fair value £m	2021 Company carrying amount £m	2021 Company fair value £m
Current financial assets at amortised cost	80.9	81.2	–	–
Non-current financial assets at amortised cost	126.4	126.4	–	–
Total	207.3	207.6	–	–

	2020 Group carrying amount £m	2020 Group fair value £m	2020 Company carrying amount £m	2020 Company fair value £m
Current financial assets at amortised cost	58.1	58.0	–	–
Non-current financial assets at amortised cost	145.5	146.4	–	–
Total	203.6	204.4	–	–

Notes to the financial statements continued

15. Financial assets at amortised cost continued

Fixed-income bonds

The Group's fixed-income bonds comprise investments in quoted debt securities, the majority of which are issued by institutions within the European Union. The bonds are rated A- or better by Standard and Poor's or A3 or better by Moody's. The average effective interest rate of the quoted debt securities is 1.9% per annum (2020: 1.6%), with coupon rates ranging from 0.1% to 7.0% per annum (2020: 0.1% to 6.9%). The fixed-income bonds are denominated in Sterling, which is the functional currency of the Group.

16. Investment in subsidiaries

	2021 £m	2020 £m
Investment in subsidiaries at 30 September	110.9	110.9

The Company's subsidiaries, which are all included in the consolidation, are set out below.

Directly owned	Registered office	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	(I)	100%	Operation of the Scheme
MO Reinsurance Limited	(II)	100%	Provision of Scheme reinsurance arrangements

(I) City Gate House, 22 Southwark Bridge Road, London, England, SE1 9HB.
(II) Third Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE.

Motability Operations Limited is incorporated in the United Kingdom; MO Reinsurance Limited is incorporated in the Isle of Man. The Directors consider that the carrying amount of the investment in subsidiaries approximates to their fair value.

During the year Motability Operations Group plc received dividends of £25.0m (2020: £nil) from MO Reinsurance Limited.

Loans to Group companies

	2021 Company £m	2020 Company £m
Motability Operations Limited	5,719.4	5,324.4
Total	5,719.4	5,324.4

	2021 Company £m	2020 Company £m
Loans to Group companies – non-current	5,719.4	5,324.4
Total	5,719.4	5,324.4

The loans to Group companies were entered into on an arm's length basis and do not have a defined maturity (see note 36).

During the year the Company received interest payments of £188.5m (2020: £185.5m) in respect of loans to Group companies.

The Directors consider that the carrying amount of the loans to Group companies approximates to their fair value.

17. Cash and cash equivalents

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Cleared balances	484.7	315.6	341.1	211.4
Cash in the course of collection	0.1	0.6	–	–
Cash and bank balances	484.8	316.2	341.1	211.4
Cleared overdrafts	–	–	–	–
Cash in the course of transmission	(52.4)	(96.1)	–	–
Cash and cash equivalents	432.4	220.1	341.1	211.4

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 represents committed transactions that have not cleared the bank at the year-end, and are not therefore shown in bank overdrafts.

Notes to the financial statements continued

18. Insurance receivables

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Insurance premium debtor	30.3	30.1	–	–
Claims recoveries and rebates	2.3	5.2	–	–
Reinsurance claims recoveries and commissions receivable	13.6	40.5	–	–
Total insurance receivables	46.2	75.8	–	–

All insurance receivables are stated at their fair value and are not considered to be impaired.

19. Trade and other receivables

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Trade receivables	71.8	116.6	–	–
Other receivables	65.7	108.6	–	–
Prepayments and accrued income	93.0	87.7	2.0	3.0
Total	230.5	312.9	2.0	3.0
Included in current assets	209.8	291.5	1.0	1.0
Included in non-current assets	20.7	21.4	1.0	2.0
Total	230.5	312.9	2.0	3.0

Trade receivables include an allowance for estimated irrecoverable amounts of £2.1m (2020: £2.3m). This allowance has been made by reference to past default experience and the ECL rules of IFRS 9. During the year there was a £0.2m decrease in provisions and £nil receivables written off (2020: £0.9m increase in provisions and £nil written off). The average receivable days period is six days (2020: ten days).

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

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

Included in the Group's trade receivables balance are receivables with a carrying value of £3.9m (2020: £3.9m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is 14 days (2020: 12 days).

Ageing of past due but not impaired receivables:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Past due by 1-30 days	3.4	3.1	–	–
Past due by 31-60 days	0.4	0.5	–	–
Past due by 61-90 days	–	0.3	–	–
Past due by 91-120 days	0.1	–	–	–
Past due by more than 120 days	–	–	–	–
Total	3.9	3.9	–	–

Notes to the financial statements continued

20. Deferred rental income

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Current				
Customers' advance payments*	167.9	150.6	–	–
Vehicle in-life service income	19.9	17.0	–	–
Vehicle insurance income	3.1	4.7	–	–
Total current	190.9	172.3	–	–
Non-current				
Customers' advance payments*	177.7	155.7	–	–
Vehicle in-life service income	61.6	66.0	–	–
Vehicle insurance income	13.5	17.8	–	–
Total non-current	252.8	239.5	–	–
Total	443.7	411.8	–	–

* 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	(29.4)	(0.1)	(29.5)
Increases due to cash received, excluding amounts recognised as revenue during the period	39.1	15.8	54.9
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	(41.5)	(13.1)	(54.6)
Increases due to cash received, excluding amounts recognised as revenue during the period	40.0	7.2	47.2
At 30 September 2021	81.5	16.6	98.1

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:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
No later than one year	164.9	162.4	–	–
Later than one year and no later than two years	106.0	105.4	–	–
Later than two years and no later than three years	37.6	39.5	–	–
Later than three years and no later than four years	5.9	5.6	–	–
Later than four years and no later than five years	1.9	1.8	–	–
Total	316.3	314.7	–	–

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:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
No later than one year	401.1	404.9	–	–
Later than one year and no later than two years	260.2	251.5	–	–
Later than two years and no later than three years	87.8	88.2	–	–
Later than three years and no later than four years	6.5	6.4	–	–
Later than four years and no later than five years	2.1	1.9	–	–
Total	757.7	752.9	–	–

Notes to the financial statements continued

21. Provision for customer rebates

	Rental refund liability £m	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 year	–	109.0	1.1	2.7	112.8
Utilised during the year	–	(116.7)	(2.3)	(1.9)	(120.9)
At 1 October 2020	–	159.7	2.0	5.5	167.2
Additional provisions accrued during the year	38.6	107.0	2.5	2.6	150.7
Utilised during the year	–	(79.7)	(2.5)	(2.3)	(84.5)
At 30 September 2021	38.6	187.0	2.0	5.8	233.4

Analysis of provisions

	2021 £m	2020 £m
Included in non-current liabilities	75.5	67.5
Included in current liabilities	157.9	99.7
Total	233.4	167.2

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 rental refund liability relates to payments which will be made during winter 2021/22 (see note 4).

22. Insurance payables

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Reinsurance premiums payable	8.7	22.8	–	–
Commissions and administration fee payable	30.1	18.2	–	–
Claims reimbursements payable	32.6	30.2	–	–
Total insurance payables	71.4	71.2	–	–

The carrying value of insurance payables approximates to fair value.

23. Trade and other payables

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Trade payables	34.0	61.6	–	–
Social security and other taxes	1.6	1.5	–	–
Accruals	112.8	122.5	–	–
Other payables	0.6	0.8	–	–
Inter-company payable	–	–	209.6	120.6
Advance payments received from DWP	7.0	8.2	–	–
Total	156.0	194.6	209.6	120.6

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

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2020: 30 days).

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

Notes to the financial statements continued

24. 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 risks arise out of day-to-day activities in underwriting contracts of insurance, as well as risks associated with outward reinsurance. 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;
- the Board recognising that it is responsible 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.

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 is determined by utilising an actuarial assessment and is 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 and ceding insurer 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.

Notes to the financial statements continued

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

Provision for insurance claims outstanding

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

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.

Motor quota-share reinsurance	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Claims reserves	494.2	449.2	–	–
IBNR reserve	89.8	63.7	–	–
IBNR recoveries	(58.3)	(53.0)	–	–
Third-party recoveries reserve	(48.8)	(44.2)	–	–
Reinsurance recoveries reserve	(347.4)	(307.1)	–	–
Total net retained	129.5	108.6	–	–
Included in liabilities	584.0	512.9	–	–
Included in assets	(454.5)	(404.3)	–	–
Total net retained	129.5	108.6	–	–

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 peer review of an independent actuary, and the pattern of development is believed to be sufficiently consistent period on period to provide an appropriate basis to establish additional reserves.

Line items in the Group accounts

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

Insurance claims and commission costs	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Current year claims including IBNR	193.9	183.3	–	–
Prior year claims	7.0	(16.5)	–	–
Reinsurance commissions, MIB levies and administration fees	6.0	4.6	–	–
Insurance claims and commission costs	206.9	171.4	–	–

During the year reinsurance commissions of £4.6m were booked (2020: £4.2m) comprising a guaranteed element of £5.8m (2020: £5.4m) and a variable element of (£1.2m) (2020: (£1.2m)).

Notes to the financial statements continued

24. 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 year basis is considered to be most appropriate for the business written by the Group.

Estimate of ultimate claims cost	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Underwriting year 2019 £m	Underwriting year 2020 £m	Underwriting year 2021 £m	Total £m
At end of reporting year	251.7	290.6	348.5	401.3	354.8	373.8	
One year later	293.9	326.9	384.6	399.0	364.2		
Two years later	287.3	313.9	391.5	396.0			
Three years later	275.7	313.0	382.2				
Four years later	272.5	308.3					
Five years later	273.7						
Current estimate of cumulative claims	273.7	308.3	382.2	396.0	364.2	373.8	2,098.2
Cumulative payments to date	(263.7)	(300.6)	(330.1)	(327.3)	(261.0)	(191.4)	(1,674.1)
Rebates	20.5	25.0	26.4	25.9	26.4	26.7	150.9
Claims reserves included in the balance sheet	30.5	32.7	78.5	94.6	129.6	209.1	575.0
Claims reserves in respect of prior periods							9.0
Total liability included in the balance sheet							584.0

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 increase in ultimate claims costs for 2016 is due to an increase in the projected ultimate claims costs for large third-party bodily injury claims as the claims get older, also reflecting updated, less favourable estimates of future development patterns. In addition, the 2016 underwriting year also includes increases to case reserves on two reported claims in particular, where the insurer's major injury team has adjusted its outlook for the claims' progression and settlement.

The reduction in ultimate claims costs in the current financial year for the 2017, 2018 and 2019 underwriting years is due to favourable settlements and revisions to case reserves on large third-party bodily injury claims as these claims develop and the insurer's major injury team make settlements and reserve adjustments. These favourable movements counteract the impact of revised development patterns reflecting slower development in recent periods.

The increase in estimated ultimate claims for the 2020 underwriting year is due to deterioration in reserves relating to known bodily injury losses following receipt of latest loss reports as well as a number of new potentially large claims being identified in that period by the insurer's major injury team.

Estimate of ultimate claims cost net of reinsurance	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Underwriting year 2019 £m	Underwriting year 2020 £m	Underwriting year 2021 £m	Total £m
At end of reporting year	182.9	193.6	227.8	247.1	209.7	220.6	
One year later	190.1	194.5	236.0	235.0	209.0		
Two years later	183.4	197.4	232.8	239.8			
Three years later	173.5	197.6	234.6				
Four years later	173.3	198.1					
Five years later	173.4						
Current estimate of cumulative claims	173.4	198.1	234.6	239.8	209.0	220.6	1,275.5
Cumulative payments to date	(192.8)	(221.0)	(254.4)	(250.1)	(209.3)	(169.7)	(1,297.3)
Rebates	20.5	25.0	26.4	25.9	26.4	26.7	150.9
Claims reserves included in the balance sheet, net of recoveries	1.1	2.1	6.6	15.6	26.1	77.6	129.1
Claims reserves in respect of prior periods							0.4
Total net liability included in the statement of financial position							129.5
Comprises:							
Specific claims reserves including IBNR							584.0
Third-party recoveries reserve							(48.8)
Reinsurance recoveries reserve							(405.7)
Total							129.5

The small increase in ultimate claims costs in the current financial year for the 2016, 2017 and 2018 underwriting years is due to a change in assumptions which recognises the slowing down of development patterns.

The deterioration in estimated ultimate claims in 2019 is due to an increase in repair costs, a deterioration in the development profile of third-party property damage and small third-party bodily injury claims, and the overall slowing down of development patterns.

Notes to the financial statements continued

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

Movements in insurance liabilities

	2021			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 year	468.7	(360.1)	108.6	412.3	(284.5)	127.8
Cash paid for claims settled						
In the year	(211.3)	31.4	(179.9)	(210.8)	24.8	(186.0)
Movement in liabilities						
Current year claims including IBNR	294.8	(100.9)	193.9	280.9	(97.6)	183.3
Prior year claims	(17.0)	24.0	7.0	(13.7)	(2.8)	(16.5)
Total at end of year	535.2	(405.6)	129.6	468.7	(360.1)	108.6
Notified claims including IBNR	584.0	(405.6)	178.4	512.9	(360.1)	152.8
Notified claims recoveries	(48.8)	–	(48.8)	(44.2)	–	(44.2)
Total at end of year	535.2	(405.6)	129.6	468.7	(360.1)	108.6

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

25. Financial liabilities

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Current				
Accrued interest and coupon	31.1	29.3	31.1	29.3
Cash in the course of transmission	52.4	96.1	–	–
Bank overdrafts	–	–	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	399.7	–	399.7	–
Right-of-use asset lease liabilities	3.8	3.0	–	–
Total current	487.0	128.4	430.8	29.3
Non-current				
Bank loans	399.5	799.2	399.5	799.2
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	4,906.1	4,607.0	4,906.1	4,607.0
Preference shares	10.0	10.0	10.0	10.0
Provision for restoration works*	6.9	–	–	–
Right-of-use asset lease liabilities	37.7	42.1	–	–
Total non-current	5,360.2	5,458.3	5,315.6	5,416.2
Total	5,847.2	5,586.7	5,746.4	5,445.5
The financial liabilities are repayable as follows:				
On demand or no later than one year	487.0	128.4	430.8	29.3
Later than one year and no later than two years	875.1	402.7	871.1	399.3
Later than two years and no later than five years	1,255.4	1,761.9	1,243.5	1,749.6
Later than five years	3,229.7	3,293.7	3,201.0	3,267.3
Total	5,847.2	5,586.7	5,746.4	5,445.5

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

* The provision for restoration works relates to costs to restore properties with leasehold improvements to appropriate conditions as specified within the lease contracts at the end of the leases.

Notes to the financial statements continued

25. Financial liabilities continued

Bank borrowings

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

As at 30 September 2021 the Group has the following principal bank loans:

- 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
- 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 as at 30 September 2021 (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.

Debt issued under the Euro Medium Term Note Programme

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

	30 September 2021 £m	30 September 2020 £m
5.375% Sterling bond due 2022	399.7	399.3
1.625% Eurobond due 2023 (I)	471.6	497.1
0.875% Eurobond due 2025 (II)	429.6	453.3
0.375% Eurobond due 2026 (III)	515.3	543.7
3.750% Sterling bond due 2026	298.6	298.3
4.375% Sterling bond due 2027	297.9	297.5
0.125% Eurobond due 2028 (IV)	429.2	–
1.750% Sterling bond due 2029	394.8	394.2
5.625% Sterling bond due 2030	298.9	298.8
2.375% Sterling bond due 2032	345.7	345.3
3.625% Sterling bond due 2036	591.3	590.7
2.375% Sterling bond due 2039	489.4	488.8
1.500% Sterling bond due 2041	343.8	–
	5,305.8	4,607.0

(I) The repayment obligation in respect of the Eurobonds of €550m (£472.8m) is hedged by cross-currency swap contracts (note 25) for the purchase of €550m and for the sale of £402.5m 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 (£429.8m) is hedged by cross-currency swap contracts (note 25) 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 (£515.8m) is hedged by cross-currency swap contracts (note 25) 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 (£429.8m) is hedged by cross-currency swap contracts (note 25) 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 EUR 100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £5.5bn 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 year ended 30 September 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 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.

Notes to the financial statements continued

25. Financial liabilities continued

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 30 September 2021, the Eurobond debt liability was decreased by £28.8m (30 Sep 2020: was increased by £122.5m). This movement of £93.7m is a result of Sterling strengthening against the Euro to 1.16 (2020: 1.10). The associated assets and liabilities relating to derivatives at 30 September 2021 were a net asset of £27.5m (30 Sep 2020: net asset of £93.9m). This movement of £66.4m is a result of a decrease in valuation. The net valuation difference at 30 September 2021 is therefore a liability of £1.3m which, after tax at 19%, leads to a hedging reserve of £1.0m.

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 as annual dividends and in the form of the repayment of principal to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

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

	2021 Group %	2020 Group %	2021 Company %	2020 Company %
Current bank loans and overdrafts		–		–
Non-current bank loans	0.8	0.8	0.8	0.8
Non-current debt issued under the Euro Medium Term Note Programme	2.9	3.1	2.9	3.1
Non-current preference shares	7.0	7.0	7.0	7.0

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

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Working capital facility	100.0	100.0	90.0*	90.0*
Revolving credit facility	1,500.0	1,100.0	1,500.0	1,100.0
Total	1,600.0	1,200.0	1,590.0	1,190.0

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

Undrawn committed facilities expire as follows:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
No later than one year	10.0	10.0	–	–
Later than one year and no later than two years	1,590.0	–	1,590.0	–
Later than two years and no later than five years	–	1,190.0	–	1,190.0
Total	1,600.0	1,200.0	1,590.0	1,190.0

26. Derivative financial instruments

	Group 2021		Company 2021	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	27.8	1,819.4	27.8	1,819.4
Interest rate swaps	(0.3)	400.0	(0.3)	400.0
Total	27.5	2,219.4	27.5	2,219.4
Included in non-current liabilities	(42.7)	1,417.0	(42.7)	1,417.0
Included in current liabilities	(0.3)	200.0	(0.3)	200.0
Derivative financial instrument liabilities	(43.0)	1,617.0	(43.0)	1,617.0
Included in non-current assets	70.5	402.4	70.5	402.4
Included in current assets	–	200.0	–	200.0
Derivative financial instrument assets	70.5	602.4	70.5	602.4

Notes to the financial statements continued

26. Derivative financial instruments continued

	Group 2020		Company 2020	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	96.1	1,374.4	96.1	1,374.4
Interest rate swaps	(2.2)	400.0	(2.2)	400.0
Total	93.9	1,774.4	93.9	1,774.4
Included in non-current liabilities	(13.3)	738.2	(13.3)	738.2
Included in current liabilities	(0.5)	200.0	(0.5)	200.0
Derivative financial instrument liabilities	(13.8)	938.2	(13.8)	938.2
Included in non-current assets	107.7	836.2	107.7	836.2
Included in current assets	–	–	–	–
Derivative financial instrument assets	107.7	836.2	107.7	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 and the EUR coupon rate of 1.625% is fully swapped into the GBP rate of 2.998%.

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

On 3 July 2019, the Company 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 Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt and the EUR coupon rate of 0.125% is fully swapped into the GBP rate of 1.083%.

Interest rate swaps

At 30 September 2021, the fixed interest rates varied from -0.006% to 0.654% (2020: the fixed interest rates varied 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 30 September 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.

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
No later than one year	(22.7)	(20.0)	(22.7)	(20.0)
Later than one year and no later than three years	(39.4)	(36.7)	(39.4)	(36.7)
Later than three years and no later than five years	(19.4)	(20.8)	(19.4)	(20.8)
Later than five years	(8.6)	(2.8)	(8.6)	(2.8)
Total	(90.1)	(80.3)	(90.1)	(80.3)

Further details of derivative financial instruments are provided in note 36.

No hedging ineffectiveness occurred during the year. Movements in the fair values of hedging instruments are shown in the statement of comprehensive income. Effective hedging movements in the income statement are fully reflected in finance costs (note 9) under the policies for finance costs, foreign currency translation and derivative financial instruments in note 2.

Notes to the financial statements continued

27. Deferred tax

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Accelerated depreciation £m	Total £m
Net at 1 October 2019	270.7	(0.2)	0.3	(1.9)	268.9
(Credit)/charge to income	(32.6)	(0.1)	–	0.1	(32.6)
Charge to income due to change in UK tax rate	26.0	–	–	(0.2)	25.8
Credit to equity	–	–	(5.7)	–	(5.7)
Net at 1 October 2020	264.1	(0.3)	(5.4)	(2.0)	256.4
Charge to income	31.5	–	–	–	31.5
Charge to income due to change in UK tax rate	15.4	–	–	(0.3)	15.1
Charge to equity	–	–	5.2	–	5.2
Adjustment in respect of prior years	–	–	–	(0.2)	(0.2)
Net at 30 September 2021	311.0	(0.3)	(0.2)	(2.5)	308.0

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

	2021 £m	2020 £m
Deferred tax assets	–	–
Deferred tax liabilities	308.0	256.4
Net at 30 September	308.0	256.4

A UK corporation rate of 25% (effective 1 April 2023) was substantively enacted on 24 May 2021. This will increase the Company's future current tax charge accordingly. The deferred tax liability at 30 September 2021 has been calculated using tax rates applicable at the dates when the timing differences are expected to reverse (2020: 19%).

The temporary differences arise because capital allowances for fleet vehicles are received at a higher rate than accounting depreciation charged under IFRSs. At the balance sheet date these differences amounted to £1.6bn (2020: £1.4bn). When measured to unwind at applicable rates as described above, this represents a deferred tax liability of £311.0m (2020: £264.1m unwinding at an average of 19%).

As new vehicles are added to the fleet and ex-lease vehicles are sold this balance will be re-measured next year in September 2022.

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Liability at 1 October 2019	–	–	0.3	–	0.3
Credit to equity	–	–	(5.7)	–	(5.7)
Liability at 1 October 2020	–	–	(5.4)	–	(5.4)
Charge to equity	–	–	5.2	–	5.2
Asset at 30 September 2021	–	–	(0.2)	–	(0.2)

Notes to the financial statements continued

28. Ordinary share capital

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

	2021	2020
Authorised:		
100,000 (2020: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2020: 50,000) Ordinary shares of £1 each	£50,000	£50,000

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

The Company has 10,900,000 authorised 7% redeemable cumulative preference shares of £1 each, classified as a liability, of which 9,950,000 are in issue. These shares do not carry voting rights. Further details are provided in note 25.

29. Cash generated from/(used in) operations

Reconciliation of profit to net cash flow from operating activities:

	2021 Group £m	2020 Group £m	2021 Company £m	2020 Company £m
Profit before tax	680.5	217.2	48.0	21.3
Adjustments for:				
Depreciation and amortisation charge on corporate assets	23.0	20.3	–	–
Depreciation charge on operating lease assets	485.9	961.6	–	–
Impairment charge for assets used in operating leases	–	16.6	–	–
Impairment charge for financial assets at amortised cost	0.1	0.3	–	–
Finance costs/(income)	166.2	165.3	(48.2)	(21.2)
Gains on disposal of operating lease assets	(416.4)	(232.7)	–	–
Losses on operating lease assets written off through insurance	25.5	27.3	–	–
Gains on disposal of corporate assets	(0.2)	(0.1)	–	–
Increase in provision for restoration works	6.9	–	–	–
(Decrease)/increase in bad debt provisions	(0.2)	0.9	–	–
Operating cash flows before movements in working capital	971.3	1,176.7	(0.2)	0.1
Purchase of assets held for use in operating leases	(3,434.1)	(3,193.6)	–	–
Proceeds from sale of assets held for use in operating leases	2,357.6	2,038.5	–	–
Proceeds from insurance reimbursements of operating lease assets written off	33.3	31.9	–	–
Charitable donations paid	170.2	52.3	–	–
Decrease/(increase) in insurance receivables	29.6	(1.2)	–	–
Decrease in other receivables	82.9	3.6	1.0	1.0
Increase in loans to and investment in subsidiaries	–	–	(395.0)	(100.0)
Increase in deferred rental income	31.9	31.8	–	–
Increase/(decrease) in provision for customer rebates	66.2	(8.1)		
Increase/(decrease) in provision for net insurance claims	20.9	(19.2)	–	–
Increase in insurance payables	0.2	14.7	–	–
(Decrease)/increase in payables	(38.6)	(65.0)	89.1	(170.2)
Cash generated from/(used in) operations	291.4	62.4	(305.1)	(269.1)

Notes to the financial statements continued

30. Analysis of changes in net debt

Group	At 1 October 2020 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 30 September 2021 £m
Cash and bank balances	316.2	168.6	–	–	–	484.8
Bank overdrafts and cash in the course of transmission	(96.1)	43.7	–	–	–	(52.4)
Cash and cash equivalents	220.1	212.3	–	–	–	432.4
Borrowings due after one year	(799.2)	400.0	–	–	(0.3)	(399.5)
Debt issued under the Euro Medium Term Note Programme	(4,607.0)	(787.9)	93.7	–	(4.6)	(5,305.8)
Derivative financial instruments	93.9	–	–	(66.4)	–	27.5
Preference shares	(10.0)	–	–	–	–	(10.0)
Provision for restoration works	–	–	–	–	(6.9)	(6.9)
Right-of-use asset lease liabilities	(45.1)	4.2	–	–	(0.6)	(41.5)
Financing activities	(5,367.4)	(383.7)	93.7	(66.4)	(12.4)	(5,736.2)
Total net debt	(5,147.3)	(171.4)	93.7	(66.4)	(12.4)	(5,303.8)

	At 1 October 2019 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 30 September 2020 £m
Cash and bank balances	450.5	(134.3)	–	–	–	316.2
Bank overdrafts and cash in the course of transmission	(91.3)	(4.8)	–	–	–	(96.1)
Cash and cash equivalents	359.2	(139.1)	–	–	–	220.1
Borrowings due after one year	(399.0)	(400.0)	–	–	(0.2)	(799.2)
Debt issued under the Euro Medium Term Note Programme	(4,869.1)	300.0	(33.5)	–	(4.4)	(4,607.0)
Derivative financial instruments	90.7	–	–	3.2	–	93.9
Preference shares	(10.0)	–	–	–	–	(10.0)
Right-of-use asset lease liabilities	(48.1)	3.0	–	–	–	(45.1)
Financing activities	(5,235.5)	(97.0)	(33.5)	3.2	(4.6)	(5,367.4)
Total net debt	(4,876.3)	(236.1)	(33.5)	3.2	(4.6)	(5,147.3)

	2021 Group £m	2020 Group £m
Cash and bank balances	484.8	316.2
Derivative financial instruments	27.5	93.9
Current financial liabilities	(487.0)	(128.4)
Non-current financial liabilities	(5,360.2)	(5,458.3)
Total	(5,334.9)	(5,176.6)
Less interest accruals included in financial liabilities	31.1	29.3
Total net debt	(5,303.8)	(5,147.3)

Notes to the financial statements continued

31. Lease commitments as lessee

The Group's office buildings are held on leases with maturity dates of around five years (Bristol), nine years (Edinburgh) and 15 years (London). The Group is not exposed as a lessee to any future cash outflows which are not reflected in the measurement of lease liabilities.

Information about the accounting valuations relating to these leases is contained within note 12 (Property, plant and equipment) for the right-of-use assets and note 25 (Financial liabilities) for the lease liabilities.

During the year there has been no expenditure on short-term or low value leases as defined by IFRS 16, and no income from sub-leasing any right-of-use assets.

There have been no gains or losses from sale and leaseback transactions, and at the balance sheet date there are no commitments for short-term leases.

Maturity analysis – contractual undiscounted cash flows

	2021 £m	2020 £m
No later than one year	4.4	3.6
Later than one year and no later than five years	17.5	17.5
Later than five years and no later than ten years	13.4	16.1
Later than ten years	9.6	11.9
Total undiscounted cash flows	44.9	49.1
Current	4.4	3.6
Non-current	40.5	45.5

The total cash outflow for leases during the year was £4.2m (2020: £3.6m).

Amounts recognised in the income statement

	2021 £m	2020 £m
Depreciation on the right-of-use assets	5.3	4.5
Interest expense	0.6	0.6
Total	5.9	5.1

32. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory Group personal pension (money purchase) scheme. The charge for the year to 30 September 2021 amounted to £6,743,900 (2020: £6,042,332). Net contributions due at the balance sheet date were £658,455 (2020: £606,735).

Notes to the financial statements continued

33. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Group's corporate and finance structures are set out in the Strategic report on pages 3 to 55.

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 Motability, the Charity is set out on page 5.

Transactions

During the year the Group made a charitable donation of £170.0m to Motability, the Charity (2020: £52.3m to Motability's endowment fund, "The Motability Foundation").

The funding of the Group and the Company through bank loans is provided by the shareholder banks on commercial terms (see note 9 for details of financing costs on bank loans; £0.3m (2020: £0.4m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2020: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the year the Company received a dividend payment of £25.0m (2020: £nil) from MO Reinsurance Limited and made preference share dividend payments of £0.7m to the shareholder banks (2020: £0.7m).

At 30 September 2021 £371.1m of cash and cash equivalents were held with shareholder banks (30 September 2020: £237.9m). During the year the Group received interest payments on these cash deposits totalling £0.1m (2020: £0.3m).

The Group's bond issuances, under the Euro Medium Note Term Programme (see note 25), are arranged by the shareholder banks. During the year the Group paid fees of £3.1m in relation to bond issuances (2020: £nil).

The Group enters into cross-currency and interest rate swap contracts (see note 26) with the shareholder banks to mitigate its exposure to interest rate risk and foreign exchange risk as part of its financial risk management policy (as described in note 36). During the year the Group made a net payment of £1.6m (2020: net payment of £1.7m) in respect of interest rate swaps, and a net payment of £16.7m (2020: net payment of £19.2m) in respect of cross-currency swaps.

Subsidiary, parent and ultimate controlling party

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

Remuneration of key management personnel

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

	2021 £m	2020 £m
Short-term employee benefits	3.3	3.4
Post-employment benefits	–	–
Other long-term benefits	0.9	0.9
Total	4.2	4.3

Notes to the financial statements continued

34. Directors' remuneration

During the year there was one Executive Director (2020: one) accruing benefits under a money purchase pension scheme.

	2021	2020
Highest-paid Director		
Salary	£324,000	£389,667
Performance-related payments	£145,800	£71,699
Vesting of deferred bonuses	£121,125	£252,758
Payments in lieu of pension*	£42,350	£97,417
Retention payments	–	£200,000
Benefits	£13,805	£29,027
Aggregate emoluments in respect of qualifying services	£647,080	£1,040,568
Pension contributions under money purchase pension schemes	£4,000	£nil
All Directors		
Salary	£1,124,840	£1,222,275
Performance-related payments	£253,425	£136,787
Vesting of deferred bonuses	£383,749	£497,128
Payments in lieu of pension*	£88,475	£134,485
Retention payments	–	£200,000
Benefits	£34,942	£47,963
Aggregate emoluments in respect of qualifying services	£1,885,431	£2,238,638
Pension contributions under money purchase pension schemes	£4,000	£9,000

* Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee has agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

Comparative year: Long-Term Performance Plan (LTPP) (formerly 'Long-Term Incentive Scheme (LTIS)')

In addition to the above information, the former CEO had participated in a Long-Term Performance Plan (LTPP) which crystallised in the prior year (2020) upon his resignation. The total payment in 2020 was £1,953,589. See the 2020 Remuneration Committee report for more information.

35. Events after the reporting year

Following 30 September 2021 the Group has amended its banking facilities to reflect the cessation of IBOR. The Group's bank facilities now reference SONIA as the risk-free rate for all drawings under the bilateral and syndicated bank agreements. The new reference rate will be applied to drawings made after the scheduled transition date.

There have been no other events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2021.

Notes to the financial statements continued

36. Funding and financial risk management

Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 25, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

The Group's debt funding is provided through the Company via bank loans and debt issuance.

The objective of the Group's capital and reserves management policy is to ensure that the Group maintains adequate levels of equity capital and reserves to:

- maintain the sustainability and longevity of the business through having adequate reserves to withstand the impact of potential macro-economic, industry and Company-specific shock events;
- provide relative stability of pricing and affordability to customers; and
- provide confidence to lenders and credit rating agencies that allows the Group to raise sufficient funding at competitive rates.

As part of the capital and reserves management policy of the Group, any profits that arise in the Group are reinvested back into the Scheme for the benefit of disabled customers. The banks as owners of the Group cannot access reserves (the ordinary shares do not carry any entitlement to dividends).

The Risk Management Committee reviews the capital structure and particularly the level of restricted reserves on a regular basis. The Group operates an Economic Capital methodology to determine the level of capital required in the business. The Group aims to hold capital at a level that is considered at least adequate to ensure that it can withstand potential market or economic shock events.

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the adjusted Total Group Assets: Total Net Debt ratio is targeted to be no less than 1.25:1. At 30 September 2021 the ratio was 1.70:1, and the Group has complied with the terms of the covenant throughout the year. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

Categories of financial instruments

	2021 Group carrying value £m	2020 Group carrying value £m	2021 Company carrying value £m	2020 Company carrying value £m
Non-derivative financial assets measured at amortised cost				
Financial assets at amortised cost	207.7	203.9	–	–
Trade receivables	71.8	116.6	–	–
Loans to other Group companies	–	–	5,719.4	5,324.4
Cash and bank balances	484.8	316.2	341.1	211.4
Total non-derivative financial assets	764.3	636.7	6,060.50	5,535.8
Non-derivative financial liabilities measured at amortised cost				
Trade and other payables	(154.4)	(193.1)	(209.6)	(120.6)
Financial liabilities	(5,847.2)	(5,586.7)	(5,746.4)	(5,445.5)
Total non-derivative financial liabilities	(6,001.6)	(5,779.8)	(5,956.0)	(5,566.1)
Net non-derivative financial instruments at amortised cost	(5,237.3)	(5,143.1)	104.5	(30.3)
Derivative financial instruments measured at fair value through other comprehensive income				
Interest rate swaps	(0.3)	(2.2)	(0.3)	(2.2)
Cross-currency swaps	27.8	96.1	27.8	96.1
Total derivative financial instruments	27.5	93.9	27.5	93.9
Total financial instruments	(5,209.8)	(5,049.2)	132.0	63.6

Notes to the financial statements continued

36. Funding and financial risk management continued

Fair value of financial instruments

	2021 Group carrying value £m	2021 Group fair value £m	2020 Group carrying value £m	2020 Group fair value £m
Cash and bank balances (I)	484.8	484.8	316.2	316.2
Trade receivables (II)	71.8	71.8	116.6	116.6
Financial assets at amortised cost (III)	207.7	207.6	203.9	204.4
Trade and other payables (II)	(154.4)	(154.4)	(193.1)	(193.1)
Bank overdrafts (IV)	–	–	–	–
Cash in the course of transmission and accrued interest and coupon (II)	(83.5)	(83.5)	(125.4)	(125.4)
Bank loans – non-current (IV)	(399.5)	(399.5)	(799.2)	(799.2)
Debt issued under the Euro Medium Term Note Programme* (III)	(5,305.8)	(5,704.2)	(4,607.0)	(5,278.8)
Redeemable preference share liabilities (III)	(10.0)	(13.7)	(10.0)	(14.6)
Provision for restoration works (II)	(6.9)	(6.9)	–	–
Net non-derivative financial instruments	(5,195.8)	(5,598.0)	(5,098.0)	(5,773.9)
Interest rate swap – cash flow hedge	(0.3)	(0.3)	(2.2)	(2.2)
Cross-currency swap – cash flow hedge	27.8	27.8	96.1	96.1
Total financial instruments requiring fair value disclosure	(5,168.3)	(5,570.5)	(5,004.1)	(5,680.0)
Right-of-use asset lease liabilities (V)	(41.5)	n/a	(45.1)	n/a
Total	(5,209.8)	(5,570.5)	(5,049.2)	(5,680.0)

* Amounts are shown net of unamortised discount, fee and transaction costs.
(I) Interest-bearing portion of the cash and cash equivalents consists of overnight deposits 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).

	2021 Company carrying value £m	2021 Company fair value £m	2020 Company carrying value £m	2020 Company fair value £m
Cash and bank balances (I)	341.1	341.1	211.4	211.4
Loans to other Group companies (IV)	5,719.4	5,719.4	5,324.4	5,324.4
Financial assets at amortised cost (III)	–	–	–	–
Trade and other payables (II)	(209.6)	(209.6)	(120.6)	(120.6)
Cash in the course of transmission and accrued interest and coupon (II)	(31.1)	(31.1)	(29.3)	(29.3)
Bank loans – non-current (IV)	(399.5)	(399.5)	(799.2)	(799.2)
Debt issued under the Euro Medium Term Note Programme* (III)	(5,305.8)	(5,704.2)	(4,607.0)	(5,278.8)
Redeemable preference share liabilities (III)	(10.0)	(13.7)	(10.0)	(14.6)
Net non-derivative financial instruments	104.5	(297.6)	(30.3)	(706.7)
Interest rate swap – cash flow hedge	(0.3)	(0.3)	(2.2)	(2.2)
Cross-currency swap – cash flow hedge	27.8	27.8	96.1	96.1
Total	132.0	(270.1)	63.6	(612.8)

* Amounts are shown net of unamortised discount, fee and transaction costs.
(I) Interest-bearing portion of the cash and cash equivalents consists of overnight deposits and money market funds.
(II) Non-interest bearing.
(III) Bearing interest at fixed rate.
(IV) Bearing interest at floating rate.

Notes to the financial statements continued

36. Funding and financial risk management continued

Fair value of financial instruments continued

The fair value of financial instruments traded in active markets (debt issued under the EMTN 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 the carrying amount due to its short-term nature;
- the carrying values less impairment provision of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables;
- the fair value of preference shares for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date;
- the fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date; and
- the fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

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

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

Group

	2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	207.6	–	–	207.6
	207.6	–	–	207.6
Non-derivative financial liabilities				
Financial liabilities	(913.3)	(4,804.6)	–	(5,717.9)
	(913.3)	(4,804.6)	–	(5,717.9)
Derivative financial instruments				
Interest rate swaps	–	(0.3)	–	(0.3)
Cross-currency swaps	–	27.8	–	27.8
	–	27.5	–	27.5
Total	(705.7)	(4,777.1)	–	(5,482.8)

Group

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £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)

Notes to the financial statements continued

36. Funding and financial risk management continued

Fair value of financial instruments continued

Company

	2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	–	–	–	–
	–	–	–	–
Non-derivative financial liabilities				
Financial liabilities	(913.3)	(4,804.6)	–	(5,717.9)
	(913.3)	(4,804.6)	–	(5,717.9)
Derivative financial instruments				
Interest rate swaps	–	(0.3)	–	(0.3)
Cross-currency swaps	–	27.8	–	27.8
	–	27.5	–	27.5
Total	(913.3)	(4,777.1)	–	(5,690.4)

Company

	2020			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	–	–	–	–
	–	–	–	–
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	–	(5,199.5)	–	(5,199.5)

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. 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 MORL as described in note 2. These have quoted prices and so are classified as Level 1.

Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset & Liability Management Committee. The Group's treasury function, operating under the control of the Asset & Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The treasury policy of the Group and the principles set out by the policy are endorsed by the Board and applied through delegated authority by the Chief Executive Officer operating through the Executive Committee and the Asset & Liability Management Committee. The treasury policy and treasury control framework are overseen by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's activities expose it to the financial risks of changes in interest rates. The Group enters into interest rate swaps and issues fixed-rate bonds to mitigate the risk of movements in interest rates. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

Notes to the financial statements continued

36. Funding and financial risk management continued

Interest rate risk management

The Group's revenues arise primarily from operating lease rentals and proceeds from disposal of operating lease assets – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN Programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings; variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2021 of £399.5m (£nil drawn on MO Group's Revolving Credit Facility, unhedged) (2020: £799.3m with £400m drawn on MO Group's RCF, unhedged).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2021 of £5,305.8m (2020: £4,607.0m).

The Group and the Company have interest rate swaps of £400m maturing on 29 December 2021 (2020: £200m maturing on 29 December 2020 and £200m maturing on 29 December 2021). Under these swaps the Group and the Company pay an average fixed rate of 0.32% (2020: 0.83%).

Foreign exchange risk

The Group is exposed to foreign exchange risk due to the issue of Euro-denominated fixed-rate bonds. This risk has been managed by the use of cross-currency swaps to fix the exchange rate on all coupon and principal cash flows from the outset of the bonds. In the event of any change in foreign exchange rates, there would be no material effect on the reserves of the Group and the Company.

Interest rate sensitivity analysis

The sensitivity analysis stated below is based on exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

In the event of any change in interest rates, there would be no material effect on the reserves of the Group and the Company. Although an increase in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year.

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax profit decrease of approximately £0.5m as at 30 September 2021 (2020: £2.5m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

Notes to the financial statements continued

36. Funding and financial risk management continued

Interest rate swap contracts

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on future cash flows on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using a GBP market yield curve; the results are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

All interest rate swap contracts are designated as cash flow hedges in order to reduce the Group and the Company's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and floating rate borrowings re-fix and settle on the same day each month thereby minimising interest rate exposure further. Interest rate swaps settle net on a monthly basis.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date: all swap balances are shown in "derivative financial instruments" on the face of the balance sheet.

	2021 Average contract fixed interest rate %	2020 Average contract fixed interest rate %	2021 Nominal principal amount £m	2020 Nominal principal amount £m	2021 Fair value £m	2020 Fair value £m
No later than one year	0.3	1.0	400.0	200.0	(0.3)	(0.5)
Later than one year and no later than two years		0.7		200.0		(1.7)
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	400.0	(0.3)	(2.2)

Cross-currency swap contracts

Under the cross-currency swap contracts, the Group and the Company agree to exchange Euro and Sterling amounts of the principals and fixed interest amounts calculated on the principals. These contracts enable the Group and the Company to eliminate the risk of changing exchange rates on future cash flows on the foreign currency debt issued. The fair value of the cross-currency swaps at the reporting date is determined by discounting the future cash flows using foreign currency spot rates; the results are disclosed below.

The cross-currency swap contracts are designated as cash flow hedges and reduce the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swaps eliminate all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date: all swap balances are shown in "derivative financial instruments" on the face of the balance sheet.

	2021 Contract fixed GBP interest rate %	2020 Contract fixed GBP interest rate %	2021 Nominal principal amount £m	2020 Nominal principal amount £m	2021 Fair value £m	2020 Fair value £m
No later than one year	–	–	–	–	–	–
Later than one year and no later than two years	3.0	–	402.4	–	70.5	–
Later than two years and no later than five years	1.9	2.5	972.0	836.2	(31.8)	107.8
Later than five years	1.1	1.8	445.0	538.2	(10.9)	(11.7)
Total			1,819.4	1,374.4	27.8	96.1

Hedge effectiveness: the economic relationship

The Group's foreign exchange hedges are such that the currency cash flows received from the hedging instrument and those payable on the Eurobond offset perfectly – the critical terms of the hedged item and the hedging instrument match. Similarly, on the interest rate swaps the floating rate cash flows received from the hedging instrument and those payable on the hedged portion of the floating rate debt will offset perfectly. On foreign exchange risk, the known derivative cash flows and the cash flows from hedged items are set up at the outset of the hedge relationship giving rise to an economic relationship. For interest rate hedges, future amounts referencing the same benchmark rate will also offset perfectly.

The credit ratings of all swap counterparties are assessed at the outset and monitored throughout the trade. In terms of the hedge ratios all cash flows are expected to fully offset and be 100% effective for the duration of the hedge. Effectiveness is monitored using "critical terms" matching criteria – both the hedging instrument and hedged items have the same start and maturity date for the foreign exchange hedge; all flows occur on the same date over the life of the instruments and are reviewed periodically. For the interest rate hedges, amounts, rates and re-fix dates are perfectly aligned.

Notes to the financial statements continued

36. Funding and financial risk management continued

Hedge effectiveness: sources of ineffectiveness

The Group's hedges are assessed using the retrospective dollar offset method (on a cumulative basis). The swap valuations may be subject to XVA adjustments (credit or debit value adjustments) reflecting the exposure to counterparty credit risk over the life of the hedge. Potential ineffectiveness from an XVA adjustment is derived using a hypothetical derivative and the transacted swap. Any deterioration of a counterparty's credit rating may result in potential ineffectiveness and management will consider the materiality of such movements on the reported fair values in the balance sheet. To mitigate exposure to financial loss in the event of a default by a swap counterparty the Group limits swap counterparties to approved high-quality investment grade banks. Hedging counterparties are required to maintain an investment grade credit rating from at least one of Moody's and Standard and Poor's.

Credit risk management

Credit risk is managed using an established process encompassing credit limits, credit approvals, control of exposures and the monitoring and reporting of exposures. Credit risk may arise from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposures to customers.

The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low. A small residual credit risk arises from miscellaneous customer billings and monies due from dealers, auction houses and vehicle manufacturers. Group management regularly carries out credit assessments of the limits set for auction houses, manufacturers and dealers.

For banks and financial institutions, only independently rated institutions with a minimum 'A' rating are accepted. All new proposed counterparties are subject to internal credit approval and Asset & Liability Management Committee ratification prior to entering into any transaction. Credit limits for non-derivative financial assets and credit reporting thresholds for derivative financial assets are set by the treasury function and are subject to approval by the Asset & Liability Management Committee.

The Group's credit risk policy includes limits on large exposures to mitigate any concentration risk in respect of its investments. Credit risk on these balances, and the interest accrued thereon, is considered to be minimal.

For the year under review the following figures represent the Group's total counterparty credit limit and the balance as at 30 September 2021 and 2020, and the highest limit and utilisation during the year attributable to banks/financial institutions.

	2021		2020	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Counterparty credit limit as at 30 September	1,190.0	484.7	1,390.0	315.6

	2021		2020	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Maximum counterparty credit limit for calendar year	1,590.0	993.9	1,390.0	563.1

No counterparty credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Concentration of credit risk

Financial assets at amortised cost

The Group monitors concentration of credit risk arising from financial investments by sector. An analysis of concentrations from credit risk from financial investments is shown below (gross of ECL provisions).

	2021 £m	2020 £m
Financial	81.2	79.4
Government	72.0	76.2
Transportation	2.4	5.0
Automotive	8.1	9.3
Consumer	15.7	12.5
Oil and gas	9.2	4.2
Base materials	11.0	6.6
Technology	2.0	4.2
Utilities	6.1	6.5
Total	207.7	203.9

Notes to the financial statements continued

36. Funding and financial risk management continued

Concentration of credit risk continued

Reinsurers' share of insurance provisions

The Group has a panel of reinsurers which limits the Group's exposure to any one loss and in the aggregate. The maximum concentration of credit risk on a worst-case basis to any one reinsurer would be £25,650,000.

Trade and other receivables, insurance receivables and cash and bank balances

Cash and bank balances are held with highly rated UK banks; trade and insurance receivables are not concentrated with any particular customers; other receivables are predominantly due from HMRC (UK Government).

Impact of Covid-19

In terms of credit risk, as described above for our key markets (customer rentals via government agencies and used vehicle sales at the end of leases) payment terms are very short and collection by direct debit or electronic billing limits any exposure. Bank counterparty credit ratings have held up and are subject to regular review as noted above.

Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The treasury policy has an appropriate liquidity risk management framework for the management of the Group and the Company's short, medium and long-term funding.

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has a five-year bank term loan with 2.0 years until maturity and a five-year revolving credit facility with 2.0 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed-rate bonds. The bonds, with average weighted maturities of eight years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 24 is a description of additional undrawn facilities that the Group has at its disposal.

The following tables detail the contractual maturity of the Group and the Company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities. The tables include liabilities for both principal and interest.

Group

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Financial liabilities – bank loans – variable interest rate	1.3	(4.6)	(406.4)	–	–	(411.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	2.9	(552.3)	(652.0)	(1,491.1)	(3,841.2)	(6,536.6)
Cash in the course of transmission	0.0	(52.4)	–	–	–	(52.4)
Financial liabilities – bank overdrafts and short-term borrowings	0.0	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Financial liabilities – provision for restoration works	0.0	(6.9)	–	–	–	(6.9)
Trade and other payables – non-interest bearing	0.0	(154.4)	–	–	–	(154.4)
Total		(771.3)	(1,059.8)	(1,492.5)	(3,852.5)	(7,176.1)

* The preference shares are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up, as stated in the Memorandum and Articles of Association of the Company.

Notes to the financial statements continued

36. Funding and financial risk management continued

Liquidity risk management continued

The contractual maturity analysis for the right-of-use lease liabilities is disclosed in note 31.

Group

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Financial liabilities – bank loans – variable interest rate	0.7	(403.2)	(405.7)	–	–	(808.9)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.1	(142.3)	(1,065.2)	(646.6)	(3,893.5)	(5,747.6)
Cash in the course of transmission	0.0	(96.1)	–	–	–	(96.1)
Financial liabilities – bank overdrafts and short-term borrowings	0.0	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(193.1)	–	–	–	(193.1)
Total		(835.4)	(1,472.3)	(648.0)	(3,904.8)	(6,860.5)

* The preference shares are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up, as stated in the Memorandum and Articles of Association of the Company.

Company

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Financial liabilities – bank loans – variable interest rate	1.3	(4.6)	(406.4)	–	–	(411.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	2.9	(552.3)	(652.0)	(1,491.1)	(3,841.2)	(6,536.6)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(209.6)	–	–	–	(209.6)
Total		(767.2)	(1,059.8)	(1,492.5)	(3,852.5)	(7,172.0)

* The preference shares of the Company are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

Notes to the financial statements continued

36. Funding and financial risk management continued

Liquidity risk management continued

Company

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Financial liabilities – bank loans – variable interest rate	0.7	(403.2)	(405.7)	–	–	(808.9)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.1	(142.3)	(1,065.2)	(646.6)	(3,893.5)	(5,747.6)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(120.6)	–	–	–	(120.6)
Total		(666.8)	(1,472.3)	(648.0)	(3,904.8)	(6,691.9)

* The preference shares of the Company are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

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

The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities.

Group

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Interest rate swaps	0.3	(0.3)	–	–	–	(0.3)
Cross-currency swaps	1.9	(22.4)	(39.4)	(19.4)	(8.6)	(89.8)
Total		(22.7)	(39.4)	(19.4)	(8.6)	(90.1)

Group

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Interest rate swaps	0.8	(1.8)	(0.4)	–	–	(2.2)
Cross-currency swaps	2.2	(18.2)	(36.3)	(20.8)	(2.8)	(78.1)
Total		(20.0)	(36.7)	(20.8)	(2.8)	(80.3)

Company

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Interest rate swaps	0.3	(0.3)	–	–	–	(0.3)
Cross-currency swaps	1.9	(22.4)	(39.4)	(19.4)	(8.6)	(89.8)
Total		(22.7)	(39.4)	(19.4)	(8.6)	(90.1)

Company

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Interest rate swaps	0.8	(1.8)	(0.4)	–	–	(2.2)
Cross-currency swaps	2.2	(18.2)	(36.3)	(20.8)	(2.8)	(78.1)
Total		(20.0)	(36.7)	(20.8)	(2.8)	(80.3)

Notes to the financial statements continued

36. Funding and financial risk management continued

Liquidity risk management continued

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets, except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from financial assets at amortised cost and loans to Group companies, the non-derivative financial assets are anticipated to mature within one year.

Group

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Financial assets at amortised cost						
– fixed interest rate	1.9	107.4	63.6	22.9	16.1	210.0
Trade receivables						
– non-interest bearing	–	71.8	–	–	–	71.8
Cash and bank balances						
– non-interest bearing	–	484.8	–	–	–	484.8
Total		664.0	63.6	22.9	16.1	766.6

Group

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Financial assets at amortised cost						
– fixed interest rate	2.1	61.5	106.6	29.6	10.4	208.1
Trade receivables						
– non-interest bearing	–	116.6	–	–	–	116.6
Cash and bank balances						
– non-interest bearing	–	316.2	–	–	–	316.2
Total		494.3	106.6	29.6	10.4	640.9

Company

	2021 Weighted average interest rate %	2021 Under 1 year £m	2021 Between 1-3 years £m	2021 Between 3-5 years £m	2021 Over 5 years £m	2021 Total £m
Financial assets at amortised cost						
– fixed interest rate	–	–	–	–	–	–
Loans to other Group companies	2.2	177.0	331.9	329.8	6,021.1	6,859.8
Total	2.2	177.0	331.9	329.8	6,021.1	6,859.8

Company

	2020 Weighted average interest rate %	2020 Under 1 year £m	2020 Between 1-3 years £m	2020 Between 3-5 years £m	2020 Over 5 years £m	2020 Total £m
Financial assets at amortised cost						
– fixed interest rate	–	–	–	–	–	–
Loans to other Group companies	2.1	174.1	315.1	288.8	5,563.9	6,341.9
Total		174.1	315.1	288.8	5,563.9	6,341.9

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