Motability Operations | Group plc

Delivering when it matters most

Annual Report and Accounts 2020

Motability Operations | Group plc

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* These sections constitute the ‘Directors’ Report’

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

Motability Operations was established in 1978 to deliver the Motability Scheme, under contract to Motability the national charity (which is responsible for oversight of the Scheme). We provide mobility to almost 635,000 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.

Highlights 2020

£150m
Reported profit after tax

A1/A
Credit rating with stable outlooks

97%
Overall customer satisfaction (independently measured)

91%
Customer renewal rate at the end of a lease

96%
Employee engagement: 11pts higher than the ’High Performing Organisations’ benchmark (independently measured)

299
Minimum number of models available to the customer throughout the year costing no more than the allowance

Delivering when it matters most

Our customers

We're here for our customers when they need us. We're proud to have remained fully operational throughout this challenging year, offering increased flexibility and support when our customers have needed it most.

See more on page 8

Our people

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

See more on page 10

Our partners

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

See more on page 12

Response to Covid-19

Motability Operations is, by design, a financially and operationally robust business. Our priority through the Covid-19 pandemic has been the continued mobility and welfare of our customers, the safety and well-being of our employees, and continuing to work closely with our Scheme partners.

How we deliver the Scheme

We provide mobility to 635,000 customers, all of whom are in receipt of the Government's mobility allowance. Through integration of manufacturers, dealers and other suppliers, we deliver 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 4

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 £7.5bn 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

How we protect the Scheme

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

Protecting the Scheme

Scheme customers

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 49.

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.

The role of Motability

The Motability Scheme was established in 1977 by the late Lord Goodman and Lord Sterling, with all-party political support, in order to help disabled people and their families with their personal mobility. Motability, the national Charity, oversees the Scheme, which Motability Operations delivers under contract.

Motability update

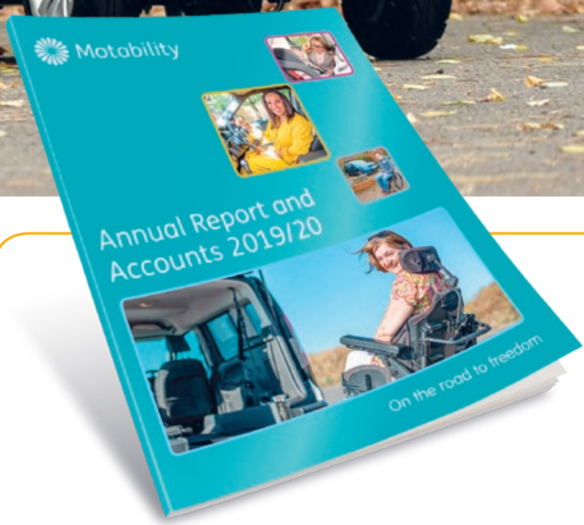
In June 2020, Lord Sterling stood down as Chairman of the Charity after more than 40 years' service. As co-founder, with the late Lord Goodman, Lord Sterling has shaped and directed Motability and the Scheme since its inception.

Motability welcomed its new chairman, Charles Manby MBE, who had joined the Governing Board in September 2019. Charles joins the Charity following a distinguished career in the business world having previously worked at Goldman Sachs International for 27 years from which he retired in 2017.

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 Accounts:

www.motability.org.uk/Motability_Annual_Report.pdf

Focused on our stakeholders

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

How we add value

Our customers

- We 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.

Delivering when it matters most

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

Delivering for

Our customers

We understand that for our customers, these have been challenging times. At the beginning of the pandemic, and through the national lockdown, customers were given the option to remain in their current vehicle for an extended period, removing any worry or concern about needing to renew their lease.

We provided insurance rebates, and, for those with exceptional financial needs, the option to bring forward payment on their £600 end of contract Good Condition Bonus immediately.

For more detail regarding our customers please see page 8

635k
Customers on the Scheme

99%
Worry-free motoring satisfaction rating

Our people

The safety and well-being of our employees is paramount. We took early steps to support and reassure our employees as the pandemic unfolded and harnessed the resilience built into our systems infrastructure to rapidly enable home-working.

We invested to support employees in adapting to the new home-working environments. Our office spaces are Covid secure, ensuring that where employees need to re-enter the office they are as safe as possible.

For more detail regarding our people please see page 10

96%
Employee engagement (measured during lockdown)

2.3%
Talent retention is high with regretted attrition just above 2%

Our partners

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

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

For more detail regarding our partners please see page 12

>32,000
Jobs linked to the scheme

£3.2bn
Purchases from UK dealers

Customers

At the heart of everything we do

How we listen to our customers

Understanding our customers and their individual needs is critical to the success and sustainability of the Scheme. Twice a year we independently survey a sample of 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.

How that has shaped our business

The feedback we receive from customers, through a wide range of interactions, enables us to adapt to the constantly changing environment, and crucially make the Scheme work better for our customers. We regularly review all aspects of the Scheme proposition, ensuring that we continue to provide a universally accessible offering to all recipients of a qualifying mobility allowance, while meeting the specific needs of each customer.

What we did in 2020

Through the Covid pandemic, we understood that for many customers moving into a new vehicle may have not been possible. We automatically extended leases, giving our customers the opportunity to align the collection of a new vehicle with their individual circumstances. We also successfully opened our Edinburgh office in September this year, providing additional resource for extending opening hours, underpinning our service levels.

44%

Cheaper than market alternatives

99%

Worry-Free motoring satisfaction rating

People

Passionate about our purpose

How we listen to our people

Our people and our culture are fundamental to the continued success of the business. Every year we conduct an independent engagement survey of all employees, alongside pulse surveys and regular 121 meetings. We also have a designated Non-Executive Director to engage with employees and ensure the employee perspective is considered in decision making across all levels of the business.

Listening to our people

In early 2020, I was appointed designated Independent Non-Executive Director to engage with employees. The role is to ensure that the employee perspective, as a key stakeholder, is brought to the Board and that any decision that may affect them is evaluated by the Board and steps to mitigate any adverse impact considered.

We've held two meetings with employees so far, the latter being remote due to Covid-19. Feedback on the period of lockdown has been overwhelmingly positive: pride in the organisation's approach and appreciation that well-being and safety have been a priority. Timely and clear communication meant concerns were allayed. The changes have meant there is an appetite for remote working to feature as a mainstay and, going forward, exploration of other new ways of working. There's engagement and discussion about strategy and innovation, in anticipation of the appointment of Andrew Miller as CEO in January 2021.

I've enjoyed my first year in this engagement role and I'm keen to continue to develop an engaging relationship in which employees can openly share their views and experiences.

Simon Minty
Independent Non-Executive Director

How that has shaped our business

We continue to demonstrate excellent levels of engagement, consistently outperforming the High Performing Organisations (HPO) benchmark. This year we saw a 91% response rate to the survey, in itself reflective of our high levels of engagement given the survey coincided with the beginning of the Covid-19 lockdown period. We also received our highest ever scores for Engagement, Our Values, Leadership, Customer Focus, and Supportive Culture.

What we did in 2020

Our strong business culture, evidenced through the commitment and resilience of our employees, was key as we responded to the challenges presented by Covid-19. Regular communication and support measures have helped employees cope with the new pressures and challenges they faced. By staying connected with our employees we can better understand any additional support or reassurance required. Employee feedback has been overwhelmingly positive in terms of the communication and support provided.

Partners

Critical to providing great service

How we listen to our partners

We understand that our partners are key to ensuring our customers receive the best service possible. We proactively engage with our partners across all levels of the proposition, ensuring positive collaboration to deliver what is best for our customers. We recognise the importance of nurturing sustainable supplier relationships.

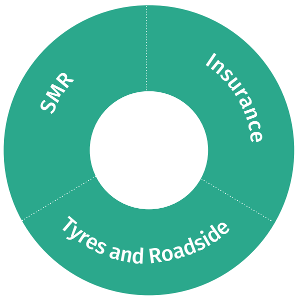
How that has shaped our business

Working with our partners we have developed a 'one stop shop' service, to ensure that customers have a seamless experience throughout their lease. From collecting a new vehicle, to service, maintenance, insurance and repair. We work closely with our partners to ensure our customers can continue with their day to day lives when their vehicle is off the road. We continue to improve our disability expertise, and have recently partnered with a specialised taxi company to ensure that we can keep all customers mobile.

What we did in 2020

We recognise this year has been a challenge for most, and our Scheme partners have been no exception. The robust relationships we've built with our partners ensured that we could negotiate the challenges of a national lockdown. Keeping customers mobile has been a priority and we have worked closely with our supplier network to ensure the provision of a consistently high level of service for our customers.

"Excellent" KPI scores across all partners



Protecting our customers and people

"A strong performance and support for customers during a uniquely difficult year."

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

94.4%

National Institute of Customer Service rating – the highest in the financial services sector

As with every business across the United Kingdom, 2020 has been a uniquely challenging year for Motability Operations Group plc. The national emergency caused by Covid-19, and the necessary range of social, health and economic restrictions and lockdown placed on our customers (many of whom are in the most vulnerable categories of risk from the virus) and their families, to stem transmission of this deadly pandemic, have created significant challenges. These challenges have also been felt by our business partners, stakeholders and, not least, our own people throughout Motability Operations, and the situation shows little sign of abating well into next year.

In this difficult UK-wide context, I am pleased to report that Motability Operations has more than risen to the test. I pay tribute to colleagues – many while working from home for extended periods – who have maintained the highest levels of customer service, under significant and unfamiliar constraints.

As we went into lockdown in spring 2020, we took decisive action to protect customers, automatically extending leases which were coming to their scheduled end thereby keeping customers mobile. All customers received an insurance refund of £50 and we accelerated payment of the £600 Good Condition Bonus to those customers in need who requested it.

After months of dealer closures and disruption, as the lockdown measures were eased the Scheme took a phased approach to reopening for applications. Handovers for customers who had ordered a vehicle before lockdown resumed immediately, quickly followed by new orders from existing customers.

We were able to resume new orders from the beginning of June and the Scheme was reopened to new customers in July. With restrictions in place across the UK, things are some way from getting back to normal, but I am pleased that customers can once again choose an affordable new car from a range of around 2,000 makes and models. Many dealers are able to continue processing applications safely while in line with local restrictions.

In spite of this unprecedented and unpredicted severe disruption, it is to the credit of all who work in Motability Operations that the Group has delivered another year of strong results, from maintaining top levels of customer satisfaction, to a solid financial outturn. Alongside that work, we have continued to respond in a positive and constructive way to the political scrutiny resulting from a joint enquiry by the Treasury and Work and Pensions Parliamentary Select Committees in 2018. And we have continued to engage with the National Audit Office (NAO) in its review of the Motability Scheme, with previous recommendations having been implemented.

Customer service remains key to our business. Despite the lockdown and continuing restrictions, satisfaction levels were 97% in the independent (CSI) survey of customers, carried out in April 2020. Similarly, the National Institute of Customer Service survey gave our services a satisfaction score of 94.4%, and we remained the highest performer with the highest rating in our sector (financial services).

Our financial strength this year has enabled us to spend substantial sums on direct support for customers. In addition to the lockdown support, we continued to invest directly in additional support for customers, including subsidies for adaptations and Wheelchair Accessible Vehicles, and providing mobility to assist customers who are temporarily in hospital.

"I am pleased to say that Motability Operations has more than risen to the test. I pay tribute to colleagues who have maintained high levels of customer service, under severe constraints."

Our services would not be possible without the commitment and support of key business partners, including Royal & SunAlliance Insurance (RSA), RAC and Kwik Fit, and the leading car manufacturers and dealers. This year has seen us working ever more closely with these partners to provide support for customers, especially through the challenges of Covid-19. More than 4,500 dealers provide front line services for customers, and despite the lockdown and restrictions, we have continued to provide high quality training for Motability specialists through switching to online platforms.

With the Government's programme of welfare reform in its final stages, more than two thirds of our customers now qualify for the Motability Scheme through Personal Independence Payment (PIP). The different criteria through which PIP is assessed have led to a greater volume of customers with mental health or neurological issues. The impacts of the pandemic will also have added to the day-to-day pressures on many of our customers. With these factors in mind, targeted coaching and training, help Motability Operations' teams provide the highest levels of support across all customer groups, with much of this support, of necessity, carried out through online channels this year.

The year's unprecedented economic pressures made it harder to predict vehicle values. While the financial position of the company remains strong, we are fully cognisant of the range of variables which could affect future financial performance and subsequently impact the predictability and sustainability of proposition that our customers need.

Along with the continuing Covid-19 impact, these include uncertainties around the economic impact of Brexit; the continuing effect of wider environmental issues; the stresses relating to the used-car market and its expected volatility; and the further anticipated decline in demand for diesel vehicles. Given this backdrop, the size of the business's capital reserves must be kept at a level sufficient to ensure our continued operation, and the scale of shock experienced through 2020 has underlined the critical importance of our prudent position in protecting customers.

Risk therefore continues to be a key focus. A consultative assessment of risks is undertaken to balance mitigating steps with the interests of the stability of the Scheme. Customers are often uniquely reliant on the Scheme, so we plan rigorously to ensure they are best protected in the face of the inevitable risks and changes of context in which we operate. Motability Operations has recognised the potential for some of its capital to be used in embracing the needs of the wider group of people living with a disability through charitable support. This forms part of our ongoing discussions with Motability (the Charity), in their oversight role. However, the primary purpose of these reserves is to provide a "shock absorber" against a substantial fall in used-car values, or other risks which could threaten the sustainability of the Scheme. These capital reserves are used actively in meeting over a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

While we can feel fulfilled by the transformative impact of what our business achieves, we also recognise the expectation by our stakeholders that we could increase our transparency. To this end, we already have enhanced remuneration reporting beyond our legal and regulatory obligations, and continue to provide clearer and more detailed accounts, as well as engaging more directly with key stakeholders through roadshows, briefings, and on-line. Our activities are delivered through a business model which works successfully to provide worry-free, affordable and sustainable leasing services for our customers. Now that I have had more than a full year as Chairman, I can testify to the notable universal culture throughout Motability Operations. I see how all our people at every level are passionate about successful delivery of these objectives, and this has been exhibited to an outstanding level this year.

Irrespective of our high customer satisfaction ratings, I am struck how all our staff, from every part of the organisation, are always striving to do better for customers, looking for opportunities to enhance services, and creating better value – even when working on their own from home over recent months.

Despite the huge impact of Covid-19, we have also made significant progress on strategic projects through this year, and in particular, have accelerated our digital roadmap. This is designed to transform online services to customers, and harness digital tools to increase flexibility and contact channels. This year has seen the first online accounts for customers, as well as the relaunch of our dealer locator tool, and we look ahead to an ambitious programme of further development through 2021.

Although the refurbishment programme experienced some disruption, we were able to open our offices, and welcome new colleagues in Edinburgh this year. Our Edinburgh office provides extended operational capability for customer services as well as the capacity to support some of the customer base growth we expect in the coming years.

Our culture is the bedrock for performance, and we regularly benchmark our employee engagement against UK and global High Performing Organisations. This year we were pleased to see every division out-performing high performing businesses across every category, with improvements in many areas. We are committed to becoming a fully inclusive organisation and during the year, built on a range of initiatives including engagement with our diversity groups, and developed new approaches to working practices, some accelerated by the need to move our operation out of the offices during lockdown.

"Despite the huge impact of Covid-19, we have also made significant progress on strategic projects through this year, and in particular, have accelerated our digital roadmap."

While we pay equally for equal roles, in the year 2019/20 we reported a mean gender pay gap of 25.6% (2019: 29.6%). Although this represents a welcome decrease on the previous year, this area continues to be a focus for the Board, management team and throughout Motability Operations. We are starting to see positive results from the various initiatives, but recognise that it will take time and continued commitment to narrow our pay gap significantly.

The working relationship with Motability, the Charity, continues to be extremely strong. Everyone at Motability Operations will join me in paying the strongest of tributes to Lord Sterling, who retired as Chairman of the Charity in June after more than 40 years' service. As co-founder, with the late Lord Goodman, Lord Sterling has shaped and directed Motability and the Scheme since its inception. His legacy lives on, under his successor, Charles Manby MBE, to whom everyone at Motability Operations extends the warmest of welcomes. The Charity's oversight role remains an invaluable element in helping the Company deliver the Scheme to the highest possible standards for our customers and their families.

This year also saw Mike Betts stand down from the Board on completing his time as our CEO after 18 years' service with Motability Operations. I am grateful that Mike agreed to provide continued support, on a consultancy basis, to co-ordinate our Covid-19 response and I speak for everyone at Motability Operations, past and present, and for all our customers and stakeholders when I thank Mike and pay full respect for his inspiring commitment and passion for our business, his skill in guiding the business through so many changes in its progress to the success it is today, and above all his outstanding leadership, under which Motability Operations' customers and the Company have thrived. We all look forward to welcoming our new CEO, Andrew Miller, who is able to join us from January.

In other Board changes, David Smith has retired as Non-Executive Director, and we thank David for his authoritative contribution over the years, while welcoming Chris Davies and Simon Amess to the Board.

In the meantime, the business continues to operate successfully in the very capable hands of interim CEO, Matthew Hamilton-James. I would like to thank Matthew for stepping up so expertly and successfully at such a challenging time for the business, and also to Gareth Everson who stepped up as Interim Finance Director.

My thanks also go to the Executive Team and everyone at Motability Operations who have all worked tirelessly through these difficult months to deliver such positive outcomes. This is also a moment to thank all the members of the Board of Directors who have maintained their strong commitment to our governance and transparent accountability in ensuring the continuing strong direction of the Company and its performance through these challenging times.

Contemplating the year ahead, while the big picture will remain challenging, I have complete confidence in the desire, drive and ingenuity of colleagues as they face the future with fresh thinking and new approaches. As always, our goal is to preserve worry-free affordability, stability and predictability for those who rely on our services – all Motability Operations' people deserve praise and respect for an outstanding performance collectively and individually.

Stephen O'Brien

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

Putting customers first

> We have continued to focus on delivering great service to our customers.
>
> **Matthew Hamilton-James**
> Interim CEO

Supporting customers through the pandemic

- Supported continuous mobility by offering automatic lease extensions and increased our investment in hire car and taxi service provisioning
- Provided every customer with a £50 rebate reflecting a reduction in fleet insurance claims due to lower national road usage
- Option to receive accelerated GCB payments for customers facing exceptional financial need
- Maintained a fully operational contact centre to respond to unprecedented customer call volumes
- Regular information provided to our customers via the website, emails and social media
- Worked with dealers to support customers seeking to safely collect new vehicles as markets re-opened

This has been an extraordinary year, with a level of challenge we've never seen before. The response of the business, and in particular the commitment and resilience of our employees, working closely with Motability and our wider business partners has enabled us to keep customers fully supported and mobile through the initial national lockdown and beyond.

Having taken over the reins as Interim CEO in April, my priority was always to ensure that we maintained the excellent levels of service for our customers, to keep up the momentum on the wide range of projects and initiatives and to ensure that the Motability Operations is in robust shape, both financially and operationally, when Andrew Miller joins us in January 2021. Notwithstanding the unforeseen challenges of the Covid-19 pandemic, thanks to the efforts and dedication of colleagues across the business, these objectives have been achieved.

Overview

Our business delivers worry-free motoring to over 630,000 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.

Because our customers rely on the Motability Scheme, we aim to ensure we sustain a secure financial base, to protect the Scheme over the long term. Motability Operations is, by design, a financially and operationally robust business. This provides reassurance that we are well placed to weather the impacts of economic and environmental shocks – such as this year's lockdowns – and continue to offer our customers access to affordable, worry-free, mobility.

Customer service is our priority, and we are delighted that this year, customers have rated our services at 9.7 out of 10, as well as putting us at the top of the Institute of Customer Services league table in our financial services sector, ahead of many familiar household names.

In order to maintain these levels of service, we constantly listen to customer feedback and recognise that we need to continue to invest to improve services and to provide wider support for our customers.

With more than two thirds of our customers now qualifying for the Scheme through Personal Independence Payment (PIP), we have experienced different challenges as we support customers with increasingly diverse needs, including mental health, psychological and neuro-linguistic conditions. We set out to make sure that our support and services are structured to support this breadth of needs.

A year in review

Our goals and objectives are centred around four strategic pillars: to ensure long-term sustainability; to maintain consistently high levels of customer satisfaction; to provide value and a wide variety of vehicles at affordable prices; and to create improved awareness and understanding of the Scheme.

A continued focus on these objectives guided our planning and approach during the first six months of the year to March 2020 and, as the effects of the pandemic unfolded, was used to shape our response as we aimed to minimise any adverse impact felt by our customers.

"Whatever the outside circumstances, customer service is at the heart of our business, and this has been another year of strong performance."

Pre-lockdown

We went into lockdown around the halfway point of our financial year after what had been a busy six months, with a strong performance having been delivered across the full range of targets including customer satisfaction and affordability.

Work had continued on a number of new initiatives, including good progress on our ambitious programme for enhancing digital services for customers launching our first customer online accounts early in 2020. Many more improvements are planned in the next few years.

From a financial perspective we opened the year in October 2019 with capital reserves in line with the target position and good liquidity headroom. With trading performance during the six months to March 2020 ahead of plan, supported by a buoyant used-car market, this placed us in a robust position when lockdown measures were introduced on 24 March.

Managing lockdown

With the lockdown measures announced it was critical that we were both agile and coordinated in our response. Our priority has been to ensure the safety and well-being of our employees while continuing to provide an excellent service to our customers. Given the unprecedented nature of these challenges, the decision was taken to retain the services of Mike Betts as a consultant to co-ordinate our Covid-19 response.

Making sure the business remained fully operational has been critical for customers. We set out to achieve 100% home-working as quickly as possible. We invested in extra laptops, and rolled out software that meant employees, including our call centre, could fully function outside the office. It is testament to the hard work of colleagues in IT, and resilience of our systems infrastructure, that we were able to seamlessly make the transition from an office-based to a home-based organisation within the space of 48 hours.

With our employees actively working, we have not utilised the furlough scheme and, as a financially robust business, have not drawn on any of the wider measures of extraordinary government financial support.

As a result of this agile response, we have kept our customer call centre operational throughout, with our customer service advisers able to respond to customer calls from the outset of the lockdown, at a time of great uncertainty for many customers.

Of course, maintaining mobility for our customers has been a top priority. We took an early decision to automatically extend each lease due to expire, for six months beyond its original end date. This made things clearer for customers, providing certainty and removing anxiety, and avoided the practical obstacles to ordering, when most dealers were closed. We have helped customers by offering additional flexibility and support, including allowing additional drivers to be added to Scheme insurance, and providing taxis where appropriate. Many of these decisions required us to deploy rapid systems changes.

Fewer cars on the road meant a reduction in insurance claims, and the projected saving meant we could share a £50 rebate with every customer, totalling £31.5m. We acted quickly in mobilising the capability to issue over 630,000 cheques to customers.

In addition, we have responded to the Financial Conduct Authority's guidelines on supporting those facing temporary financial difficulty, by offering customers early access to the £600 'Good Condition Bonus' normally paid at the end of a lease. This has given customers access to cash when they may need it most, and to date, 14,174 customers have taken advantage of this accelerated payment.

I'm delighted to say that we have received extremely positive feedback from customers about the support they have experienced through these difficult months, whether that was advice from a call centre adviser; breakdown support from the RAC; or a supportive dealer handling a repair.

With lockdown restrictions relaxing in June and dealerships being able to reopen, we were able to recommence customer applications, and vehicle handovers and returns for existing customers, with new to Scheme customers able to place new applications from July.

This led to some exceptional months for application, handover and used-vehicle sale volumes, reflecting pent-up demand from the lockdown period. We received a record number of customer calls in June followed by over 40,000 applications in July. This inevitably put considerable pressure on our front-line teams such as the customer call centre, dealer services and vehicle remarketing, however, I am pleased to report that through the commitment of our employees and the resilience of our systems we were able to manage these unprecedented volumes.

The decision to react swiftly as one of the first movers to recommence activity has not only been good for customers, but has enabled us to capitalise on the strong demand in the used car market, and also to access new vehicle stock available in the UK through the summer months.

Covid-secure office environment

As the government guidance and lockdown measures eased, this has enabled a partial return of employees to the office; this has been limited to those whose activities either require a physical office presence or where home-working is not practical or effective.

We have taken steps to ensure that the physical office environment is as Covid-safe as possible with social distancing measures in place. We have invested in extensive signage, hand sanitiser stations, touchless technology and regular cleaning protocols.

For those who continue to work from home we have also placed considerable focus on ensuring that employees' health and both physical and mental well-being supported.

Whilst, as the path of the pandemic unfolds, it is as yet unclear when a full return to the office may be possible, we are however confident that we have the “playbook” to quickly adapt to any changing national or regional measures. Our learnings from the full lockdown have demonstrated that we can continue to operate remotely with our systems and technology providing us with the flexibility required.

As we emerge from the pandemic we envisage that a more blended approach to the workplace will endure, with greater flexibility for employees to make a seamless transition between home and office working. That said we recognise and value the importance of face-to-face contact and see the office environment continuing to play a key role going forwards.

Customer service

Whatever the outside circumstances, customer service is at the heart of our business, and this has been another year of strong performance. The independent six-monthly customer CSI survey rated satisfaction levels at 9.7 out of 10. Ninety-eight per cent of customers said they would recommend the Scheme to others, and over 91% chose to renew.

We also benchmark services through the Institute of Customer Service (ICS). This year the ICS once again recognised our customer service as the highest in our sector, with an exceptional score of 94.4%, compared with a sector average of 79.5%.

Motability Operations’ services are rated particularly positively for ease of doing business. We appreciate that customers have complex and changing needs, and we approach each as an individual, looking to understand the specifics of their circumstances and requirements.

Customer service advisers are trained to take ownership for the customer’s issue, respond with empathy, and work flexibly to address their needs. This supports the resolution of most customer queries in one call.

With the Government’s programme of Welfare Reform now in its seventh year, Personal Independence Payment (PIP) recipients now comprise more than two thirds of our customer base. With lower levels of Scheme awareness among PIP recipients, it is more important than ever that information on the Scheme reaches as many potential customers as possible. To that end, we launched a trial advertising campaign in selected regions in September. Initial reaction to the campaign has been very positive and we will take a view on the merits of rolling it out more widely across the UK in due course.

“Our close partnership with disability organisations remains highly valued. Feedback from these organisations helps us shape our services and meet the developing needs of customers.”

Notwithstanding the unusual circumstances this year, the Scheme attracted around 58,000 new customers, who chose to use their allowance to lease a Motability car. Scheme volumes remained steady during the course of the year, finishing at around 635,000.

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. We continually look to improve experiences for customers requiring breakdown services or replacement cars, and further developments to provide a more seamless support service are in the pipeline as part of our digital programme.

We continue to receive excellent customer satisfaction scores from our more than 16,000 powered wheelchair and scooter customers, with independently measured overall satisfaction scores of 95% and 91% of customers intending to renew their lease when their current agreement expires.

In addition, we now have over 29,000 Wheelchair Accessible Vehicles (WAVs) on the fleet, and over 3,000 ‘Drive from Wheelchair’ vehicles.

Other initiatives aimed at supporting those with WAVs included roll out of familiarisation visits, and annual checks, to make sure customers are comfortable with their vehicle, and the technical aspects remain sound.

Despite the huge impact of Covid-19, we have also made significant progress on strategic projects through this year, and, in particular, have accelerated our digital roadmap. This is designed to transform online services to customers, and harness digital tools to increase flexibility and contact channels. This year has seen the first online accounts for customers, as well as the relaunch of our dealer locator tool, and we look ahead to an ambitious programme of further development through 2021.

We were able also to open our offices, and welcome new colleagues, in Edinburgh this year. Our Edinburgh office provides extended operational capability for customer services as well as capacity to support some of the customer base growth we expect in coming years.

We work with a network of partners, including around 4,500 dealers, to deliver services to customers. Our objective is to offer consistently good service across the UK, and we provide training to help dealers become confident in meeting the needs of customers with a range of disabilities.

During the year we 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. We are currently making plans to ensure that our series of dealer business briefings, scheduled for early 2021 and normally attended by more than 3,000 dealer managers and specialists across the UK, can be delivered through effective digital channels.

Our series of summer events, known as One Big Days, normally provide an opportunity for customers and potential customers to find out more about adaptations and conversions, and the Scheme in general. Unfortunately, it has proved impossible to run these events in 2020 in the context of lockdown restrictions, although a small-scale event was piloted on social media in September. We are currently investigating options to deliver some of the benefits of these events through an online environment next year.

Our close partnership with disability organisations remains highly valued, and although we were unable to hold our Disability Organisations Forum in the summer, more than 70 organisations receive our quarterly newsletter. We have also established an online Disability Organisations' panel. Feedback from these organisations helps us shape our services and meet the developing needs of customers.

Financial strength

Motability Operations is, by design, a financially and operationally robust business. The business model has been built to provide long-term sustainability for the Motability Scheme and customers, so despite the economic challenges, we remain secure.

As outlined above, we entered the Covid-19 crisis in good financial health in terms of trading results, capital and liquidity. The second half of the financial year has benefitted from a particularly buoyant used-car market (as seen across the industry). Having moved quickly to reactivate our operations in June, we have been able to capitalise on this strong market demand and consequently this has delivered significant profitability through our vehicle remarketing operations.

Not unexpectedly this upside is in part offset by additional depreciation booked against the live fleet following our year-end fleet revaluation. This revaluation reflects a cautious outlook in respect of the future value of the current fleet, with specific overlays for potential Covid-19 and Brexit effects. These overlays, which will unwind next year if not required, do not affect lease pricing, but reflect a range of variables which could affect future financial performance.

Nonetheless we are pleased to report a post-tax profit of £150m, which is in line with our targeted 1.5% Return on Assets. We continue to target capital reserves at a 99.99% confidence level with an additional buffer to protect from cyclical economic shock. With closing capital reserves of £2,321.5m we are tracking with appropriate headroom above the targeted position which, in the context of the uncertainty on the horizon, gives us confidence as we look ahead. Our credit ratings with Moody's and Standard & Poor's have remained unchanged during the year at A1 and A respectively, both with stable outlooks.

Fleet volumes have remained stable. Rental revenue, assigned by customers, but collected directly from Government, was not affected by lockdown and continued to be received, while customers retained their cars.

Affordability for customers remained stable through the year, with more than 299 cars available at no more than the allowance. On average more than 160 cars were priced at less than the full allowance, allowing customers to keep some money back. Our investment is not only reflected in headline pricing; it also means that customers have obtained growing value from cars on the Scheme over the years. Higher-quality vehicles, and many additional features, are increasingly available, either for the allowance alone, or a small advance payment. Excellent relationships with the major manufacturers help us maintain choice and affordability.

Our reinsurance captive, managed through a wholly owned subsidiary MO Reinsurance Ltd (MORL), delivers a highly effective insurance solution. MORL performed well this year and made a £31m profit. MORL is fully reserved to cope with volatility in claims.

Employee engagement

Our people are passionate about our business, and their engagement is one of our most important measures. We evaluate this annually through a survey carried out for us by Willis Towers Watson, which benchmarks Motability Operations against the UK's highest-performing companies.

Once again this year we saw all divisions scoring ahead of the high-performing organisations benchmark in all 11 categories measured, with improvements made across all areas.

We aim to recruit and retain the talent needed to maintain our strong performance over the long term, including through our graduate, scholarship and internship programmes.

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.

We continue to respond to changing expectations and society developments, with continuing evaluation of our work practices and office environment, including providing more creative space, and greater availability of flexible working.

While we are committed to the retention of office environments in the longer term, since we see value in face-to-face interactions, we expect a move towards more blended office and home-working patterns in future.

We keep employee engagement in our sights at all times, and act on feedback where we identify need for improvement. One such area was highlighted by the 2020 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 25.6%. Although a welcome improvement on the year before, we recognise there is work to be done, and we are committed to addressing this. A range of initiatives will build on our culture of inclusion, to create supportive environments for all employees.

Removing barriers

We remain committed to promoting diversity and inclusion in the workplace and removing barriers where they may exist. During the year we have made good progress, supported by our diversity networking groups, and have launched a number of initiatives and events aimed at improving awareness and understanding across the business. That said, we recognise that we are on a journey and we need to evidence this commitment through tangible actions; more could and should be done. During the coming months we plan to launch an Equality Diversity and Inclusion strategy, overseen by a new Equality Diversity and Inclusion Committee. The committee will help shape this strategy and also support business in its implementation.

National Audit Office

We have now implemented both of the recommendations relating to Motability Operations made in the National Audit Office's (NAO) December 2018 report on the Motability Scheme.

The recommendation in relation to greater remuneration transparency was addressed in the 2019 Annual Report and Accounts; this continues to be evidenced in this year's Annual Report, with disclosures going beyond our statutory requirements.

The NAO also recommended that MO should review its approach to forecasting residual values. As described in the 2019 Annual Report, this in-depth review was undertaken last year with independent third-party support. The review concluded that MO's forecasting approach uses sophisticated techniques, is robust, fit-for-purpose and aligns to forecasting best practice, with no evidence of systemic bias that results in either under or over forecasting. The review did highlight some minor recommendations which have now been implemented as part of the ongoing refinement of our reforecasting process.

We have regularly engaged with the NAO to keep them informed of progress in implementing both recommendations.

Outlook

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 Group has a clear plan in place for handling the unwinding, or ramping up, of any future lockdown measures or restrictions. A key challenge will be managing uncertainty around the used-car market, as customers reactivate new vehicle orders. We will also need to offer flexibility through extending leases for customers who may not yet feel ready to renew, or who are unable to do so due to local lockdown arrangements.

Along with the continuing Covid-19 impact, there remains uncertainty around the economic impact of Brexit; the continuing effect of the implementation of vehicle emission targets on both vehicle cost and availability and more generally the potential stresses relating to the used-car market.

With the measures already taken and given the business's sound financial foundations, we believe we are well placed to meet these challenges as the market rebalances. We will continue to balance the needs of customers, suppliers and other stakeholders, whilst ensuring that we maintain appropriate liquidity headroom and capital.

As ever, we continue to work closely with the executive team and governor's at Motability. I would like to thank the team at Motability for their proactive engagement and support during this most challenging of years. I would in particular like to extend my personal thanks to Lord Sterling, who stood down as Chairman of Motability in June this year. Lord Sterling co-founded the Scheme with the late Lord Goodman in 1978 and has been a driving force in shaping its direction and success in enhancing the lives of millions of disabled people and their families over the last four decades. I would also like to take this opportunity to welcome Charles Manby MBE, who now takes up the reins as Motability's Chairman, and we look forward to continuing the strong working relationship as we look ahead.

We also saw a transition at Motability Operations this year, with Mike Betts standing down as Chief Executive. Under Mike's leadership the business has been transformed into the high-performing, customer-focused operation it is today. My personal thanks to Mike on behalf all employees and the executive team for his support, leadership and vision over the years.

In taking over as Interim CEO in April, my focus has been to maintain this excellent performance and to continue momentum across the full range of strategic initiatives and plans. Notwithstanding the unprecedented challenges faced this year, it is a testament to not only the robust nature of our business model, but also the commitment and resilience of our employees, that we have continued to deliver on all fronts and, crucially, have provided such consistently high levels of service to our customers.

Looking ahead, I very much look forward to welcoming Andrew Miller as our new Chief Executive in January 2021 and am confident that I will hand over the business in excellent shape.

Matthew Hamilton-James
Interim CEO

Our people and culture are the driving force behind 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.

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.

Our values were refreshed in 2018. These were developed with employees, customers and our partners, and their ideas and real experiences were key to creating the words and descriptors, which are the bedrock to our successful culture.

Our employee values

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 2020 we achieved a survey response of 91%, a marker of our strong levels of engagement given that the survey coincided with the start of the Covid-19 lockdown period. We were delighted to receive our highest scores in the last five years for Engagement; Our Values; Leadership; Customer Focus; and Supportive Culture.

"MO's response to Covid-19 has been fantastic and put employees first. It's difficult to think of anything further MO could offer. The support has been significantly ahead of experiences friends have had in other organisations."

Well-being survey

It is thanks to our excellent culture that in March 2020 we were able to transition almost our entire operation to a home-based organisation within days. Having delivered a successful remote working pilot within our customer services team in late 2019, we were able to scale up our operation very quickly to ensure that all employees had the support and technology to work from home when the Government lockdown commenced.

As we navigated our way through the challenges the Covid-19 pandemic presented, the health and well-being of our employees was at the forefront of our decision making. Through regular and well-timed communications, we were proactive in reassuring our employees of the support available to them. This included provision of home office equipment such as chairs and monitors through to webinars supporting our employees with the new pressures and challenges they were experiencing such as home-schooling, loneliness, and worries about pensions for those approaching retirement. No Motability Operations employee was placed on furlough during the pandemic and temporary flexible work arrangements enabled the majority to continue working throughout, in what proved to be an extremely busy period. In the summer of 2020 we surveyed our employees to help us understand what more we could do to provide support and reassurance during the challenging time of the pandemic. The results from our survey were overwhelmingly positive, with employees reporting that they felt well-supported and grateful for the initiatives and support that had been available.

As restrictions on movements eased from mid-August, we gradually re-introduced the opportunity for some colleagues to return safely to our Covid-secure Bristol, London and Edinburgh offices. This enabled us to bring about the benefits of face-to-face collaboration in the office in conjunction with the efficiencies realised from new ways of working, through the utilisation of technology. Keen to learn from the opportunity that changing the way we work has presented, over the summer of 2020 we completed a review of our working practices in readiness for the post-Covid era.

"The company has done an amazing job, providing certainty and support for all its employees during these unprecedented times. I'm proud to work for a business that values its employees and is well-managed."

Well-being survey

Our future ways of working will build on our excellent culture, empowering teams to combine a hybrid approach of face-to-face collaboration in the office with the flexibility of working remotely. Our physical working environments in Bristol, London and Edinburgh will continue to provide opportunities for our employees to engage, collaborate and come together to share ideas, bring creativity and drive forward our plans for the future.

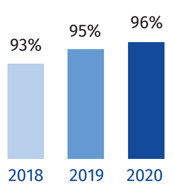
Receiving exceptional feedback year-on-year from our people is not taken for granted. We work hard to ensure our teams are engaged in our strategic plans and progress. Through a combination of employee roadshows and webinars presented by our CEO and Directors, an Employee Forum representing employees 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.

"More happy and proud to work for MO than ever! Appreciate all the support, communication and planning provided by MO for me as an individual and for our customers. Working from home has been a transition – I feel that I have been invested in (time, resources, equipment) to make the transition a successful one."

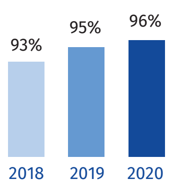
Well-being survey

Independent employee survey

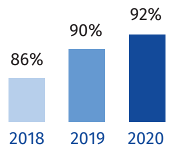
Engagement



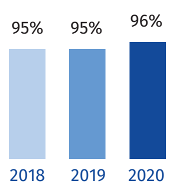
Our Values



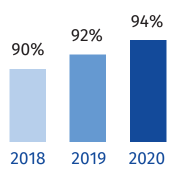
Leadership



Customer Focus



Supportive Culture



Attracting and retaining talent

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 are committed to employing and retaining the best person for the job, whoever that person may be.

We run a number of programmes across our business aimed at attracting early talent into our organisation, including our Graduate Programme, Industrial Placement Programme, Scholarship Programme, Apprenticeships and work experience initiatives.

We take pride in our on-boarding programmes, designed to ensure that each employee who joins us has an opportunity to meet our Executive Team and learn about our past, present and future plans.

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 to other parts of the business. Equipping our managers with the skills to develop and grow inclusive high performing teams has also been a priority in the last 12 months, when we invested in a comprehensive training programme for all our leaders.

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 an important part of the total remuneration for all employees, and our flexible benefits system provides choices and options based on individual lifestyle needs.

"Since joining the LGBTQ+ networking group I have been really proud of the achievements of the group in what has been a tough year. We have set some clear goals including enhancing our training for colleagues, working with external companies to better understand their ways of working, whilst bringing some fun with the activities we run, such as Pride bingo.

One of the main reasons for joining the LGBTQ+ networking group was because the Company has allowed me to be my authentic self and this is something I want to help support and encourage others to be as part of the group. By having the LGBTQ+ networking group within MO, we have been able to make sure our voice is heard on important decisions and allowed us to help support other networking groups with their initiatives and activities."

Harry Morgan-James
Drive-from-Wheelchair Account Manager and
Co-Chair of the LGBTQ+ networking group

"I first joined Motability Operations (MO) in 2019 as part of the Scholarship Programme which offers work experience and financial support for undergraduate students with disabilities.

As part of my placement I spent time meeting lots of people from around the business and worked in the Digital Marketing team. This was my first proper job and gave me a great insight into what working life is like. At that point, I didn't know what I wanted to do in the future but getting this invaluable work experience taught me that a career in Digital Marketing was the one for me and gave me the skills I needed on my CV to secure a job after graduating from university.

As well as this, the financial support towards my university studies enabled me to really focus on my education without the worry of having to work at the same time.

The support I've received from MO has made a real difference both in terms of my education, helping me to understand the type of workplace culture I enjoy, and giving me the skills I needed to get on the career ladder."

Kumsy Thomas
Scholarship Placement Student 2019/20

"I joined the Asset Risk team as Economic Analyst in mid-2018 and was promoted to Market Risk Manager at the end of 2019. Our team's main goal is to minimise risk for the Scheme by accurately forecasting and valuing our assets.

MO is a unique organisation and being able to contribute towards our success is really rewarding, especially doing so with the support of my dedicated colleagues who are always willing to put others first. Even in 2020 where we adapted to working from home overnight, the sheer resilience and commitment of our people to keep on achieving and surpassing our objectives has been truly inspiring.

My development and progression have been taken seriously from the start. From leadership training to attending advanced courses at Cambridge University, my skillset has developed significantly over the past two years. Additionally, being empowered and encouraged by business leaders to take on responsibility and strive for excellence has given me the opportunity to implement my skills effectively and allow them to crystallise."

Raaj Kundi
Market Risk Manager

"The MO of 2020 is very different from the MO that I joined as a graduate in 2005...in a good way! One thing that has remained consistent is the supportive culture and that's an integral part of my success here. The graduate programme gave me exposure to various departments including Marketing, Finance, Vehicle Remarketing and Customer Services but through the programme I didn't quite find my 'home'. Through my Executive Sponsor we explored opportunities around the business and I took on a role in IT working on a technology transformation programme. The role was perfect for me and was the foundation for my career. Even without a technical background I've been able to succeed and in 2019 was promoted to run the IT Portfolio, Planning and Procurement Function.

In my time at MO I've had personal challenges and triumphs and my managers have always ensured I have had access to the support I've needed. From having children, periods of depression and bereavement, with the support provided I've been able to balance work and homelife without impact. This equal opportunity for all is something that is really important to MO. In 2018 we established Diversity and Inclusion Networks and I took on the role of co-chair of the women's network. Being an advocate for inclusion is very important to me and having the opportunity to shape the agenda and build on the strong culture we already have is really exciting."

Kate Hallward
Head of IT Portfolio, Planning & Procurement

Pay gaps

Our gender pay gap report in 2019/20 reported a mean gap of 25.6% (FY2019: 29.6%), and a gender bonus gap of 64.2% (FY2019: 68.5%), representing a reduction on 2018/19's figures. Our gap is primarily driven by the uneven distribution of men and women across different roles within the business.

Over the last two years we have grown the number of women in senior management roles and they now represent 57% of our senior management team. We recognise that we are still on a journey in respect of closing this gap further and our action plans continue to focus in this key area.

In anticipation of ethnicity pay gap reporting, we continue to capture data to ensure that we are prepared when this becomes a requirement. 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 Networking Groups to help identify and remove any barriers to minority groups within the organisation.

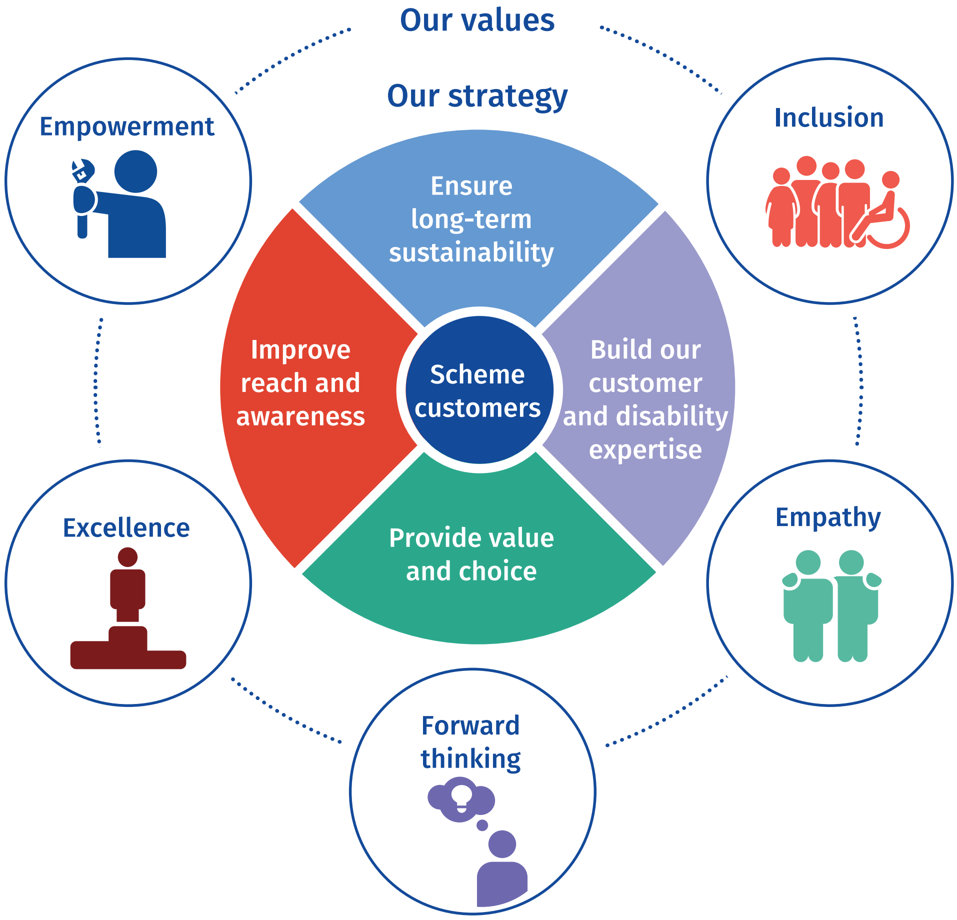
Our strategic framework

Our values help us deliver our strategy

Our values

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

Turn to page 22 for more information on our values



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 27-35 for more information on our strategy

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 22-26 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 27-35 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 49-55 for more information on risk

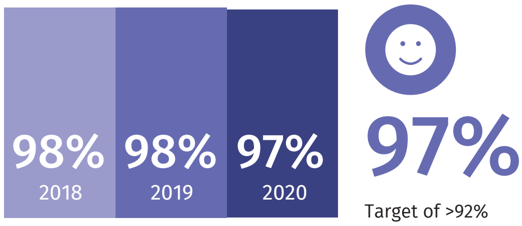
Building our customer and disability expertise

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

Goals

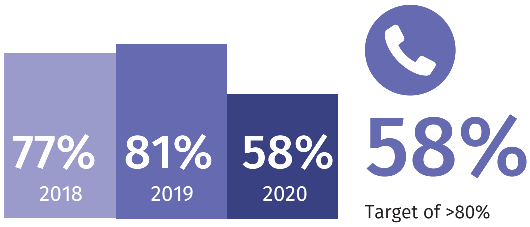
Understanding our customers is critical to our success. By listening and responding to their feedback, we are able to adapt our proposition and focus our resources on their needs. Our success is dependent on our ability to deliver a Scheme that meets our customers' requirements and provides excellent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

KPIs



Overall customer satisfaction

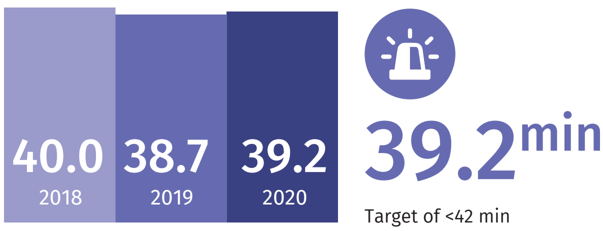
We deliver by listening to our customers and ensuring that we meet their requirements.



Calls answered within 20 seconds

During the lockdown months of June and July call volumes increased by up to 60%, excluding these two months the KPI delivered was 77%

The average customer wait time during June, our busiest month, was only 6 minutes



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

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

Continued investment in our front-line customer services team to address more complex customer needs that have arisen through our changing customer base and the challenges presented by the pandemic. An essential part of this is resolving queries in an efficient and effective manner; our first-call resolution rate means that most customers only have to speak to one adviser to resolve their query.

Introduced speech analytics which will support and enhance our immediate understanding of customer needs and adapt to any changing requirements.

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 has become operational with access to more tools and additional resource to support customers

Continuous mobility programme aims to ensure our customers can continue with their day-to-day lives in the event their vehicles are 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

Fully embedded a 'try before you buy' service for customers who require a WAV. This enables the customer to test a similar vehicle for an extended period of time, ensuring it is right for their needs and allowing them to make an informed decision on selecting a larger, more complex vehicle

Continued to support PIP stopped-allowance cases and provided an option for qualifying customers to retain their vehicle for 26 weeks, with extended support available if a customer appeal extends beyond this period.

Provide value and choice

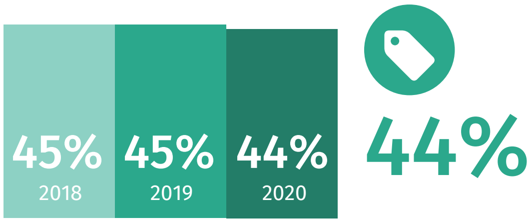
We provide a wide range of vehicles to our customers at competitive and affordable prices.

Goals

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

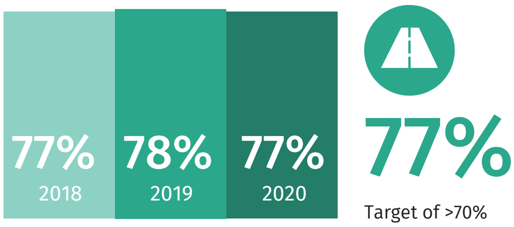
To this end we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms – the aim being to provide value without compromising choice or quality.

KPIs



Relative affordability – % cheaper than alternative

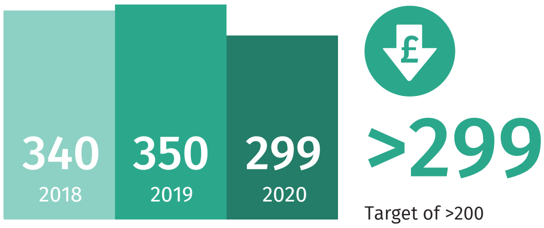
We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and a VAT concession (which is passed onto customers in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



Target of >70%

% 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 2020, 77% of vehicles were sold online.



Target of >200

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. During the year to September 2020 we exceeded this target with at least 299 models at any one time.

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

Worked with car manufacturers to maintain choice and affordability for customers with more than 299 cars available at no more than the allowance. This was achieved despite significant challenges presented to manufacturers through both Covid and WLTP testing.

Provided a large selection of vehicles available at less than the customer's full allowance, with on average 161 cars available through the year.

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

Developed our second proprietary online auction channel allowing us to reach a broader range of customers and offer more choice in an increasingly competitive market.

Relaunched our dealer locater tool, optimising the application process for customers and ensuring they continue to receive a service specific to individual requirements.

Improve reach and awareness

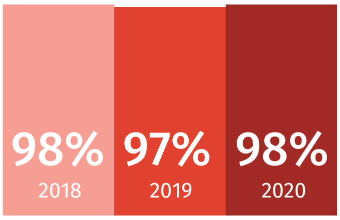
We seek to create improved awareness and understanding of the Scheme proposition within our potential market. In doing so, we attract new customers to the Scheme.

Goals

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

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

KPIs

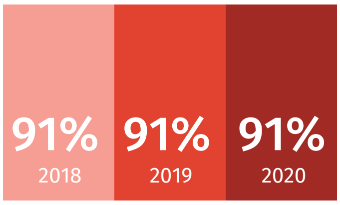


98%

Target of >85%

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.

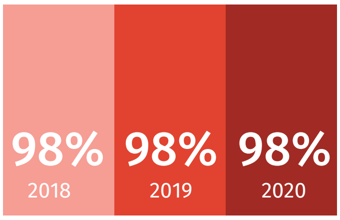


91%

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 2020 this was maintained at over 91%, compared with a KPI target of 85%.



98%

Target of >85%

Customer advocacy

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

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

Unable to physically host our 'One Big Day' events this year, and so instead we hosted an online event via the Scheme Facebook page with 48,240 participants.

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 70 families were supported by the provision of an appropriate vehicle.

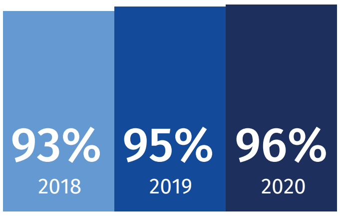
Ensure long-term sustainability

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

Goals

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

KPIs



96%

Target to benchmark (84%)

Employee engagement

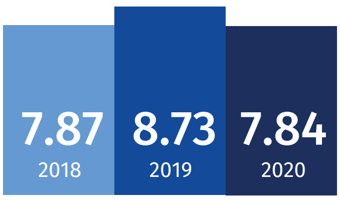
We participate in an independent annual review of business culture, where we have significantly outperformed the 'High-Performing Organisations' benchmark. Employee engagement is 11pts higher than the benchmark.

A/A1

Credit rating

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).



7.84

Debt maturity profile

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.

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

Delivered a robust financial result, reflecting an excellent first half of the year, driven largely by the buoyant used car market prior to the national lockdown beginning at the end of March.

Financial results during the first six months of the year were buoyed by a recovery in used-car values in the final quarter of 2019, linked to a reduction in market supply levels. The used car market remained resilient until the significant impact of Covid-19 in late March meaning that our financial results at that stage were ahead of both planned and priced expectations.

An external review from Oliver Wyman, to examine our capital modelling methodology and our applied risk appetite and confidence levels, and to benchmark our capital reserve levels against near-comparable companies. Significantly, confirmed the appropriateness of Motability Operations' economic capital approach 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 engagement score of 96%, 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.

Ensured a good range of lower-emission, higher-MPG vehicle choices are available across vehicle categories and feature green choices in our promotional mailings.

A strong performance in a challenging environment

> "Our robust financial position underpins our ability to keep customer needs at the heart of our decision making."
>
> **Gareth Everson**
> Interim Finance Director

£31m

£50 insurance rebates paid to every customer to recognise the beneficial impact on claim volumes from reduced traffic levels through the national lockdown

Performance overview

During the year to September 2020, the business delivered strong performance across a broad range of measures.

These results are a testament to the commitment and resilience of our people, responding to the significant social, economic and technical challenges related to the Covid-19 pandemic, to maintain the exceptional levels of customer service, partner engagement and commercial performance we target in delivering the Scheme proposition.

The financial performance reflects an excellent first half of the year, with profits ahead of plan, driven largely by a buoyant used-car market prior to the national lockdown beginning at the end of March. Due to the unprecedented level of uncertainty at this time, meaning it was not possible to confidently assess fleet residual values, we did not produce a Half Year Report and opted instead to provide a market update by way of a Management Statement, published in May.

To mitigate potential uncertainty for customers who were nearing the end of their lease we provided automatic six-month lease extensions. The security and flexibility of the lease extension programme was well received by customers and once markets began to open we gave them the opportunity to complete their lease renewals, if they felt safe to do so.

The lease extension programme supported rental revenue and the rapid response to dealership reopening's optimised remarketing opportunities in a used-car market that was initially bolstered by the pent-up demand created by the lockdown. Our effective remarketing programmes, particularly our online channels, supported a strong disposal performance through the remainder of the financial year.

Strategic investment in recent years to upgrade systems infrastructure enabled an efficient transition from office to home-based working and supported continuity of service to our customers. Our customer proposition is managed and delivered by our people; this is perhaps most evident through our customer satisfaction scores, and an early decision was made to retain all our employees rather than seek access to potential Government support such as the furlough scheme. We are enormously grateful for the resilience and flexibility demonstrated by our teams throughout the organisation to meet the needs of customers and colleagues through this challenging period.

We were pleased to provide all our customers with a £50 payment to reflect a projected reduction in insurance claim costs following a general fall in national road usage. In addition, as part of our commitment to helping customers more broadly, and considering Financial Conduct Authority guidance for supporting customers facing temporary financial need, we provided customers the option to reschedule end of contract awards and request early receipt of their Good Condition Bonus (GCB), providing customers with increased financial flexibility without the risk of their taking on debt.

Agile decision-making, vital to respond effectively to changing customer and operational requirements, was underpinned with robust internal control processes. The detailed tracking and effective communication of management decisions supported organisational alignment and provided a blueprint for carefully unwinding temporary measures with appropriate financial and operational control.

Financial performance

The Group recorded post-tax profit for the year to September 2020 of £149.8m (FY2019: £370m loss, net of a significant donation (£852.3m) to the Motability Foundation) representing a return on assets of 1.6% (FY2019: -4.0%); this level of return is consistent with the Group's long-term profitability target.

As reflected in the Management Statement published in May, our financial results during the first six months of the year were buoyed by a recovery in used-car values in the final quarter of 2019, linked to a reduction in market supply levels. The used-car market remained resilient until the significant impact of Covid-19 in late March meaning that our financial results at that stage were ahead of both planned and priced expectations.

For customers nearing the end of their lease term, most decided to take advantage of the automated six-month lease extension which supported stable rental revenue through the second half of the year. The lease extension programme also prevented a material increase in used-car stock whilst the market was closed.

Once markets began to open we engaged with customers and car dealerships to complete any orders that had been effectively paused through the lockdown. This proactive approach to re-starting business was appreciated by our customers and the dealer network as they began to re-open their forecourts. It also provided the opportunity to dispose of vehicles into a used-car market capitalising on an initial release of pent-up consumer demand in addition to a generally reduced level of used-car supply.

Though the short-term market has been favourable there remains considerable economic uncertainty related to the downside risk of a 'no deal' Brexit and an enduring impact of Covid-19 until an effective vaccine is widely distributed. This market uncertainty is reflected in our central forecast of the residual value of the vehicle fleet at the year-end. We continue to include a specific overlay in our fleet residual value forecast for a 'no deal' Brexit and have also taken the decision to include a new overlay in relation to Covid-19; the detail of these overlays is described below.

It is worth noting that these overlays are set against the existing fleet of vehicles, they were not priced into existing customer lease prices and future lease pricing will always be predicated on a best estimate of future used-car values.

Restricted reserves on the balance sheet have increased to £2,322m (FY2019: £2,172m), a level consistent with the policy of maintaining capital with an appropriate buffer above a calculated 99.99% threshold. The restricted reserves provide us with a capital base to meet the dual objectives of ensuring a stable and sustainable Scheme, and also of supporting the financing of the fleet.

Customer numbers, renewal rates and affordability

Customer numbers are broadly flat year on year at 634,765 (FY2019 633,900) with renewal rates at the end of lease, the ultimate validation of customer satisfaction, remaining very strong at over 91%. The volume of new customers joining the Scheme was understandably lower this year at around 58,000 (FY2019: 72,000) as the national lockdown led to a temporary pause on new applications. However, there was some catch-up over the summer period and we saw a 131% year-on-year increase in new to Scheme applications processed in July with additional catch-up applications being processed through the remainder of the quarter.

From October 2013, the Department for Work and Pensions (DWP) began to reassess some two million Disability Living Allowance (DLA) recipients for eligibility for the newly introduced Personal Independence Payment (PIP), including around 360,000 who leased a Motability car. Recipients who qualify for the enhanced rate of the mobility component of PIP can continue leasing a car as they do today. However, because PIP is assessed using different criteria, some people have lost/are losing their eligibility for the Motability Scheme whilst other potential customers are qualifying for the first time. Though there was some disruption during the year, the original PIP reassessment process, which did result in a marginal reduction in customer volumes over recent years, is materially complete.

We know that in deciding whether to renew their lease or join the Scheme for the first time, the availability of a suitable range of vehicles at affordable prices is a key factor for our customers, as is the relative stability of prices through the economic cycle. I am pleased to report that, working with manufacturers, we have been able to maintain a competitive price list with at least 299 vehicles costing no more than the customer's allowance available versus a target of 200 vehicles, an excellent outcome for customers in a challenging environment.

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 this price point (FY2019: 340). This reduction reflects a general increase in the cost of new cars to market as manufacturers are required to invest in improved safety and emissions technology. In addition, in a bid to achieve emissions targets, manufacturers have decided 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 have continued to invest in the customer proposition, this includes expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing a GCB for customers who return their vehicle in appropriate condition at the end of lease, and supporting vehicle adaptations and the affordability of Wheelchair Accessible Vehicles.

“These results are a testament to the commitment and resilience of our people, responding to the significant social, economic and technical challenges related to the Covid-19 pandemic, to maintain the exceptional levels of customer service, partner engagement and commercial performance we target in delivering the Scheme proposition.”

Revenue

Total revenue reduced by almost 5% to £4,064m (FY2019: £4,271m):

- Rental revenue: An increase in customer rentals reflects a 1.7% uplift in mobility allowances in April 2020 (allowances are uplifted each April based on the Consumer Price Index from the previous September) with customer volumes broadly flat year on year.
- Disposal revenue: A reduction year on year reflects the effective market closure from the end of March until car dealerships began opening again through June; for the three-month period most adversely affected by the pandemic (March to May) disposal volumes were 69% lower than the same period in 2019. However, the strong market that emerged in June, and our ability to quickly service demand through our remarketing programmes, supported a recovery which limited the reduction to 10.6% year on year; a 16% reduction in disposal volume being partially offset by a 7% increase in average sale values.

Vehicle remarketing

The option for customers approaching the end of their current agreement to extend their lease for a further six months, particularly when dealerships were closed, dramatically reduced the return of used cars and mitigated any material impact on the level of stock for disposal through our remarketing programme. Consequently, the volume of vehicle disposals was reduced, though we still sold over 185,000 (FY2019: 220,000) vehicles that customers handed back at the end of their lease. As at 30 September the volume of used cars in stock stood at 14,000 (FY2019: 10,300).

The remarketing team performed strongly when trading resumed with a 10% increase in disposal volumes in the final quarter of the year and sale values higher than those achieved before the impact of Covid-19. The majority (75%) of car disposals were completed using our proprietary online b2b remarketing platform (mfldirect) which creates a competitive virtual marketplace to maximise the net return for each individual car sold.

Remarketing profit was higher than original expectations at £233m (2019: £148m) of which over half was delivered in the final four months of the year, reflecting the favourable supply and demand dynamics when the used-car market reopened.

The profit recorded during the year is also a reflection of management’s decision, as disclosed in last year’s report, to include a Brexit stress overlay to reflect the projected impact from a disorderly Brexit at the previous deadline of 31 October 2019. The effect of this overlay was to increase the accumulated depreciation charge as at 30 September 2019 by £78m, with the projected net unguaranteed residual value of the fleet expiring in FY2020 being reduced by £110m. The subsequent extension of the transition period, to January 2021, resulted in this additional depreciation unwinding through disposal profits as these vehicles were handed back and sold.

As significant uncertainty remained at 30 September 2020 in relation to a Brexit deal and potential import tariffs, as noted below, the Brexit overlay was updated and carried forward at the year end.

Assets and residual values

Operating lease assets were £7,812m at September 2020 with the unguaranteed fleet residual valued at £6,239m. 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.

At September 2020, the projected net revaluation of the fleet, versus the priced position, reflected an anticipated marginal net exposure of £12.5m (FY2019: £153m net gain).

Given significant uncertainty surrounding the final terms of Brexit and potential severity of Covid-19 through the winter months we continue to apply a measured approach in the context of the potential impact on fleet residual values:

- The fleet revaluation continues to include a Brexit overlay based on our assessment of the potential impact from economic downturn following a disorderly settlement. The net impact of this adjustment to our central forecast reduces the projected value of the unguaranteed residual value of the fleet by £110m. This impact is spread across the remaining life of the live fleet by way of recalibrated depreciation with £69m of this booked as at 30 September 2020.
- A Covid specific overlay, to take account of potential economic impacts in excess of our central view, has also been included. The total net reduction on the projected value of the unguaranteed residual value of the fleet from this overlay is £98m, of which £45m has been booked as at 30 September 2020.
- An impairment provision of £17m has been made at 30 September 2020. This impairment reflects the impact of the Brexit and Covid-19 overlays on a portion of the fleet expiring in FY2021.

Taxation

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

For the year ending September 2020, the Group's underlying tax charge was £41.6m (19.2%) with an additional £25.8m deferred tax charge following the re-measurement of deferred tax at 19% in relation to the Government's reversal in March 2020 of its previous decision to reduce the UK corporation tax rate to 17% from April 2020 onwards (see note 27, page 124 for further detail).

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 a major investment programme to ensure that our systems infrastructure was 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 our commercial operations from vehicle purchase though to disposal.

The benefit of this investment was clear when we were able to swiftly migrate to a home-working model following the national lockdown in late March. 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.

Customer proposition

We continued our investments, as planned, across a full programme of activity that provides direct customer support and underpins the delivery of excellent customer outcomes, this year, including targeted initiatives responding to the Covid-19 pandemic:

- An insurance rebate of £50 was provided to all customers, an aggregate payment of £31m, recognising the projected reduction in insurance claims following a dramatic reduction in general road traffic that was particularly evident during the national lockdown in April and May.
- We enabled customers facing financial difficulty to claim early payment of a Good Condition Bonus (GCB) which is normally paid when vehicles are handed back at the end of the customer's lease. The total value of GCB payments to customers in the year, including the accelerated payments, was £116.7m (FY2019: £78.8m) for further details see note 21 on page 117.
- More than £100m was invested in programmes to support a range of initiatives that provide direct customer support, such as continuous mobility solutions, alongside indirect investment in programmes supporting service excellence across the dealer network and key partners.

Insurance performance

Our insurance arrangements continue to operate efficiently. Under our insurance structure Motability Operations participates in a proportion of premium exposure via our A-rated reinsurance captive MO Reinsurance Ltd (MORL). MORL’s net exposure is contained through a conservatively structured reinsurance programme. This arrangement not only secures the long-term supply of insurance but brings greater efficiency and financial benefits which are passed on to customers.

As in previous years, the Group financial statements include the consolidated results of MORL with segmental reporting to reflect the way we manage and report on this business activity. The segmental analysis can be found on pages 105-106 highlighting a profit of £31m in the year to September 2020, this result including the benefit of claim reduction due to the national lockdown which underpinned the decision to provide the £50 payment to all customers.

The MORL profit also includes commission in respect of a quota-share reinsurance contract that effectively rebates MORL if claims experience is better than anticipated (see note 3, pages 102-103).

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 107), is in line with our accounting policy (see note 2, pages 94-102).

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.

Following the decision to rebase the Group’s capital position last year, by way of an £852m donation to Motability (the charity), 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 54.

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

Cash and funding

The Group remained very well-funded during the year, retaining high levels of undrawn liquidity through its £1.9bn committed banking facilities (maturity September 2023). The committed facilities operate in parallel to the significant funding taken from both the GBP and EUR denominated capital markets. The Group’s long-standing strategy of diversifying sources of funds, across a wide spectrum of maturities and from high quality lenders, is fundamental to the sustainability of the Scheme.

As planned, using liquidity available from the significant (£1.44bn) triple-tranche bond issue in June 2019, the Group redeemed the outstanding balance (£300m) of a December 2019 bond maturity. The Group has no further bond maturities until June 2022 (£400m) and no new funding was sought in the year.

The closure of car dealerships, due to the Covid-19 economic lockdown, resulted in a significant reduction in capital expenditure through April and May with very few new vehicles purchases and, as lease rental receipts were largely unaffected, the lockdown period was cash positive for the Group. The decision to enable customers to complete vehicle handovers once restrictions were lifted was supported by the buoyant used-car market over the remainder of the financial year and resulted in a broadly cash neutral position for the Group in the second half of the year.

At the year end, in addition to its longer-term borrowings, the Group was drawing £400m on its committed revolving facility but was able to deposit back £213m, meaning a net short term borrowing of £187m. The Group’s reinsurance captive on the Isle of Man had further cash balances of £103m.

The net drawing on the Group’s committed revolving facility of £187m leaves headroom of £1,313m against this facility, providing appropriate and sustainable liquidity pending any future debt capital market financing initiatives.

Motability Operation’s unique position as a provider of mobility to people who may not otherwise have access to a vehicle underpins a decision to create a Social Bond Framework (the “Framework”), under which Social Bond(s) may be issued in the future. This Framework is in accordance with the ICMA Social Bond Principles (SBP) 2020 as confirmed by a ‘Second Party Opinion’ (SPO). The Framework and independent assessment are both available on the Motability Operations website.

The Group’s average debt maturity was 7.84 years at the balance sheet date.

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 three fixed-rate Eurobonds using cross-currency swaps. The Group's overall interest rate risk management strategy is to convert all new issued foreign-denominated debt into the Group's functional currency of Sterling.

We 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 2020 was £23.2m post-tax.

Outlook

As at 30 September 2020 we face unprecedented uncertainty; the terms of the UK's future trading arrangements with the European Union remain unclear and there is a very real prospect of a significant 'second wave' of Covid-19 as we head into the winter months.

The landscape will undoubtedly become clearer during the next financial year as a position on a trade deal with the European Union crystallises and, hopefully, we will have a timeline in which an effective vaccine for Covid-19 can be produced and distributed. However, until we know better, and consistent with previous reporting periods, we have included specific overlays against a severe but plausible impact on the future residual value of our existing fleet of vehicles. These overlays are predicated on our assessment of the potential range of economic outcomes following a 'no deal' Brexit and significant further waves of Covid-19 infection.

As noted above, the impact in the current financial year from the consolidated impact of these overlays equates to a charge of £131m by way of accelerated depreciation and impairment charges.

Given that leases being priced today will, in the main, not be returning for between three and five years, we do not include any stressed scenarios (such as the Brexit/Covid overlays) into current lease pricing.

Regardless of cause, our quarterly pricing process enables us to respond quickly to any changes to the cost base that may occur, be that through weakening of exchange rates, potential import tariffs or other supply chain disruption. Although any structural cost inflation would likely need to be passed through to customer pricing, depending on the depth and severity of the situation, we would assess the impact on profitability and capital targets and look to insulate customers if affordable in the context of our long-term sustainability requirements.

"Agile decision-making, vital to respond effectively to changing customer and operational requirements, was underpinned with robust internal control processes. The detailed tracking and effective communication of management decisions supported organisational alignment and provided a blueprint for carefully unwinding temporary measures with appropriate financial and operational control."

As evidenced during the year, we have a mature process which enables customers to remain in their vehicles beyond their original lease term should an issue arise on the handover to their new vehicle (over 91% of customers renew their leases with us). To the extent our customers are faced with issues emanating from Brexit or Covid-19 we are operationally secure in ensuring we can keep our customers mobile.

We have strong liquidity as at 30 September 2020 with net £1.3bn headroom on our revolving credit facility. We are confident that our financing arrangements provide adequate contingency to support our needs should debt capital markets be inaccessible temporarily. Furthermore, there are no bond maturities in the next financial year with the next maturity being June 2022 (£400m).

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

G.J Everson

Gareth Everson
Interim Finance Director

Excellent service levels and a consistent proposition

Overview

As outlined in the 'Strategy in action' section (pages 27-35), the year ended September 2020 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 97%. Renewal rates remain strong, tracking at over 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 unable to run our successful annual programme of 'One Big Day' events this year. These very popular regional events, 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. Due to the potential of on-going disruption from Covid-19 we are investigating how we could deliver some of the benefits of these events digitally next year.

During the year we welcomed 50,000 new customers on the Scheme and more than 91% of existing customers chose to renew their leases at the end of contract.

Government Welfare Reform changes

As trailed in previous reports, the Government implemented changes to mobility allowances in 2013 with the introduction of the Personal Independence Payment (PIP). This new allowance gradually replacing Disability Living Allowance (DLA) for disabled people aged between 16 and 64.

An individual who qualifies for the enhanced rate of the mobility component of PIP is able to join the Scheme or, if already a customer, continue leasing a car as they do today. However, because PIP is a new benefit assessed using different criteria, some existing customers will lose their eligibility for the Motability Scheme whilst other potential customers are qualifying for the first time.

As a Scheme, we consider it appropriate to support customers who have lost their eligibility through this reassessment process and we continue to do so. We worked closely with Motability (the Charity) to devise a transitional support package which is appropriate to customer needs and affordable in the context of the financial strength of the Scheme.

Full details of the support available to customers is available on the Scheme website at https://www.motability.co.uk/ but are summarised below:

- A 'rent-free' period of continued worry-free use of their vehicle for a minimum of eight weeks after the DWP have stopped paying their eligible mobility allowance
- A transitional support payment of up to £2,000 from Motability (the Charity)
- A pro-rated refund of any 'Advance Payment' contributed by the customer (required where the selected vehicle is not fully funded by their mobility allowance)
- Refund the cost of any privately fitted adaptations paid for by the customer
- Opportunity to purchase the vehicle at the end of lease
- General information on motoring, insurance and other services outside of the Scheme. We are working with a leading UK insurance broker who offers insurance quotations to former Scheme customers that recognise their no-claims history on the Scheme.

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

Motability Operations has previously made donations to Motability, the Charity, totalling £175m in support of these arrangements and the transitional support payment to customers.

As of September 2020, almost 100,000 Scheme customers had lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme.

To date Motability has made almost 75,000 transitional support payments totalling over £126m to customers who have returned or purchased their vehicles having met the criteria set out above.

£126m

Aggregate value of customer transition support payments made by Motability

Product offering

We have managed to exceed targets to support affordability and provide a wide selection of vehicles to our customers.

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

We set out to ensure that at least 200 cars are available at 'nil advance payment', including a wide choice of automatics and green options. By working effectively, we have consistently met this target throughout the year though availability did reduce through the year which reflects both economic pressure on new car prices and supply constraints linked to Covid-19 and the impact of emission targets on manufacturer product lines. We also supply a range of affordable Wheelchair Accessible Vehicles (WAVs).

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

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 over 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 20,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, many of which led to prosecution.

Over 7,500 cases resulted in enforcement action, including over 3,800 customers who had their agreements terminated and their cars withdrawn. 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.

Fleet insurance arrangements

RSA provide our fleet insurance cover and provide policy and claims administration activities through its dedicated Motability unit in Liverpool. However, Motability Operations retains an element of insurance risk via its reinsurance captive MO Reinsurance Ltd (MORL) which was incorporated in 2013.

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.

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.

Financial performance is outlined in the Finance Director's review on page 37; this evidences the financial benefit of the arrangement with lower claim volumes through the national lockdown being recognised immediately within the Group (and affording a £50 rebate payment to all customers).

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 9% of UK car registrations.

We have achieved 93% brand availability based on market share, providing our customers with access to over 2,000 vehicle derivatives, delivered through a network of almost 5,000 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-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 2020, we sold over 185,000 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 78% of all disposals during 2020. 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 2020, contributing to significant gains.

Environment

We know that our customers are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We therefore aim to ensure that a range of lower-emission, higher-MPG vehicle choices is available (which in turn are more cost-effective for our customers).

We continue to take a proactive approach to managing our CO_2 emissions agenda with several initiatives that provide information and choice for our customers:

- Introducing alternative vehicles with lower CO_2 emissions, including electric vehicles
- Making attractive, low-CO_2 cars available in all vehicle categories on the Scheme (the price list highlights at least two low-CO_2 vehicles in each vehicle category)
- Featuring green choices (low-CO_2 vehicles) in all our promotional mailings
- Providing practical advice to help lower motoring costs and CO_2 emissions in our customer publications, our annual customer newsletters and through our website.

In line with the wider UK market, following sustained negative media in relation to diesel engines and NOX emissions, the demand for these vehicles has continued to decline with a corresponding increase in demand for petrol and alternative fuel vehicles.

Legislation to reduce vehicle emissions, including the UK government's plan to bring forward the ban on new diesel and petrol cars to 2030, will lead to increased choice and improved affordability of alternatively fuelled vehicles. As the majority of our fleet vehicles are on three-year lease agreements these market profile changes will be reflected relatively quickly in our fleet profile (similar to the reduction in the volume of diesel cars over the past few years).

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 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 630,000 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 97%, 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 the 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.

Delivering for customers when it matters

Callum's story

To view Callum's story online please visit
https://news.motability.co.uk/inspiration/callums-story-the-motability-scheme-has-impacted-all-of-us/

"The Motability Scheme has impacted all of us. It allows us to have a car that suits Callum's needs and the family's needs... we have a car that's reliable, it's safe, if anything happens they (the Scheme) look after you, they sort the servicing... there are a lot of things you have to manage when you have a child with a disability, but this is one less thing to worry about."

Gail
Callum's mum

16-year-old Callum is a wheelchair racer and has been on the Motability Scheme since 2008. He lives with his parents and two brothers, Ewan and Jamie, in Fife, Scotland.

When it came to choosing a car there was a lot to consider; with three growing boys, and all of Callum's equipment, the family needed a car with plenty of space. Before settling on a SEAT Alhambra, the family went on a test drive and took Callum's racing wheelchair with them to ensure that it would fit in the boot; in fact, they even used their Scheme car to drive to Callum's first wheelchair race in London!

Now, Callum is just starting to learn how to drive; so, the family are looking at new cars to find a vehicle that would best suit Callum. Callum has a spinal cord injury, and is paralysed from the chest down, so when considering his new Scheme car, he'll also have to consider adaptations that will allow him to drive without using his legs. Gail can't wait for Callum to start driving: "The freedom, the independence it'll give him, it'll make such a difference...it can be isolating to have a disability but having his own car will make a huge difference to his life."

Callum shares his mum's enthusiasm and says that once he gets his licence he plans to drive to Edinburgh with his friends: "I'm definitely looking forward to driving and my parents not having to take me everywhere; I can just go myself, which will be good!"

Compliance with Section 172 Companies Act 2006

This S172 statement, which is reported for the first time, explains how the Board of Directors:

- have engaged with employees, suppliers, customers and others; and
- have had regard to employee interests, the need to foster the company's business relationships with suppliers, customers and other, 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 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 pages 22–26.

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, customers, Motability and investors. Supplier engagement and ongoing supplier management is 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 refresh, strategic projects, initiatives (digital customer account, CSI) and 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 63 of our Governance Report (Principle 6, stakeholders) for details and our SECR Report on page 79. The Board will give further consideration in 2021 to climate change and further measures that could contribute to reducing our impact on the environment.

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. 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.

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 57 to 64. Throughout 2021, 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 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 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 16 December 2020 and signed on its behalf by:

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

Matthew Hamilton-James
Interim Chief Executive Officer

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.

Risk identification and monitoring

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

This holistic approach encompasses all material risks, with clearly identified accountabilities and responsibilities for risk management, control and assurance. As such, risk management is incorporated as a core part of effective business planning and capital management. The responsibility for managing the risks and control activities sits firmly within the first line responsibilities.

We regularly review our risk management framework to ensure that it remains appropriate to the business and its strategy. These updates include regular assessments of risks and controls, including the update of risk registers, and early identification of any emerging risks to the achievement of our stated objectives.

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

We are now working to ensure our approach remains aligned with the revision to the three lines of defence approach published by the Chartered Institute of Internal Auditors (IIA) in July 2020.

Risk management framework

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

1st line of defence
Primary risk management

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

2nd line of defence
Risk control

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

3rd line of defence
Assurance

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

Principal risks

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	• An increased risk status is primarily linked to the long-term impact of Covid-19, the uncertainty around Brexit and potential impacts on the UK used-car market	• An established reinsurance captive, managed through a wholly owned subsidiary (MORL), continues to deliver a robust and cost-effective insurance solution
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 • Legislative changes (e.g. Ogden rate changes)
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

* Net assessment incorporates mitigating controls.

Key

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

Key Risk	3. Treasury risk	4. Supplier failure
Description	The availability of sustainable funding and liquidity is critical to our ongoing operation. This continues to be challenging since the 'credit crunch' with scarcity of competitive funding affecting many businesses. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.	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.
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	• Appropriate due diligence processes are in place to ensure that we continue to engage with partners and suppliers on a commercial and sustainable basis
Potential impact	• Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• 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
How we mitigate	• 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	• Strong supplier relationships and communication • Active monitoring of credit ratings and market announcements • Diversification of supply • Diversified portfolio • Temporary revision of payment terms through Covid-19 to support key suppliers
Link to strategy	• The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk-averse	• 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

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 initiatives to enhance 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 strategic IT roadmap continues to replace legacy systems, enhancing controls which have improved the risk status.	• 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
Potential impact	• Potential 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	• Information security framework aligned to best practice and industry standards • Designated data protection officer • Ongoing employee awareness programme • Cyber Insurance and Incident Response plan in place
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.

Key

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

Key Risk	7. Credit risk	8. Business continuity
Description	Customers assign their allowances to us, and this is paid directly from the DWP. 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.	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*	●	●
Net likelihood*	●	●
Risk status	↑	↑
Change to risk status	• An increased risk status reflects potential impacts from a UK sovereign credit rating change and the devolution of disability benefits to Scotland. • We have an excellent working relationship with the DWP and Social Security Scotland both of whom who are engaged in ensuring that our processes operate in an effective and efficient manner.	• An increased risk status reflects the challenges the business has faced in relation to the last year in light of the Covid-19 pandemic.
Potential impact	• Potential impact on cash inflows and consequent write-off to income statement	• The impact of a continuity event could have severe operational, financial and reputational effects on our ability to operate the Scheme.
How we mitigate	• Principal income stream received directly from DWP – therefore minimal credit risk • Residual credit risks are managed through credit assessments and an effective credit control function	• Well-established continuity response plans including home-working, system resilience and disaster recovery • Dedicated cross-functional Business Continuity Committee in place • Controlled and governed process changes to support the business through continuity events.
Link to strategy	• The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme	• Investment in our infrastructure ensures the effective and efficient operation of the Scheme and long-term sustainability in providing excellent customer service.

Key

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

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 have been 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.

Whilst Oliver Wyman's review is still in progress they have shared their key conclusions and observations to date, which 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".

MO remains committed to ensuring that the economic capital approach remains appropriate, aligns to best-practice and continues to evolve and develop, and therefore looks forward to receiving Oliver Wyman's final report in 2021. MO's Board will consider any follow-up recommendations in this report fully when assessing future refinements to the economic capital model.

Calculating Economic Capital requirement

Where applicable we use our own data and experience and independently reviewed statistical models to calculate EC requirements 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.

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 2020. This is in addition to the diversification impacts within the different risks themselves. Post diversification, the economic capital requirement, as assessed through modelling, stands at £2.1 billion.

At the financial year end, the Group's closing capital position (represented by restricted reserves on the balance sheet of £2.3 billion) 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 £6.2bn means that even a 1% error in our forecast equates to a £62m 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 will implement as part of our ongoing refinement to the forecasting process.

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 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 includes over 140 risk metrics.

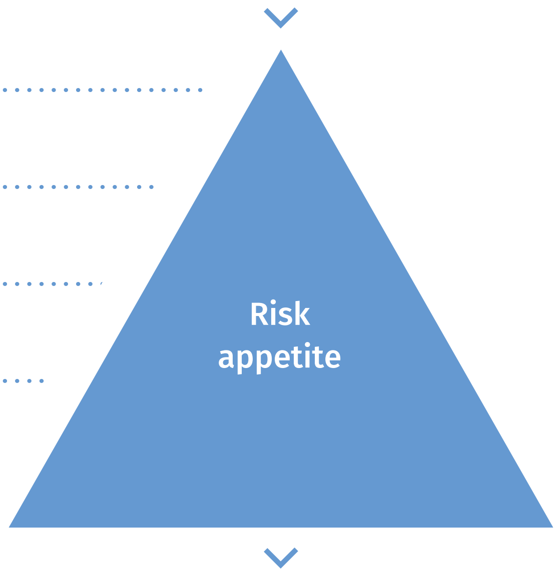
The development of this framework drew on best practice and is subject to periodic internal and external review.

The responsibility for monitoring and review of the RAF has been included within our governance framework.

Our risk appetite is reviewed and set by Directors on at least an annual basis, utilising information from strategic planning, risk management activity and business objectives.

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

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 2023.

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 27 to 35

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 lack of a trade agreement between the UK and the European Union being effective by 1 January 2021. As detailed in the Finance Director's review (page 39) the FY2020 financial position includes £131m of accelerated depreciation and impairment charges related to specific overlays that consider downside projections for a 'no deal' Brexit and significant further waves of Covid-19 infection. The total projected impact on residual values, and ultimately cash receipts, from these two specific overlays equates to £208m (see note 2 on page 96).

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 40, cash and funding) and 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.

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

Corporate governance report

For the year ended 30 September 2020, 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 635,000 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 were formalised as part of the strategy refresh during 2020, and were communicated to the wider workforce through the Interim CEO's roadshows which took place in June 2020. It builds on Motability Operations' commitment to good corporate governance 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. In addition, we may also donate to Motability (the Charity), supporting their broader aim to enhance the lives of disabled people with transportation solutions.

Principle 2
Board Composition

The Board comprises a Chairman, Chief Executive, Finance Director, four Non-Executives Directors 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.

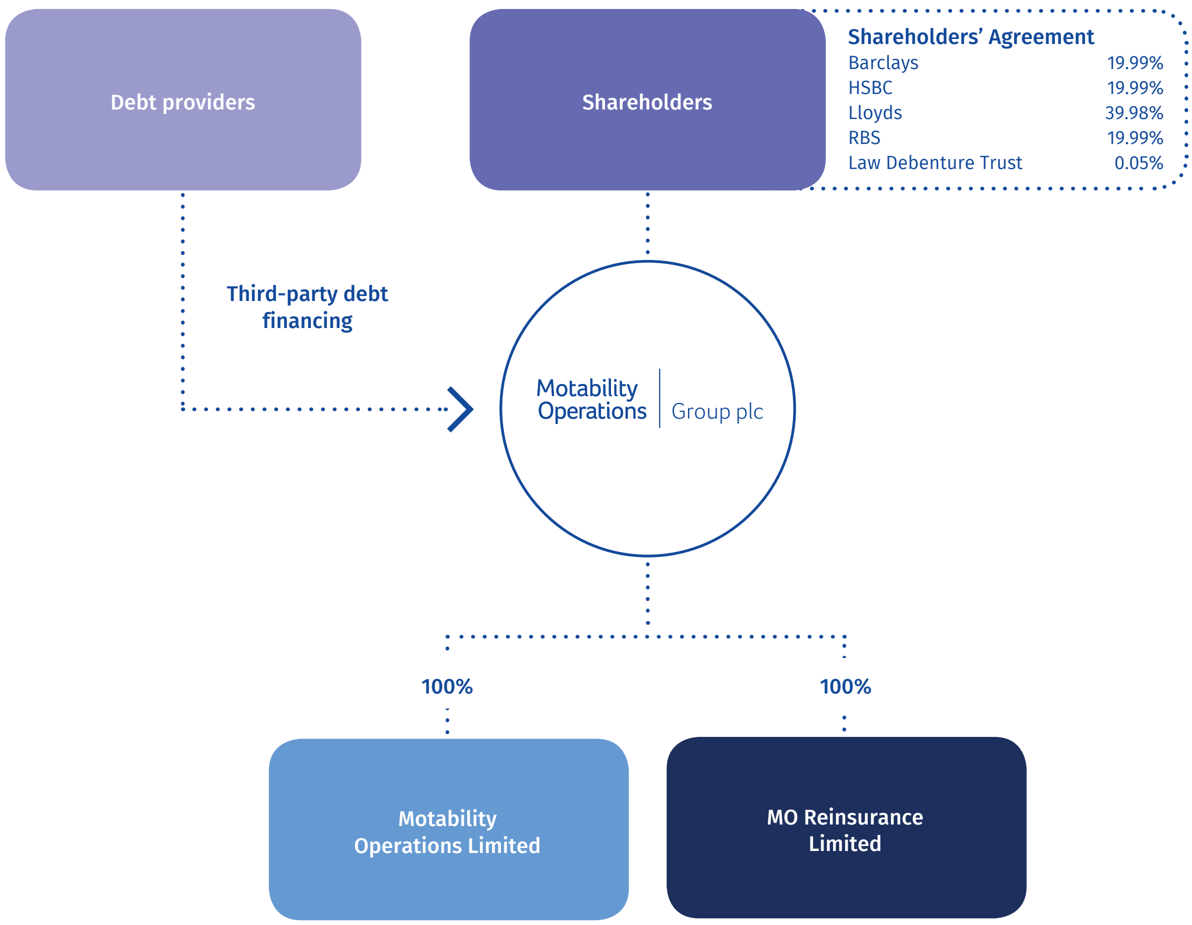
The responsibility of the Independent Non-Executive Chairman includes leading the Board and ensuring its effectiveness. This includes setting the agenda for Board meetings, promoting a culture of openness and debate and, with the assistance of the Company Secretary, arranging for the Directors to receive 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 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 major capital projects
- Ensuring adequate succession planning for the Board and senior management
- Undertaking reviews of its own performance and that of other Board committees
- Approval of Group policies
- Approval of the structure and terms of reference of the Board committees.

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

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

Non-Executive Directors

Barry O'Byrne
Non-Executive Director
Barry was appointed as a Non-Executive Director of Motability Operations Group plc on 1 October 2017 (alternate – Michael Hordley, appointed 1 February 2018).
Member of Audit Committee.

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

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 01 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.

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

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

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 stability 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 Matthew Hamilton-James, Interim Group Chief Executive, and includes Gareth Everson, Interim Finance Director; Ian Goswell, Commercial Director; Jo Pentland, Corporate Services and HR Director; Ashley Sylvester, Risk & Business Systems Director; and Julie McManus, Company Secretary.

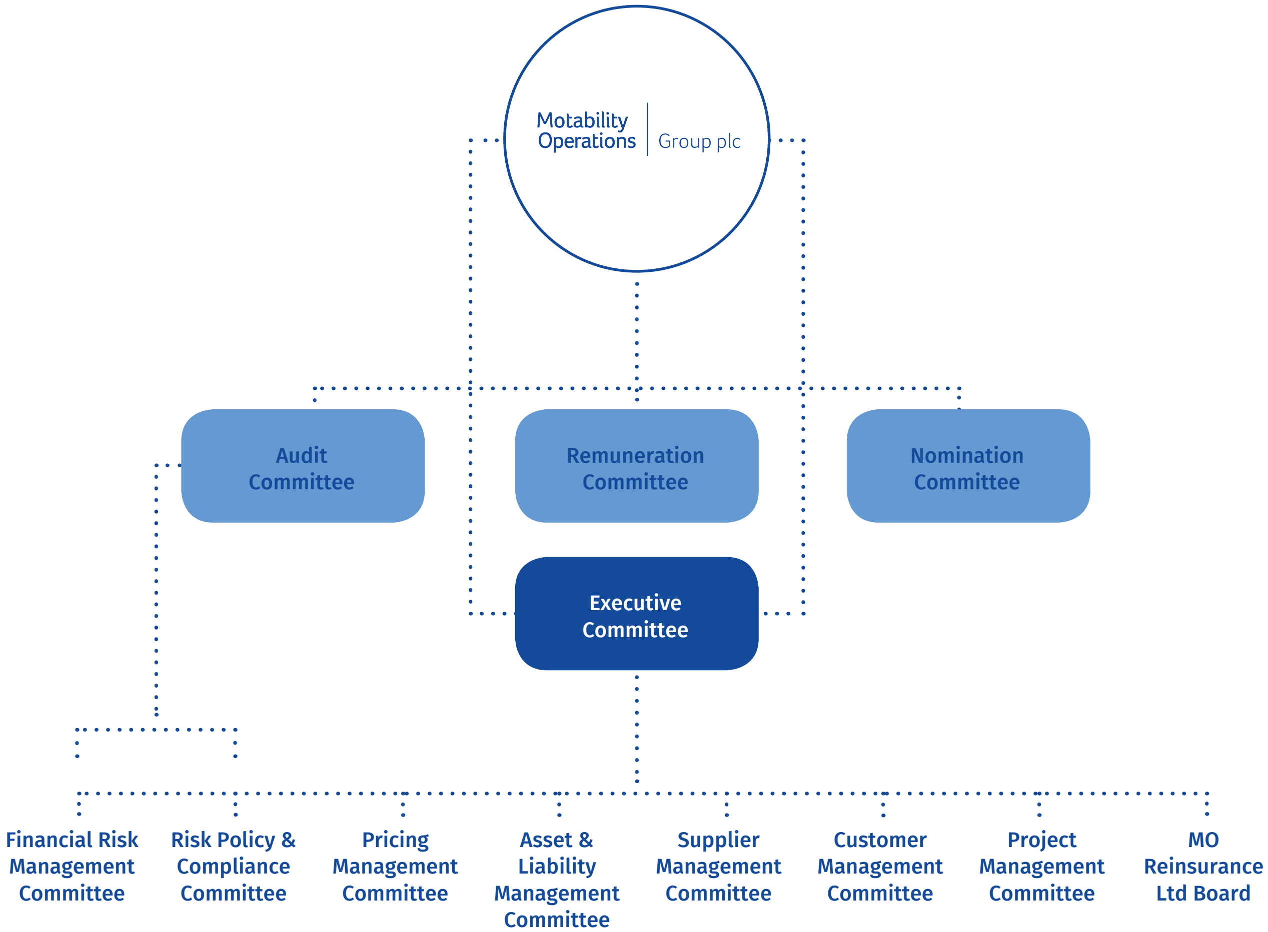
The Executive Committee met 12 times during the financial year and it has delegated authority from the Board to:

- Manage the day-to-day business 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; and Customer Management) and MO Reinsurance Ltd Board
- Agree internal authority limits and control.

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

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 Committee, Remuneration and Nomination Committees). These committees include both Non-Executive Directors and Independent Non-Executive Directors, who support effective decision making and independent challenge.

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, reviewed on a cyclical basis by the internal audit function with quarterly reporting to the Audit Committee.

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. 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. 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 of defence' approach to risk governance. Consistent with this approach, we have a dedicated Risk function that is integral to co-ordinating, monitoring and advising on control activities. This holistic approach encompasses all material risks, with clearly identified accountabilities and responsibilities for risk management, control and assurance. As such, risk management is incorporated as a core part of effective business planning and capital management. The responsibility for managing the risks and control activities sits firmly within the first line responsibilities.

We regularly review our risk management framework to ensure that it remains appropriate to the business and its strategy. These updates include regular assessments of risks and controls, including the update of risk registers, and early identification of any emerging risks to the achievement of our stated objectives. Further details of our risk management framework and approach are outlined in the Strategic report (on pages 27 to 35.)

The Risk Policy & Compliance Committee, consisting of Executive Committee members and Heads of Function, ensures that inherent and emerging risks are identified and managed appropriately and in a timely manner. Its focus in 2020 was on largely on how the Company responded to the pandemic and the actions taken against the key priorities of the Group at this time, namely the health, safety and well-being of employees and business continuity and the continuation of service provision to customers. The Committee meets on a quarterly basis and updates the risk register for any changes to underlying conditions. The Risk Policy & Compliance Committee continues to refine and enhance the Company's risk appetite framework and risk registers and works to ensure consistency across operations. The Company's principal risks and mitigation's are outlined in the Risk Management report (on pages 49 to 55).

A list of emerging risks is maintained by the Risk Policy & Compliance Committee and considered at each meeting – an emerging risk is included on the risk register once its likelihood and impact of occurrence becomes material to the Company.

The Company's Strategic report includes key risks that are monitored by the Risk Policy & Compliance Committee. The risk register is presented to the Executive Committee and the Group Audit Committee on a quarterly basis – specific points raised by either committee are discussed in the subsequent Risk Policy & Compliance Committee meeting. The Company's systems and controls are designed to manage, rather than to entirely eliminate, the risk of failure to achieve business objectives and can only provide reasonable and not an absolute assurance against a risk materialising.

Our risk appetite is reviewed and set by the Executive Directors on at least an annual basis, utilising information from strategic planning, risk management activity and business objectives.

Risk management framework

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

1st line of defence
Primary risk management

2nd line of defence
Risk control

3rd line of defence
Assurance

Please see pages 49 to 55 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.

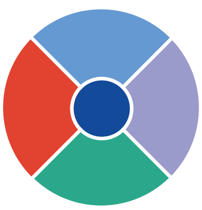
Motability Operations has a clearly defined strategic agenda and framework which underpins its core purpose of providing worry-free mobility to people with a wide range of different disabilities, offering a wide choice of vehicles at affordable prices. The strategic framework, represented by the four pillars (detailed on pages 27 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 69.

While we pay equally for equal roles, in 2019 we identified a mean gender pay gap of 25.6%. Although this represents a welcome decrease on the previous year, this area continues to be a focus for the Board, management team and throughout the Company. The Group is an active equal opportunities employer and promotes and 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



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

Please see pages 27 to 35 for more information on our strategy and KPIs

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, employees, suppliers, Motability (the national Charity) (see pages 4 and 5) 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 27.

Stakeholders

The Board promotes accountability and transparency with all external stakeholders.

Customers

Customer service is at the heart of our business, and despite the challenges that the pandemic has presented this has been a year of strong performance. An independent customer survey rated satisfaction levels at 9.7 out of 10. Ninety-eight per cent of customers said they would recommend the Scheme to others, and 91% chose to renew. We also benchmark services though the Institute of Customer Service (ICS). This year the ICS once again recognised our customer service as the highest in our sector, with an exceptional score of 94.4%, compared with a sector average of 79.5%.

Motability Operations' services are rated particularly positively for ease of doing business. We appreciate that customers have complex and changing needs, and we approach each as an individual, looking to understand the specifics of their circumstances and requirements. Customer service advisers are trained to take ownership for the customer's issue, respond with empathy, and work flexibly to address their needs. We aim to resolve as many as possible of customer queries in one call, and over 90% of calls achieve this standard.

We continued our investments across a full programme of activity that provides direct customer support and underpins the delivery of excellent customer outcomes.

91%

of customers chose to renew

Employees

We recognise that the calibre and commitment of our people is key to our success and are committed to creating an excellent working environment that is safe and promotes a collaborative business culture that supports diversity, inclusivity, personal development and respect. We have a number of Key People Policies (including Bullying & Harassment, Disability Confidence, Diversity, Grievances and Health & Safety) to meet our objectives. Read more on People and culture on pages 22 to 26.

We are immensely proud of our culture. It is the foundation upon which our approach to delivering excellent customer service is built. Every year, we measure our culture through our annual employee survey, myView. Facilitated by an independent global employee research and consulting organisation, our results are compared against a benchmark of UK High-Performing Organisations, which we continue to significantly outperform. In 2020, we achieved a survey response rate of 91%, with exceptionally high scores in our key measures of engagement, our values, customer focus, and supportive culture.

Critical to our success is the ability to recruit and retain the employees who will deliver excellence in their role and be aligned to our values. We are committed to employing and retaining the best person for the job, whoever that person may be. We run a number of programmes across our business aimed at attracting early talent into our organisation, including our Graduate Programme, Industrial Placement Programme, Scholarship Programme, Apprenticeships and work experience initiatives; see Kumsy's story on page 25. We take pride in our on-boarding programmes, designed to ensure that each employee who joins us has an opportunity to meet our Executive Team and learn about our past, present and future plans.

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 through secondments to other parts of the business. In 2019/20, 42% of our vacant positions were filled internally. Through our Diversity & Inclusion Networks, we encourage a work environment where employees feel valued and free to be their authentic selves. We pride ourselves on championing and promoting our values at every level throughout the organisation, and Diversity and Inclusion forms a key part of our internal and external recruitment process.

We recognise the importance of supporting employees to look after their own health and well-being, particularly during the Covid-19 pandemic. Please see page 23 for further details.

91%

survey response with exceptionally high scores

Suppliers

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.

We work with a network of partners, including around 5,000 dealers, to deliver services to customers. Our objective is to offer consistently good service across the UK, and we provide training to help dealers become confident in meeting the needs of customers with a range of disabilities. During the year we 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. We are currently making plans to ensure that our series of dealer business briefings, scheduled for early 2021 and normally attended by more than 3,000 dealer managers and specialists across the UK, can be delivered through effective digital channels.

The Company publishes it payment reporting data bi-annually. 98% of all invoices were paid with its standard payment terms of 30 days.

Local communities

We actively embrace Corporate Social Responsibility obligations. This manifests in a number of ways including:

- Our core focus is to help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local organisations
- During the year the Company made charitable donations of £40,215 to support and sponsor local initiatives directly through our "myCommunity" programme.
- We operate a Scholarship Programme providing financial support and work experience for a number of disabled students each year and have started an Apprenticeship Programme.

£40k

charitable donations through "myCommunity"

Delivering when it matters most for our stakeholders

Our customers

Our people

Our partners

Please see page 7 for more information on how we deliver when it matters most

Audit Committee

> "Financial oversight and control was critical whilst responding to changing customer needs."
>
> **Ruth Prior**
> Audit Committee Chair

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, Chris Davies, Daniel Meredith Jones, Barry O'Byrne, Neill Thomas and Paul Thwaite. 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.

Chris Davies joined the Committee on 1 July as an Independent Non-Executive Director, following the end of David Smith's term of office.

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
- 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 & 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 has responded to the pandemic and the actions taken against the key priorities of the Group at this time, namely the health, safety and well-being of employees and business continuity and the continuation of service provision to customers
- Received updates on the outcome of the external reserves forecasting review. The review concluded that there was no systemic bias in the RV forecasting process, the approach to forecasting follows best practice, the Asset Risk team have a deep understanding of the subject matter, the RV forecasting approach is appropriate and fit for purpose going forward and that the approach makes best use of data from external providers
- Received updates on the strategic project to rebuild the Economic Capital model which will deliver an enduring approach to the model, data validation and bench-marking of the Group's Economic Capital requirements
- 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
- Presentations from the respective chairs of MO Reinsurance Limited's (MORL) Underwriting, Investment and Audit & Risk Committees
- Regulatory and legal compliance obligations, with continued focus on ensuring compliance with the General Data Protection Regulation (GDPR) and FCA Consumer Credit compliance and the delineation of responsibility between the Legal function and the newly established business compliance function
- Validation of the annual risk review process, including a review of how the major risks are presented to ensure greater consistency of 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
- Establishment of a revised Internal Audit plan that will see business-as-usual audits that have been rated 'green' being audited at a key control level, with the focus of the internal audit function moving towards advisory engagements in key strategic areas
- The decision to produce a Management Statement in light of the impact of the Covid-19 crisis and the unprecedented uncertainty around assumptions critical to delivering a robust financial report was considered in depth at the Committee's May meeting
- The financial statement for the 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 67.

In recognition of the importance of evaluating its own effectiveness, the Committee undertook a review in 2020 covering members' experience and knowledge in the context of changing demands in the key aspects of its work. The results of this evaluation confirmed the Committee's underlying effectiveness, and provided useful insights for future challenges.

During the financial year ended 30 September 2020, the 2019 external audit of Motability Operations Group plc by KPMG LLP was reviewed by the FRC's Audit Quality Review (AQR) team. The AQR routinely monitors the quality of audit work of certain UK audit firms through inspections of sample audits and related procedures at individual audit firms. There were no key findings arising from the review. The AQR highlighted two good practice observations in relation to the Group oversight of the Isle of Man component and the audit of the residual value of used cars. The Audit Committee and KPMG LLP have discussed the review findings and the Committee was satisfied with the outcome of the review.

Ruth C-Prior

Ruth Prior
Audit Committee Chair

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. • Both Internal Audit and KPMG as the external auditor provided assurance to the Audit Committee that the residual value forecasting process was undertaken in a controlled manner. • 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 approach adopted was discussed and subsequently validated by the Audit Committee. • The Audit Committee was satisfied that the estimate of insurance reserves was appropriate and processes well controlled.
Other accounting estimates	
Other areas of accounting estimates include maintenance accrual and end-of-contract payments. Changes in estimates of future expenditure or pay-out 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 and the external auditor to assess the appropriateness and robustness of estimates. • On this basis, the Audit Committee was satisfied that accounting estimates were appropriate and processes well controlled.

Nomination Committee

"

We have confirmed that succession plans are in place and have appointed a new CEO.

"

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. 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
- Make recommendations to the Board in relation to membership of the Audit and Remuneration Committees
- Approve an Executive Director's external non-executive director appointment
- Receive the gender balance report
- Make recommendations to the Board concerning any matters relating to the termination of a Director's contract of employment or service
- Review the Company's Early Careers programme
- Evaluate the effectiveness of the Committee every two years.

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

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

- Appointed executive search agencies for the Chief Executive Officer and the Non-Executive positions
- Conducted and concluded the search for the new Chief Executive Officer and recommended to the Board Andrew Miller
- Recommended to the Board the appointments of Matthew Hamilton-James as Interim Chief Executive Officer and Gareth Everson as Interim Finance Director
- Commenced and concluded a search for the replacement of David Smith, who retired at the end of June 2020, and recommended to the Board the appointment of Chris Davies. He was also recommended as a member of the Audit Committee and Remuneration Committee
- Approved Andrew Miller's outside non-executive director appointment
- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and continue to meet business needs
- The composition of the Board was reviewed and recommended to the Board that Ruth Prior be appointed for a second term commencing 1 March 2021
- Agreed the position of the Executive Directors within their remuneration ranges
- Considered the gender balance report
- Carried out an evaluation of the Committee and the overall feedback was that the Committee was run effectively and had discharged its responsibilities in line with good practice.

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

Remuneration Committee

"Our aim is to design a competitive remuneration package."

Neill Thomas
Remuneration Committee Chairman

Letter from the Committee Chairman

I am pleased to present the Directors' Remuneration Report for the year ending September 2020.

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 27 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.

Current year application

The social and economic impacts of the Covid-19 pandemic created an unprecedented set of financial and operational challenges for the Company this year and provide important context when reviewing performance. Although planned for, at the same time Mike Betts resigned as CEO, Matthew Hamilton-James was appointed Interim CEO pending Andrew Miller joining the Company as the new CEO in January 2021. Remuneration relating to these appointments is detailed below.

Covid-19 context

As detailed on pages 7 to 9 Motability Operations took swift and appropriate action to prioritise support for customers and employees and, as lockdown was eased and the markets re-opened in June, put programmes in place to maximise the opportunities in a strong market for used-car sales. Given the unprecedented nature of the challenges a decision was made to retain the services of Mike Betts, former CEO, as a consultant to the Company and for him to lead the business's response to the Covid-19 pandemic. The actions taken in this regard underpin performance across the range of financial and non-financial measures against which Company performance is assessed.

Annual performance-related payments

Annual performance-related payments are linked to the same 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 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 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 Report below; however, key performance outcomes in the year are set out below:

- Customer: A score of 94.4% (2019 : 93.7%) overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 76.9% and a sector average (Bank & Building Societies) of 79.5%
- Culture: Business culture scores, as independently measured through Willis Towers Watson's 'High-Performing Organisations' culture survey, significantly outperformed the UK 'High-Performing Organisations' Norm groups across all 11 categories (including a Customer Focus score of 96% (2019: 95%) and Employee Engagement at 96% (2019: 95%))
- 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, overlaid with a 20% flat reduction applied at the Committee's discretion, resulted in a bonus expressed as a percentage of the maximum potential of 49.1% for Mike Betts and 55.9% for Matthew Hamilton-James, pro-rated for time in their respective roles for the year. 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. Having made that determination the Committee applied a 20% reduction for this year to reflect the challenging external environment presented by the Covid-19 pandemic.

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. In addition, in respect of this year's bonus awards the Committee introduced an additional deferral to October 2021 in relation to a further 25% of bonus awards. Whilst both the Company's performance and that of individual Executive Directors has been strong notwithstanding a unique set of operational challenges, the Committee believes it is prudent to defer an additional element of bonus awards until the full uncertainty of the pandemic's impact has passed. Overall, this will mean that 75% of the bonus award in respect of the year will be deferred.

Based on performance in the three year period ended 30 September 2020, the Committee determined that the underpin conditions attached to deferred bonus awards made in respect of FY2017 were achieved and as such the awards were released to the Executive Directors (as noted above).

Remuneration of former CEO

As part of a planned departure, Mike Betts resigned as CEO with effect from 31 March 2020, remaining as an employee with the business until 31st May 2020. For the eight-month period to that date he received his salary, cash in lieu of pension and benefits as detailed in the Remuneration Report. He also remained eligible for a pro-rata bonus in accordance with the terms and conditions of the Remuneration Policy for Executive Directors.

In addition, the Long Term Performance Plan for the CEO was crystallised and paid in April 2020. He will remain eligible to receive deferred bonuses in accordance with the underpinning conditions. He received no compensation for loss of office.

As highlighted above, to address the challenges presented by Covid-19 and to benefit from his extensive industry and operational experience, Mike Betts was retained as a consultant from 1 June 2020 with specific responsibility to lead the business's response to the pandemic. This role was terminated, by mutual agreement, on 20 November 2020 by which time the business had navigated successfully many of the unique challenges presented by the pandemic. During the period June to November 2020 Mike Betts was paid total remuneration of £321,000 comprising a fee of £3,000 for each day worked and a bonus of £75,000 determined against a set of specific business and personal performance targets for the role and representing 75% of the maximum potential bonus opportunity. The role was non-pensionable and carried no other benefits.

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.

Approach for FY2021

The annual review of the Remuneration Policy confirmed continued alignment to Motability Operations' strategy and business objectives. The Committee is satisfied that no material changes are required ahead of the next performance year.

The key points to note in relation to the remuneration structure are set out below.

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.

Annual Performance Incentive

The structure will continue to operate using the same overall framework as the current financial year with bonuses earned based on performance against challenging corporate and individual targets including financial and non-financial measures. The maximum incentive opportunity for the Interim CEO will be 150% of salary plus "standing up" allowance.

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). The Interim CEO will receive a cash allowance in lieu of pension for 2020/21 of 15% of salary.

Remuneration of new CEO

As currently planned, Andrew Miller will join the Company as CEO in January 2021. Andrew Miller's salary will be £410,000. He will receive 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 will be 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 will be 150% of salary.

Neill Thomas

Neill Thomas
Remuneration Committee Chair

Remuneration Report

Executive Directors' remuneration

The table below sets out the Directors' remuneration structure consisting of base salary, annual performance-related pay, long-term incentive arrangements, core benefits and pension. The amounts for Mike Betts 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 he continued in this role as a consultant for the remainder of the financial year. The amounts for Matthew Hamilton-James cover six months to 31 March 2020 as Finance Director and six months to 30 September as Interim CEO.

Base salary	Mike Betts	– £390k (FY2019: £580k)
	Matthew Hamilton-James	– £337k (FY2019: £296k)
	Matthew Hamilton-James' salary reflects a salary increase that was effective from 1 January 2020 of 2.5% aligned to a general inflationary increase across the Company and the award of a non-pensionable 'stand-up' salary award, effective 1st April 2020, of £5k per month whilst undertaking the role of Interim Chief Executive Officer.	
Benefits	A standard range of benefits are 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.	
	Mike Betts	– £97k (FY2019: £145k) 25% of salary
	Matthew Hamilton-James	– £46k (FY2019: £45k) 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.	
	Mike Betts	– £72k, representing the cash component (25%) of the bonus award in respect of FY2020, which paid out at 49.1% of maximum. (FY2019 50% paid @ £275k)
	Matthew Hamilton-James	– £65k, representing the cash component (25%) of the bonus award in respect of FY2020, which paid out at 55.9% of maximum. (FY2019: 50% paid @ £142k)
Long-term incentive and vesting of deferred bonus	Payment in the year relates to the release of deferred bonus awards earned in FY2017. The Committee determined that the performance criteria attached to the awards were met in full and therefore the award was released.	
	Mike Betts	– £453k (FY2019: £666k)[1]
	Matthew Hamilton-James	– £103k (FY2019: £95k)
	[1] Mike Betts received an annual retention award of £120k in FY2019. The payment for FY2020 has been pro-rated to 31 May 2020.	
	Legacy awards	
	In addition to the above, as previously disclosed, Mike Betts participated in a five-year Long Term Incentive Scheme (LTIS), that was introduced in 2010. During 2015, the LTIS was converted into a Long Term Performance Plan or "LTPP" and it was agreed that any potential benefit from the LTPP would be deferred for seven years, during which period no additional allocations would be made into the Scheme and any potential benefit would continue to be linked to stretching financial performance targets. The LTIS payment crystallised this year following Mike Bett's resignation as CEO, with £1,953k paid in April 2020.	

FY2020 outcomes

The table below sets out the remuneration outcomes for the Executive Directors for FY2020

	Base 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	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive Directors														
Mike Betts	390	580	29	26	–	–	97	145	72	275	2,407	666	2,995	1,692
Matthew Hamilton-James	337	296	16	16	–	–	46	45	65	142	103	95	567	594

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 (25%) that is payable for the current year. 25% is deferred for a period of one year. The remaining 50% is deferred for a period of three years. FY2019 Bonus reflects 50% of the annual award, with the remaining 50% deferred for a period of 3 years
5. This includes the vesting of payments made in respect of the run-off of the now closed LTIP, LTIS/LTPP and retention incentive schemes disclosed previously. The first tranche of deferred bonuses, under the revised policy introduced in 2016, were released in December 2019.

Annual performance incentive – measurement

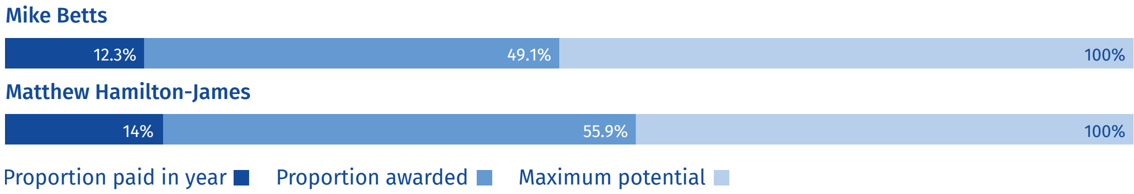
Annual performance-related payments are not guaranteed and are linked to clear and sustainable measures of business and individual performance, with levels of stretch incorporated to encourage and reward outstanding performance.

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.

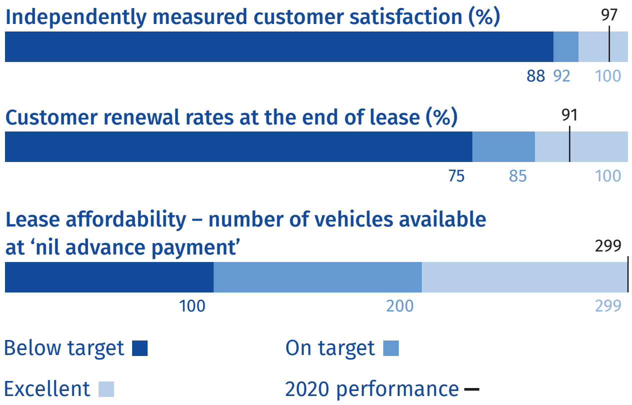
In terms of corporate objectives, performance is set with reference to customer service, business culture and financial targets as well as governance, risk management and the delivery of strategic initiatives.

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 49.1% of maximum potential award for Mike Betts and 55.9% of the weighted average maximum potential award for Matthew Hamilton-James reflecting his roles as Finance Director and Interim Chief Executive. As detailed in the Remuneration Committee Chairman's letter, for this year's bonus awards the Committee introduced an additional deferral to October 2021 in relation to a further 25% of bonus awards.



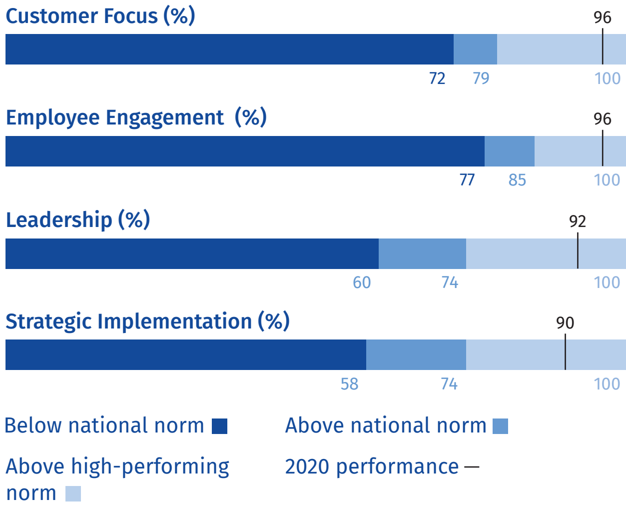
Customer service

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, as reported on page 69, and an internally commissioned independent review, see graph below) alongside other measures including customer renewal rates at the end of lease, perhaps the ultimate validation. 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)



Linking performance and reward

97%
Overall customer satisfaction
Target of >92%

91%
Customer renewal rate at the end of lease
Target of >85%

>299
Affordable vehicle choice at 'nil advance payment'
Target of >200

Please see pages 27 to 35 for more information on our KPIs

Our values and culture

- Inclusion
- Excellence
- Empathy
- Empowerment
- Forward thinking

Our values are central to delivering and meeting the needs and expectations of our customers.

Please see pages 22 to 26 for more information on our business culture

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 2020:

- 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
- 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.

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 Mike Betts and Matthew Hamilton-James demonstrated very strong performance against their objectives and in managing the organisation through both the CEO transition and the unforeseen impact of Covid-19.

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
Mike Betts	Oct 2017	2017-2020	Dec 2020	263	263
	Oct 2018	2018-2021	Dec 2021	264	264
	Oct 2019	2019-2022	Dec 2022	275	275
	Oct 2020	2020-2021	Oct 2021	72	72
	Oct 2020	2020-2023	Dec 2023	143	143
Matthew Hamilton-James	Oct 2017	2017-2020	Dec 2020	121	121
	Oct 2018	2018-2021	Dec 2021	132	132
	Oct 2019	2019-2022	Dec 2022	142	142
	Oct 2020	2020-2021	Oct 2021	65	65
	Oct 2020	2020-2023	Dec 2023	130	130

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.

Non-Executive Directors' remuneration

The Non-Executive Chairman and the Independent Directors receive a base annual fee which reflects 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. In light of the Covid-19 pandemic, it was deemed appropriate, and subsequently approved by the Board, that Non-Executive remuneration should not be increased.

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.

£k	Salary		Benefits[1]		Expenses reimbursed in performance of duties[2]		Pension[3]		Bonus[4]		Vesting of deferred bonuses and long-term incentives[5]		TOTAL	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Executive Directors														
Mike Betts^	390	580	29	26	–	–	97	145	72	275	2,407	666	2,995	1,692
Matthew Hamilton-James	337	296	16	16	–	–	46	45	65	142	103	95	567	594
David Gilman^^	–	–	–	–	–	–	–	–	–	–	141	–	141	–
Independent Non-Executive Directors														
Sir Stephen O'Brien (Chairman)^^	152	88	–	–	–	3	–	–	–	–	–	–	152	91
Neill Thomas	75	73	–	–	–	–	–	–	–	–	–	–	75	73
Ruth Prior	65	64	–	–	–	–	–	–	–	–	–	–	65	64
David Smith^	38	50	–	–	–	–	–	–	–	–	–	–	38	50
Ruth Owen	49	49	–	–	–	–	–	–	–	–	–	–	49	49
Alison Hastings	49	49	–	–	1	1	–	–	–	–	–	–	50	50
Simon Minty	50	49	–	–	–	–	–	–	–	–	–	–	50	49
Chris Davies^	17	–	–	–	–	–	–	–	–	–	–	–	17	0
Neil Johnson (ex-Chairman)^^	–	89	–	14	–	–	–	–	–	–	–	–	–	103
Joe Hennessy^^	–	33	–	–	–	–	–	–	–	–	–	–	–	33

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 (25%) that is payable for the current year. 25% is deferred for a period of one year. The remaining 50% is deferred for a period of three years.
5. This includes the vesting of payments made in respect of the run-off of the now closed LTIP, LTIS/LTPP and retention incentive schemes disclosed previously. The first tranche of deferred bonuses, under the revised policy introduced in 2016, were released in December 2019.

^ All Directors served throughout the year unless marked ^ (and prior year unless marked ^^). Of the Board's Non-Executive Directors, only the Chairman and Independent Non-Executive Directors receive remuneration.

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 2019 the Committee members were Neill Thomas, who chaired the Committee, Daniel Meredith Jones, Sir Stephen O'Brien, Ruth Prior, Simon Minty (from October 2019), David Smith (until June 2020) and Chris Davies (from June 2020)

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.

Responsibilities of the Remuneration Committee

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

- The overall positioning of competitive remuneration with reference to market data
- Base salaries and increases for the Executive Directors
- 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 Directors
- The remuneration arrangements on appointment of a new Executive Director, including any buy-out awards (if applicable)
- The policy on exit payments for Executive Directors and the remuneration terms of exit on departure of Executive Directors
- 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 third Gender Pay Gap report, highlighting a mean pay gap of 25.6% compared to 29.6% the previous year, was published in April 2020. 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 pages from 22 to 26)

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. The review was overseen by a Committee comprising the Chair of the Remuneration Committee, the Corporate Services and HR Director and the Head of HR. Following completion of the review and recommendation to the Remuneration Committee, Deloitte were awarded the role with effect from March 2020.

Activities of the Remuneration Committee during the year

The Committee met five times in the financial year ending 30 September 2020 and its main activities during the year in respect of the remuneration of the Executive Directors were to:

- Review and agree the remuneration package of the new Chief Executive
- Review and agree the “stand-up” payments for the Interim Chief Executive and Interim Finance Director
- Review and agree any changes to base salaries and annual performance-related payments
- Consider whether any of the underpinning conditions relating to the release of deferred bonus payments apply
- Review pension and benefits
- Review Executive remuneration ranges with reference to market data
- Consider Executive remuneration in light of the Covid pandemic
- Consider the recommendation arising from the review of remuneration advisers and appointment of new advisers
- Review the Remuneration Policy to ensure best practice.
- Evaluate the Committee’s effectiveness.

Directors’ Remuneration Policy

Executive Director Remuneration Policy

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

Each Executive Director receives a copy of the Strategic Review, the Annual Operating Plan (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, as defined by the following core values, is regarded as central to delivering excellent performance:

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

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

Leaving and joining arrangements for Executive Directors

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

Other matters

- Equal & fair pay – The Group’s Remuneration Policy recognises Equal Pay. The Group is also committed to paying at least at the level of the current Living Wage (as calculated by the Living Wage Foundation) for an individual’s base location.
- Employees – 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 Executive Directors may retain any fees received for non-executive activities.

Basis of employment

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

Neill Thomas.

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 page 45. We also seek to minimise the footprint of our work environment (see page 79 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 is 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 on page 64 within our corporate governance reporting.

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 2020, 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 94.4%
- Our customer services are UK based and can be reached via a low cost 0330 number – during the year ending 30 September 2020 they took approximately 968,000 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 968,000 telephone calls in the year ending 30 September 2020.

Motability Operations has a customer base of circa 635,000.

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 2019 – 30 September 2020	2,613

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

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

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

Customer satisfaction levels with our complaints handling

We use customer satisfaction surveys to ask customers how we handled their complaint. In April 2020 we contacted a representative sample of customers who had complained to us between December 2019 and February 2020. They rated us with an overall score of 9.2 out of 10 for our complaint handling.

There were 57 customers who asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2020. Of the 57 requests for review by customers, the FOS has found in favour of Motability Operations in relation to 27 of these and 27 are pending the 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.

Total energy consumption incl gas and electricity	4,416,520 kWh
Total CO_2 emissions	998,330 kg CO_2
Intensity ratio (total emissions)	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 practice energy efficiency throughout our organisation, wherever it is cost effective. We recognize 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 businesses energy efficiency in the current financial year:

- Upgraded all office lighting to LED.
- Installed touchless technologies for toilet flushes and taps both of which prevent over use of water consumption
- Installed 13 charging points for electric vehicles at our new building in Edinburgh, this is in addition to 37 charge points at our Bristol Campus.
- Upgraded PCs to more energy efficient laptops
- Increased availability and encouraged use of video conferencing.
- Reduced travel costs by reducing number of face to face meetings with clients and suppliers.

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 2020. The report must be read in conjunction with the Strategic report on pages 2 to 56, the Chairman's statement on page 14 and the Chief Executive review on page 17.

For the year ended 30 September 2020, 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; the Diversity Networking Groups which comprise of 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.

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 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 are required to prepare the Group financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) and applicable law and have elected to prepare the parent Company financial statements on the same basis.

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 their 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 IFRSs as adopted by the EU;
- 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, and Corporate Governance Statement that complies with that law and those regulations.

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 2019 Annual Report and Accounts includes a Viability Statement. This can be found on page 56 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, Barry O'Byrne, Matthew Hamilton-James, Alison Hastings, Daniel Meredith Jones, Simon Minty, Ruth Owen, Ruth Prior, Neill Thomas and Paul Thwaite served as Directors throughout the year.

Steve Bolton, Peter Lord and Michael Hordley served as an alternate Director throughout the year.

Simon Amess was appointed as alternate Director on 1 December 2019.

Mike Betts stepped down from the role of Chief Executive on 31 March 2020.

Matthew Hamilton-James was appointed as Interim Chief Executive on 1 April 2020.

David Smith retired as an Independent Non-Executive on 30 June 2020.

Chris Davies was appointed as Independent Non-Executive on 1 June 2020.

Directors' interests

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

Signed by order of the Board

Jo Pentland
Group Company Secretary

16 December 2020

Independent auditors’ 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 2020 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 2020 and of the Group’s profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the Parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU 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.

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 2 financial years ended 30 September 2020. 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 listed public interest entities. No non-audit services prohibited by that standard were provided.

Overview		
Materiality:	£30.0m (2019: £16.0m)	
Group financial statements as a whole	0.7% of total revenue (2019: 0.8% of revenue (excluding proceeds from disposal of operating lease assets))	
Coverage	100% of Group profit before tax (2019: 100% of Group profit before tax)	
Key audit matters		**vs 2019**
Event driven	**New:** Going Concern	▲
	The impact of uncertainties due to the UK exiting the European Union on our audit	◀▶
Recurring risks of the Group	Residual values of used cars	▲
	Valuation of insurance reserves	▲
Recurring risks of the Parent	Recoverability of Parent Company’s loans to subsidiaries	◀▶

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

Key audit matters are those matters that, in our professional judgment, 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 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.

2. Key audit matters: including our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
The impact of uncertainties due to the UK exiting the European Union on our audit Refer to page 38 (Finance Director's review) and page 102 (Note 3, financial disclosures)	**Unprecedented levels of uncertainty:** All audits assess and challenge the reasonableness of estimates, in particular as described in the residual value of used cars and valuation of insurance reserves, below, and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance. Brexit is one of the most significant economic events for the UK and its effects are subject to unprecedented levels of uncertainty of consequences, with the full range of possible effects unknown.	We developed a standardised firm-wide approach to the consideration of the uncertainties arising from Brexit in planning and performing our audits. Our procedures included: • **Our Brexit knowledge:** We considered the Directors' assessment of Brexit-related sources of risk for the Group business and financial resources compared with our own understanding of the risks. We considered the Directors' plans to take action to mitigate the risks; • **Sensitivity analysis:** When addressing the residual value of used cars, valuation of insurance reserves and other areas that depend on forecasts, we compared the Directors' analysis to our assessment of the full range of reasonably possible scenarios resulting from Brexit uncertainty and; • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the residual value of used cars and valuation of insurance reserves, we considered all of the Brexit related disclosures together, including those in the strategic report, comparing the overall picture against our understanding of the risks. **Our results** As reported under the residual values of used cars and valuation of insurance reserves, we found the resulting estimates and related disclosures of residual value of used cars, valuation of insurance reserves and disclosures in relation to going concern to be acceptable. However, no audit should be expected to predict the unknowable factors or all possible future implications for a Company and this is particularly the case in relation to Brexit.

2. Key audit matters: including our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
Residual values of used cars Refer to page 67 (Audit Committee Report), page 94 (Note 2, Significant accounting policies) and page 111 (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 reflect 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. The subjectivity of these assumptions have increased in the current year as a result of the uncertainties arising from 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, considering the impact of uncertainties arising from COVID-19 and Brexit. • **Tests 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 in used 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. • **Assessing transparency:** We assessed the adequacy of the Group's disclosures in respect of the residual values of used cars, associated sensitivities to key assumptions, and changes in estimates during the year. This included an assessment of the appropriateness of the sensitivities disclosed in light of the increased uncertainty arising from COVID-19. **Our results** We found the resulting estimates of the residual values of used cars and the related disclosures to be acceptable (2019: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
Valuation of insurance reserves (gross and net) Refer to page 67 (Audit Committee Report), page 94 (Note 2, Significant accounting policies) and page 118 (Note 24, financial disclosures)	**Subjective estimate:** The valuation of insurance reserves is an area requiring significant judgement in the Group financial statements. Valuation of these liabilities is highly judgmental, and 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, used to value the liabilities, particularly those relating to the amount and timing of Incurred but not Reported ('IBNR') claims. 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 insurance 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, and possibly many times that amount. **Data capture:** The valuation of insurance reserves outstanding depends on complete and accurate data about the volume, amount and pattern of current and historical claims since they are used to form expectations about future claims. If the data used in calculating IBNR, or for forming judgements over key assumptions, is not complete and accurate then material impacts on the valuation of claims outstanding may arise.	Our procedures included: • **Independent re-performance:** We have carried out alternative projections of the gross and net reserve balances using our own methods. • **Sector experience and benchmarking:** We compared the assumptions, reserving methodologies and estimates of gross and net (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 forthcoming 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. • **Data comparisons:** We inspected the reconciliations between the claims data recorded in the policy administration systems of the third party claims administrator and fronting insurer and the data used in the actuarial reserving calculations to ensure the integrity of the data used in the actuarial reserving process. • **Assessing transparency:** We assessed the appropriateness of the accounting policy and disclosures relating to valuation of insurance reserves. **Our results** We found the resulting estimates of the valuation of insurance reserves to be to be acceptable (2019 results: acceptable).

2. Key audit matters: including our assessment of risks of material misstatement *(continued)*

Key audit matter	The risk	Our response
Going Concern Refer to page 81 (Director's Responsibilities Statement) and page 94 (Note 2, financial disclosures)	**Disclosure quality:** The financial statements explain how the Directors have formed a judgement that it is appropriate to adopt the going concern basis of preparation for the Group and the Parent Company. That judgement is based on an evaluation of the inherent risks to the Group and the Company's business model and how those risks might affect the Group's and Company's financial resources or ability to continue operations. The risks most likely to adversely affect the Group's and Company's available financial resources over this period are those resulting from COVID-19 and Brexit, including: • Reduced disposal proceeds from operating leases resulting from lower fleet growth; • Economic uncertainty impacting the fleet valuations; • Uncertainty in relation to a Brexit deal and the potential for import tariffs The risk for our audit was whether or not those risks were such that they amounted to a material uncertainty that may have cast significant doubt on the ability to continue as a going concern. Had they been such, then that fact would have been required to have been disclosed.	Our procedures included: • **Our sector experience:** We considered the directors' assessment of COVID-19 and Brexit related sources of risk for the Group's businesses and financial resources compared with our own understanding of the risks. We considered the directors' plans to take action to mitigate the risks; • **Challenge of assumptions:** We assessed the Group's forecast profitability, capital and liquidity to identify key assumptions. We challenged the reasonableness of assumptions underpinning the Group's and Company's forecasts. As part of this, we have assessed the director's historical accuracy in forecasting; • **Sensitivity analysis:** We assessed the stressed scenarios used by the Group in forecasting profitability, capital and liquidity and the viability of possible management actions; • **Funding assessment:** We assessed the impact on the covenants in place under management's stressed scenarios; • **Assessing transparency:** We critically assessed the completeness and accuracy of the matters covered in the going concern disclosure within the financial statements using our knowledge of the relevant facts and circumstances developed during our audit work, considering the economic outlook, key areas of estimation uncertainty, and mitigating actions available to the Group to respond to these risks. **Our results** We found the going concern disclosure to be acceptable and without any material uncertainty (2019 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 96.0% (2019: 96.0%) 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 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 the loans to subsidiaries to be acceptable (2019: acceptable).

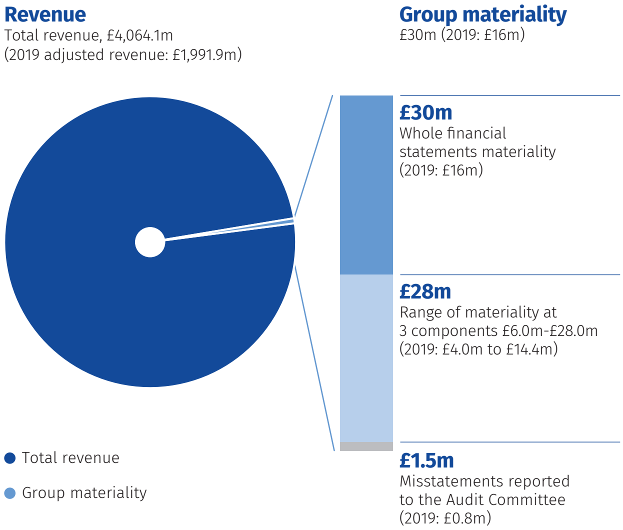
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £30.0m (2019: £16.0m), determined with reference to a benchmark of total revenue, of which it represents 0.7% (2019:0.8% of total revenue (excluding proceeds from disposal)).

Our benchmark has been updated from the prior year, to include proceeds from disposal of operating lease assets, given it is a key revenue stream for the business and reflects the revenue earned across the entire lease.

Materiality for the Parent Company financial statements as a whole was set at £21.0m (2019:£12.0m), determined with reference to a benchmark of Company total assets, of which it represents 0.7% (2019:0.8%). This was capped at component materiality, which has increased in line with Group materiality.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £1.5m (2019:£0.8m), 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 – £21m (2019:£12m)

MO Reinsurance Limited – £6.0m (2019:£4.0m)

Motability Operations Limited – £28.0m (2019:£14.4m)

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 component.

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

4. We have nothing to report on going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or to cease their operations, and as they have concluded that the Group'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").

Our responsibility is to conclude on the appropriateness of the Directors' conclusions and, had there been a material uncertainty related to going concern, to make reference to that in this audit report. 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 absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group and the Company will continue in operation.

We identified going concern as a key audit matter (see section 2 of this report). Based on the work described in our response to that key audit matter, we are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements.

We have nothing to report in these respects.

5. 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 the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion 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.

6. 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.

7. Respective responsibilities

Directors' responsibilities

As explained more fully in their statement set out on page 81, 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 other irregularities (see below), 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, other irregularities 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.

Irregularities – ability to detect

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.

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 Group level. 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 or the loss of the Group's licence to operate.

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. Through these procedures, we became aware of actual or suspected non-compliance and considered the effect as part of our procedures on the related financial statement items. The identified actual or suspected non-compliance was not sufficiently significant to our audit to result in our response being identified as a key audit matter.

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 (irregularities) 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 irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal controls. We are not responsible for preventing non-compliance and cannot be expected to detect non-compliance with all laws and regulations.

8. 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

16 December 2020

Income statement

For the year ended 30 September 2020

	Note	2020 Group £m	2019 Group £m
Revenue	4	4,064.1	4,271.1
Net operating costs excluding charitable donations		(3,681.6)	(3,715.4)
Charitable donations		-	(852.7)
Net operating costs	6	(3,681.6)	(4,568.1)
Profit/(loss) from operations		382.5	(297.0)
Finance costs	9	(165.3)	(159.4)
Profit/(loss) before tax		217.2	(456.4)
Taxation			
Taxation excluding the impact of changes in the UK corporation tax rate	10	(41.6)	87.4
Remeasurement of deferred tax due to changes in the UK corporation tax rate	10	(25.8)	(1.0)
Profit/(loss) for the financial year		149.8	(370.0)

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 2020

	Note	2020 Group £m	2019 Group £m
Profit/(loss) for the financial year		149.8	(370.0)
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Gains/(losses) on movements in fair value of cash flow hedging derivatives	25	3.2	(17.7)
(Losses)/gains on foreign currency translation	25	(33.5)	11.6
Tax relating to components of other comprehensive income		5.7	1.2
Other comprehensive income/(loss) for the year, net of tax		(24.6)	(4.9)
Total comprehensive income/(loss) for the year		125.2	(374.9)

The notes on pages 94 to 142 form an integral part of these financial statements

Balance sheets

As at 30 September 2020

	Note	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Assets					
Non-current assets					
Intangible assets	11	78.4	67.0	–	–
Property, plant and equipment	12	70.4	18.4	–	–
Assets held for use in operating leases	13	7,812.0	7,495.9	–	–
Financial assets at amortised cost	15	145.5	139.9	–	–
Investment in subsidiaries	16	–	–	110.9	110.9
Loans to Group companies	16	–	–	5,324.4	5,224.4
Trade and other receivables	19	21.4	20.5	2.0	3.0
Derivative financial instruments	26	107.7	104.0	107.7	104.0
Deferred tax assets	27	–	–	5.4	–
		8,235.4	7,845.7	5,550.4	5,442.3
Current assets					
Corporation tax receivable		–	20.4	–	–
Inventories	14	140.3	106.0	–	–
Financial assets at amortised cost	15	58.1	64.7	–	–
Cash and bank balances	17	316.2	450.5	211.4	380.8
Insurance receivables	18	75.8	74.6	–	–
Trade and other receivables	19	291.5	297.5	1.0	1.4
Reinsurers’ share of insurance provisions	24	404.3	326.6	–	–
Derivative financial instruments	26	–	–	–	–
		1,286.2	1,340.3	212.4	382.2
Total assets		9,521.6	9,186.0	5,762.8	5,824.5
Liabilities					
Current liabilities					
Corporation tax payable		(8.6)	–	–	(9.1)
Deferred rental income	20	(172.3)	(163.9)	–	–
Provision for customer rebates	21	(99.7)	(106.6)	–	–
Insurance payables	22	(71.2)	(56.5)	–	–
Trade and other payables	23	(194.6)	(259.6)	(120.5)	(290.7)
Provision for insurance claims outstanding	24	(512.9)	(454.4)	–	–
Financial liabilities	25	(128.4)	(426.7)	(29.3)	(335.4)
Derivative financial instruments	26	(0.5)	–	(0.5)	–
		(1,188.2)	(1,467.7)	(150.3)	(635.2)
Net current assets/(liabilities)		98.0	(127.4)	62.1	(253.0)
Non-current liabilities					
Deferred rental income	20	(239.5)	(216.1)	–	–
Provision for customer rebates	21	(67.5)	(68.7)	–	–
Financial liabilities	25	(5,458.3)	(4,978.1)	(5,416.2)	(4,978.1)
Derivative financial instruments	26	(13.3)	(13.3)	(13.3)	(13.3)
Deferred tax liabilities	27	(256.4)	(268.9)	–	(0.3)
		(6,035.0)	(5,545.1)	(5,429.5)	(4,991.7)
Total liabilities		(7,223.2)	(7,012.8)	(5,579.8)	(5,626.9)
Net assets		2,298.4	2,173.2	183.0	197.6
Equity					
Ordinary share capital	28	0.1	0.1	0.1	0.1
Hedging reserve		(23.2)	1.4	(23.2)	1.4
Restricted reserves*		2,321.5	2,171.7	206.1	196.1
Total equity		2,298.4	2,173.2	183.0	197.6

* 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 £10.0m (2019: £19.4m), of which £nil (2019: £13.0m) was a result of dividends received from subsidiaries (see note 16).

These financial statements on pages 90 to 142 were approved by the Board of Directors on 16 December 2020 and signed on behalf of the Board.

Matthew Hamilton-James
Interim Chief Executive
Motability Operations Group plc
Registered number 6541091

The notes on pages 94 to 142 form an integral part of these financial statements

Statements of changes in equity

For the year ended 30 September 2020

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2018	0.1	6.3	2,541.7	2,548.1
Comprehensive income				
Loss for the year	–	–	(370.0)	(370.0)
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(17.7)	–	(17.7)
Gains on cash flow hedges reclassified to the income statement	–	11.6	–	11.6
Tax relating to components of other comprehensive income	–	1.2	–	1.2
Total comprehensive loss	–	(4.9)	(370.0)	(374.9)
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)
Impact of initial application of IFRS 16	–	–	–	–
Tax relating to components of other comprehensive income	–	5.7	–	5.7
Total comprehensive income	–	(24.6)	149.8	125.2
At 30 September 2020	0.1	(23.2)	2,321.5	2,298.4

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2018	0.1	6.3	176.7	183.1
Comprehensive income				
Profit for the year	–	–	19.4	19.4
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(17.7)	–	(17.7)
Gains on cash flow hedges reclassified to the income statement	–	11.6	–	11.6
Tax relating to components of other comprehensive income	–	1.2	–	1.2
Total comprehensive (loss)/income	–	(4.9)	19.4	14.5
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)
Impact of initial application of IFRS 16	–	–	–	–
Tax relating to components of other comprehensive income	–	5.7	–	5.7
Total comprehensive income	–	(24.6)	10.0	(14.6)
At 30 September 2020	0.1	(23.2)	206.1	183.0

The notes on pages 94 to 142 form an integral part of these financial statements

Statements of cash flows

For the year ended 30 September 2020

	Note	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	29	62.4	(65.4)	(269.1)	(1,028.2)
Interest (paid)/received		(166.2)	(153.0)	20.2	32.5
Income tax paid		(45.1)	–	(20.5)	–
Charitable donations		(52.4)	(800.3)	–	–
Net cash used in operating activities		(201.3)	(1,018.7)	(269.4)	(995.7)
Cash flows from investing activities					
Dividend received	16	–	–	–	10.0
Purchase of intangible assets	11	(23.3)	(25.6)	–	–
Purchase of property, plant and equipment	12	(12.7)	(4.2)	–	–
Proceeds from sale of property, plant and equipment	12, 29	0.5	0.6	–	–
Investment in financial assets at amortised cost	15	0.7	28.2	–	30.0
Net cash (used in)/generated from investing activities		(34.8)	(1.0)	–	40.0
Cash flows from financing activities					
New loans raised		400.0	–	400.0	–
Bonds issued	25	–	1,418.8	–	1,418.8
Bonds redeemed		(300.0)	(345.9)	(300.0)	(345.9)
Proceeds from settlement of derivatives		–	20.0	–	20.0
Payments of principal portions of lease liabilities		(3.0)	–	–	–
Net cash generated from/(used in) financing activities		97.0	1,092.9	100.0	1,092.9
Net (decrease)/increase in cash and cash equivalents		(139.1)	73.2	(169.4)	137.2
Cash and cash equivalents at beginning of year		359.2	286.0	380.8	243.6
Cash and cash equivalents at end of year	17	220.1	359.2	211.4	380.8

The notes on pages 94 to 142 form an integral part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 to 3 and the Group's shareholders are detailed in the Operational review on pages 42 to 45.

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 2020 and 2019.

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, other than for IFRS 16 as disclosed below.

IFRS 16	*Leases*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs	*2015–2017 Cycle*

IFRS 16 *Leases*

On 1 October 2019 the Group adopted the requirements of IFRS 16 using the modified retrospective method. Properties leased by Group companies have been valued as right-of-use assets at a value equal to the lease liabilities recognised at 1 October 2019, the date of initial application. Comparatives have not been restated. The adoption of the standard increased assets by £48.1m and increased financial liabilities by the same amount with no effect on net assets or retained earnings. On adoption of IFRS 16, we recognised certain lease liabilities in relation to leases that had previously been classified as "operating leases" in accordance with IAS 17 "Leases". These liabilities have been recognised as part of financial liabilities and measured at the present value of the remaining lease payments, discounted at the lessee's incremental borrowing rate at 1 October 2019. The associated right-of-use assets were recognised in "property, plant and equipment" and measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments or provisions for onerous leases recognised on the balance sheet at 30 September 2019.

In addition, the following practical expedient permitted by the standard was applied:

- Initial direct costs were not included in the measurement of right-of-use assets for leases previously accounted for as operating leases

The differences between IAS 17 and IFRS 16 are summarised as follows:

IAS 17: Leases were classified as either finance or operating leases. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the lease.

2. Significant accounting policies continued

IFRS 16 *Leases* continued

IFRS 16: 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.

There has been no significant impact on the accounting of operating leases provided by the Group as lessor.

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*
IFRS 16 (Amendments)	*Leases: Covid-19-Related Rent Concessions*
IFRS 9, IAS 39 and IFRS 7 (Amendments)	*Interest Rate Benchmark Reform*
IAS 1 (Amendments)	*Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*
IAS 1 and IAS 8 (Amendments)	*Amendments to Definition of Material*

IFRS 17 *Insurance Contracts*

IFRS 17 was issued on 18 May 2017 with an implementation date of accounting periods commencing on or after 1 January 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 are 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 has chosen to adopt these amendments early.

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 2020 are expected to remain effective and will mature before the IBOR cessation date.

	2020 £m	2019 £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

	2020 £m	2019 £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

2. Significant accounting policies continued

Interest Rate Benchmark Reform continued

	2020 £m	2019 £m
Carrying value of hedged items hedged by LIBOR swap contracts	399.2	399.0

	2020 £m	2019 £m
Carrying value of hedged items hedged by LIBOR swap contracts which mature before the end of 2021	–	–
Carrying value of hedged items hedged by LIBOR swap contracts which mature after 2021	399.2	399.0
Total	399.2	399.0

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 2 to 56. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 36 to 41. 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 £2,321.5m at 30 September 2020, together with a long-term contract with Motability to operate the 'Motability Scheme'.

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

The Directors have prepared budgets and cash-flow forecasts for the period to 31 March 2022 by means of a baseline forecast. The baseline forecast is based on economic conditions and forecasts as at 30 September 2020.

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

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

- continue to fund the business and meet its liabilities utilising current banking facilities, detailed in note 25;
- meet the objectives of its capital and reserves management policy, detailed in note 36; and
- comply with 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.

2. Significant accounting policies continued

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

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.

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 returning 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.

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.

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.

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.

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.

2. Significant accounting policies continued

Financial liabilities – classification, subsequent measurement and gains and losses continued

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.

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. 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, which are described in note 2, the Directors are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources.

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

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

Judgements are made when applying significant accounting policies and disclosed below where these judgements materially affect the reported number. 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 are two adjustments with regards to downside risk to vehicle resale values. The first adjustment of £109.8m (2019: £109.5m) is due to uncertainty around Brexit negotiations and the European/domestic political landscape; and the second adjustment of £98.1m (2019: £nil) is due to uncertainty around Covid-19 and the future economic disruption and ramifications for the used car market. The inclusion of these two overlays has driven an impairment charge of £16.6m (2019: £nil), 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 residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2020, if the net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used-car market), the effect would be to increase/decrease the net proceeds on these vehicles by £62.4m (2019: £59.6m). Approximately 25% of this will crystallise at the end of the contracts (in particular in cases where the leases terminate early) but for the majority of the fleet a revaluation exercise is undertaken in order to prospectively adjust the depreciation expense over the remaining terms of the leases. This would be booked from the start of the current accounting year onwards. A 1% fall would increase this year's depreciation charge by approximately £20.1m (2019: £18.5m) and increase the impairment charge by £3.8m (2019: £nil). A 1% rise would decrease this year's depreciation charge by approximately £20.1m (2019: £18.5m) and decrease the impairment charge by £3.0m (2019: £nil).

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. During the prior year, the UK's Civil Liability Bill amended the mechanism for setting the Personal Injury Discount Rate ("the Ogden rate"). The objective is to reflect the reality of how claimants invest their money on the basis that they are 'low risk' investors (not 'no risk' investors) with a review of the rate at least every five years. Any change in the Ogden discount rate would not impact on the Group's retained liabilities but would have an effect on the Group's gross liabilities and reinsurance contingent commission. The new Ogden rate of -0.25% became effective on 5 August 2019.

The carrying amount of reinsurance commission receivable at the reporting date is £33.9m (2019: £32.0m). The amounts recognised in the year are shown in note 24.

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 notification delays, which the actuarial analysis has quantified.

In the application of the prudence margin, the Group has recognised that the Covid-19 period brings greater uncertainty than normal. There is potential for impacts on claim severity due to a different profile of accidents, or due to repair delays (particularly in the case of hire car costs). There may be impacts on third party costs which may take time to emerge in the data. There may also be a further increase in the proportion of at-fault claims which may result in lower third-party recoveries. For these reasons, the Group has determined that it is appropriate and prudent to apply a higher prudence margin than in a normal period.

The prudence margin would normally be calibrated at the 80th percentile, and in this reserving exercise it has been temporarily moved to a higher confidence interval (85th), giving an additional prudence margin on the retained risk layer of £2.8m. The actuary has provided a number of models and sensitivity tests to evaluate the adequacy of this prudence margin in a range of scenarios. The conclusion of the analysis was that the prudence margin at the 85th percentile would be adequate. This has given the Group assurance that a range of downside scenarios including currently-unforeseen Covid-19 impacts is not expected to exceed the margin applied.

The reserves held in the financial statements of the Group are adequate and match the best estimates calculated by the independent actuaries. See note 24 for details of claims reserves balances.

Sensitivity analysis

A 1% change in the insurance loss ratio would impact pre-tax profits by £2.5m in the year (2019: £2.3m). 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.

4. Revenue

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

	2020 £m	2019 £m
Proceeds from disposal of operating lease assets (I)	2,038.5	2,279.2
Rentals receivable from operating lease assets (II)	1,290.0	1,211.2
Rentals receivable from operating lease in-life services	194.6	186.3
Rentals receivable from operating lease insurance (III)	503.6	554.3
Insurance reimbursements from disposal of operating lease assets	31.9	32.0
Finance income	3.1	5.3
Other income	2.4	2.8
Total revenue	4,064.1	4,271.1

(I) During the year the Group made a gain of £232.7m on the disposal of operating lease assets (2019: £147.5m). See note 29.
(II) During the year the Group made no changes to the value of the customers' end-of-contract bonuses. (2019: Changes resulted in an increase to provisions for customer rebates (see note 21) of £37.2m).
(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 (2019: £nil).

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

5. Segmental analysis

The Group is organised into two main operating segments: Scheme Operations and Fleet Reinsurance.

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

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 2020 and 30 September 2019.

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)	–	–	(256.4)
Provision for insurance claims outstanding	–	(468.7)	(44.2)	(512.9)
Derivative financial instruments	(13.8)	–	–	(13.8)
Total liabilities	(6,638.9)	(540.1)	(44.2)	(7,223.2)
Net assets	2,197.1	202.5	(101.2)	2,298.4

Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(23.2)	–	–	(23.2)
Restricted reserves	2,220.2	101.3	–	2,321.5
Total equity	2,197.1	202.5	(101.2)	2,298.4

5. Segmental analysis continued

Year ended 30 September 2019	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	1,211.2	–	–	1,211.2
Rentals receivable for operating lease in-life services	186.3	–	–	186.3
Rentals receivable for operating lease insurance	554.3	–	–	554.3
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,311.2	–	–	2,311.2
Inter-segment proceeds	41.7	–	(41.7)	–
Insurance income	–	234.0	(234.0)	–
Other revenue	5.4	2.7	–	8.1
Total revenue	4,310.1	236.7	(275.7)	4,271.1
Net book value of disposed operating lease assets	(2,189.9)	–	–	(2,189.9)
Fleet operating costs	(667.6)	–	234.0	(433.6)
Insurance claims and commission costs	–	(224.9)	41.7	(183.2)
Depreciation on assets used in operating leases	(727.7)	–	–	(727.7)
Impairment charge for assets used in operating leases	–	–	–	–
Other operating costs	(180.2)	(0.8)	–	(181.0)
Charitable donations	(852.7)	–	–	(852.7)
Net operating costs	(4,618.1)	(225.7)	275.7	(4,568.1)
(Loss)/profit from operations	(308.0)	11.0	–	(297.0)
Finance costs	(159.4)	–	–	(159.4)
(Loss)/profit before tax	(467.4)	11.0	–	(456.4)
Taxation	88.5	(2.1)	–	86.4
(Loss)/profit for the year	(378.9)	8.9	–	(370.0)
PPE & intangible assets	85.4	–	–	85.4
Assets held for use in operating leases (including inventories)	7601.9	–	–	7,601.9
Derivative financial instruments	104.0	–	–	104.0
Insurance receivables	–	74.6	–	74.6
Reinsurers' share of insurance provisions	–	244.8	81.8	326.6
Trade and other receivables	318.0	–	–	318.0
Corporation tax receivable	20.4	–	–	20.4
Financial assets	481.9	274.4	(101.2)	655.1
Total assets	8,611.6	593.8	(19.4)	9,186.0
Deferred rental income and provisions for rebates	(555.3)	–	–	(555.3)
Insurance payables	–	(56.5)	–	(56.5)
Trade and other payables	(259.3)	(0.3)	–	(259.6)
Financial liabilities	(5,404.8)	–	–	(5,404.8)
Deferred taxation	(268.9)	–	–	(268.9)
Provision for insurance claims outstanding	–	(372.6)	(81.8)	(454.4)
Derivative financial instruments	(13.3)	–	–	(13.3)
Total liabilities	(6,501.6)	(429.4)	(81.8)	(7,012.8)
Net assets	2,110.0	164.4	(101.2)	2,173.2
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	1.4	–	–	1.4
Restricted reserves	2,108.5	63.2	–	2,171.7
Total equity	2,110.0	164.4	(101.2)	2,173.2

6. Net operating costs

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

	2020 £m	2019 £m
Net book value of disposed operating lease assets	1,805.8	2,131.7
Net book value of operating lease assets derecognised as insurance write-offs	59.2	58.2
Charitable donations	–	852.7
Fleet operating costs including insurance, maintenance and roadside assistance costs*	453.9	433.6
Insurance claims expense	171.4	183.2
Other operating costs	32.0	25.2
Employee costs	64.2	58.4
Other product costs including continuous mobility costs, adaptations support, communications	61.9	54.5
Legal and professional fees	32.7	24.5
Bad debt charges and movement in bad debt provisions	1.2	(0.9)
Motability levy and rebates	–	6.3
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	2,683.1	3,828.2
Depreciation on assets used in operating leases	961.6	727.7
Impairment charge for assets used in operating leases	16.6	–
Depreciation and amortisation of property, plant and equipment and intangible assets	20.3	12.2
Net operating costs	3,681.6	4,568.1

* 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 £22.9m charge (2019: £60.3m release) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditor remuneration

	2020	2019
Auditor remuneration: Audit fees for Group and Company financial statements	£344,000	£340,000
Total audit fees for Group and Company financial statements	£344,000	£340,000
Audit fees paid on behalf of subsidiaries	£171,900	£168,500
Audit-related assurance services*	£41,500	£73,000
Tax compliance services	£0	£0
Tax advisory services	£0	£0
Internal audit services	£0	£0
Other assurance services	£27,500	£25,000
Corporate finance services	£0	£0
Total other fees payable to the auditors	£240,900	£266,500

* These services relate to work done on the voluntary consolidated interim financial statements prior to their cancellation due to Covid-19.

8. Employee costs

The employee costs for the Company are £nil (2019: £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

	2020	2019
Administrative staff	1,076	939

	2020 £m	2019 £m
The breakdown of staff costs is as follows:		
Wages and salaries	52.4	47.8
Social security costs	5.8	5.8
Other pension costs	6.0	4.8
Total employee costs	64.2	58.4

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9. Finance costs

The finance costs for the Group are:

	2020 £m	2019 £m
Interest and charges on bank loans and overdrafts	11.8	12.2
Interest on debt issued under the Euro Medium Term Note Programme	152.2	146.5
Interest on right-of-use leased assets	0.6	–
Preference dividends	0.7	0.7
Total finance costs	165.3	159.4

10. Taxation

The major components of the Group's tax expense are:

	2020 £m	2019 £m
Current tax		
Charge for the year	74.2	2.1
Adjustment in respect of prior years	–	7.0
Total	74.2	9.1
Deferred tax		
Origination and reversal of temporary differences	(32.6)	(89.5)
Adjustments recognised in the current year in relation to the deferred tax of prior years	–	(7.0)
Impact of change in UK tax rate	25.8	1.0
Total	(6.8)	(95.5)
Tax on profit/(loss)	67.4	(86.4)

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:

	2020 £m	2019 £m
Profit/(loss) before tax	217.2	(456.4)
Tax calculated at appropriate tax rates applicable to profit (2020: 19%, 2019: 19%)	41.3	(86.6)
Expenses not deductible for tax purposes	0.3	0.3
Adjustments to prior year taxation relating to transition to IFRS 15	–	(1.1)
Adjustments relating to prior year's deferred tax	–	(7.0)
Adjustments recognised in the current year in relation to the current tax of prior years	–	7.0
Taxation excluding the impact of future changes in the UK corporation tax rate	41.6	(87.4)
Non-recurring items		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	25.8	1.0
Total tax on profit/(loss)	67.4	(86.4)

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017 and was due to change to 17% with effect from 1 April 2020, but following the substantive enactment of legislation in Parliament on 17 March 2020 continued at a standard rate of corporation tax of 19% from 1 April 2020 onwards. Accordingly, profits are taxable at 19% for both this and the previous accounting year (2019: 19%).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 19.2% (2019: 18.9%). This is marginally different to the standard rate due to non-deductible expenses consisting predominantly of depreciation on leasehold improvements and preference dividends payable.

The Group's effective tax rate for next year is expected to be 19.2%.

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 2020, the Group paid £65.5m towards the overall current tax charge of £74.2m (2019: £nil towards a tax charge of £9.1m). The Group also received £20.4m in net tax refunds relating to prior years. The cumulative effect is a creditor balance of £8.6m (2019: a debtor of £20.4m), shown as corporation tax payable at the year end.

An analysis of the impact of the change in UK tax rates is disclosed in note 27.

11. Intangible assets

Group

Cost	Total £m
At 1 October 2018	78.2
Additions	25.6
At 1 October 2019	103.8
Additions	23.3
At 30 September 2020	127.1

Accumulated amortisation and impairment	
At 1 October 2018	28.6
Amortisation charge for the year	8.2
At 1 October 2019	36.8
Amortisation charge for the year	11.9
At 30 September 2020	48.7

Carrying amount	
At 1 October 2018	49.6
Additions	25.6
Amortisation	(8.2)
At 1 October 2019	67.0
Additions	23.3
Amortisation	(11.9)
At 30 September 2020	78.4

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

At 30 September 2020, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £4.8m (2019: £7.1m). These amounts relate to IT system projects.

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 2018	2.4	25.3	–	14.1	41.8
Additions	1.0	1.3	–	1.9	4.2
Disposals	(1.1)	(1.6)	–	(4.4)	(7.1)
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 30 September 2020	2.5	35.4	48.1	7.0	93.0

Accumulated depreciation					
At 1 October 2018	1.0	10.3	–	11.9	23.2
Charge for the year	0.6	1.6	–	1.8	4.0
Eliminated on disposals	(0.7)	(1.6)	–	(4.4)	(6.7)
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 30 September 2020	0.9	11.9	4.5	5.3	22.6

Carrying amount					
At 1 October 2018	1.4	15.0	–	2.2	18.6
Additions	1.0	1.3	–	1.9	4.2
Disposals	(0.4)	–	–	–	(0.4)
Depreciation	(0.6)	(1.6)	–	(1.8)	(4.0)
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 30 September 2020	1.6	23.5	43.6	1.7	70.4

At 30 September 2020, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £nil (2019: £8.6m).

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. The impact on the Group of the adoption of IFRS 16 is disclosed in note 37.

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2018	8,186.2
Additions	3,607.7
Transfer to inventory	(2,953.2)
At 1 October 2019	8,840.7
Additions	3,193.6
Transfer to inventory	(2,609.0)
At 30 September 2020	9,425.3

Accumulated depreciation	
At 1 October 2018	1,357.0
Charge for the year	727.7
Impairment charges	–
Eliminated on transfer to inventory	(739.9)
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 30 September 2020	1,613.3

Carrying amount	
At 1 October 2018	6,829.2
Additions	3,607.7
Depreciation	(727.7)
Impairment charges	–
Transfer to inventory (note 14)	(2,213.3)
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 30 September 2020	7,812.0

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

	2020 £m	2019 £m
No later than one year	1,895.1	1,727.9
Later than one year and no later than two years	2,148.3	1,818.5
Later than two years and no later than three years	2,098.9	2,328.7
Later than three years and no later than four years	45.5	38.9
Later than four years and no later than five years	51.4	49.3
Total exposure	6,239.2	5,963.3

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

	2020 £m	2019 £m
Amounts released in prior years	86.5	29.6
Amounts (charged)/released in current year*	(22.9)	60.3
Total adjustments to depreciation carried at 30 September**	63.6	89.9
Amounts to be (charged)/released in future years	(76.1)	63.1
Total (decrease)/increase in estimated residual value	(12.5)	153.0

* 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 2020 of £63.6m (2019: £89.9m) is included within the accumulated depreciation balance of £1,613.3m (2019: £1,344.8m) on assets held for use in operating leases.

Impairment charges included in the net book value of operating leases

	2020 £m	2019 £m
Impairment charges brought forward at 1 October	–	–
Impairment charges arising during the year	(16.6)	–
Impairment releases during the year	–	–
Impairment charges carried at 30 September	(16.6)	–

The impairment charges carried at 30 September 2020 of £16.6m (2019: £nil) are included within the accumulated depreciation balance of £1,613.3m (2019: £1,344.8m) on assets held for use in operating leases.

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

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

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

Years in which impairment charges are expected to unwind

	2020 £m	2019 £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:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
No later than one year	985.4	1,040.8	–	–
Later than one year and no later than two years	498.2	540.5	–	–
Later than two years and no later than three years	155.4	185.4	–	–
Later than three years and no later than four years	8.7	7.7	–	–
Later than four years and no later than five years	2.7	2.4	–	–
Total	1,650.4	1,776.8	–	–

14. Inventories

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Ex-operating lease assets held for sale	140.3	106.0	–	–
Provisions	–	–	–	–
Ex-operating lease assets held for sale (net)	140.3	106.0	–	–

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 (2019: £nil). During the year there was no change to the provision and no write off (2019: £0.1m decrease in provision and £0.1m written off).

The total value of inventories recognised as expense and included in net operating costs amounted to £1,865.0m (2019: £2,189.9m).

The movements of the inventories in 2020 and 2019 are as follows:

	£m
At 1 October 2018	82.6
Transfer from operating lease assets (note 13)	2,213.3
Disposals (including insurance write-offs)	(2,189.9)
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 30 September 2020	140.3

15. Financial assets at amortised cost

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Financial assets at amortised cost				
Fixed-income bonds	203.6	204.6	–	–
Reverse sale and repurchase agreements	–	–	–	–
Total	203.6	204.6	–	–
Included in non-current assets	145.5	139.9	–	–
Included in current assets	58.1	64.7	–	–
Financial assets at amortised cost	203.6	204.6	–	–

Financial assets at amortised cost are presented net of expected credit loss (“ECL”) provisions of £0.3m (2019: £0.1m).

The following table details the contractual maturity of the Group’s financial assets at amortised cost:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
On demand or no later than one year	58.1	64.6	–	–
Later than one year and no later than two years	76.7	51.3	–	–
Later than two years and no later than five years	58.1	71.8	–	–
Later than five years	10.7	16.9	–	–
Total	203.6	204.6	–	–

Allowances for impairment (ECL) of financial assets at amortised cost during the year increased by £0.2m (2019: £0.1m).

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

	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	–	–

	2019 Group carrying amount £m	2019 Group fair value £m	2019 Company carrying amount £m	2019 Company fair value £m
Current financial assets at amortised cost	64.7	64.7	–	–
Non-current financial assets at amortised cost	139.9	141.4	–	–
Total	204.6	206.1	–	–

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 1.6% per annum (2019: 2.2%), with coupon rates ranging from 0.1% to 6.9% per annum (2019: 0.1% to 6.1%). The fixed-income bonds are denominated in Sterling, which is the functional currency of the Group.

16. Investment in subsidiaries

	2020 £m	2019 £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. During the year, the three non-trading subsidiaries reduced their share capital to £1 and then distributed their reserves via dividends to facilitate the dissolution of the entities. Dissolution of all three was confirmed at Companies House on 8 October 2019.

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.

All of the above subsidiaries are incorporated in United Kingdom, with the exception of MO Reinsurance Limited which 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 £nil (2019: £10.0m) from MO Reinsurance Limited. During the year ended 30 September 2019 Motability Operations Group plc also received a dividend of £3.0m from Route2mobility Limited, which was dissolved in 2019.

Loans to Group companies

	2020 Company £m	2019 Company £m
Motability Operations Limited	5,324.4	5,224.4
Total	5,324.4	5,224.4

	2020 Company £m	2019 Company £m
Loans to Group companies – non-current	5,324.4	5,224.4
Total	5,324.4	5,224.4

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 £185.5m (2019: £175.3m) 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

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Cleared balances	315.6	450.5	211.4	380.8
Cash in the course of collection	0.6	–	–	–
Cash and bank balances	316.2	450.5	211.4	380.8
Cleared overdrafts	–	(1.0)	–	–
Cash in the course of transmission	(96.1)	(90.3)	–	–
Cash and cash equivalents	220.1	359.2	211.4	380.8

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.

18. Insurance receivables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Insurance premium debtor	30.1	27.9	–	–
Claims recoveries and rebates	5.2	12.1	–	–
Reinsurance claims recoveries and commissions receivable	40.5	34.6	–	–
Total insurance receivables	75.8	74.6	–	–

All insurance receivables are stated at their fair value and are not considered to be impaired.

19. Trade and other receivables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Trade receivables	116.6	112.7	–	–
Other receivables	108.6	94.3	–	–
Prepayments and accrued income	87.7	111.0	3.0	4.4
Total	312.9	318.0	3.0	4.4
Included in current assets	291.5	297.5	1.0	1.4
Included in non-current assets	21.4	20.5	2.0	3.0
Total	312.9	318.0	3.0	4.4

Trade receivables include an allowance for estimated irrecoverable amounts of £2.3m (2019: £1.4m). This allowance has been made by reference to past default experience and the ECL rules of IFRS 9. During the year there was a £0.9m increase in provisions and £nil receivables written off (2019: £0.4m decrease in provision and £0.4m written back). The average receivable days period is ten days (2019: 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 (2019: £42.2m) 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 twelve days (2019: four days).

Ageing of past due but not impaired receivables:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Past due by 1-30 days	3.1	42.0	–	–
Past due by 31-60 days	0.5	0.1	–	–
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	42.2	–	–

20. Deferred rental income

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Current				
Customers' advance payments*	150.6	147.6	–	–
Vehicle in-life service income	17.0	13.0	–	–
Vehicle insurance income	4.7	3.3	–	–
Total current	172.3	163.9	–	–
Non-current				
Customers' advance payments*	155.7	152.3	–	–
Vehicle in-life service income	66.0	60.3	–	–
Vehicle insurance income	17.8	3.5	–	–
Total non-current	239.5	216.1	–	–
Total	411.8	380.0	–	–

* 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 2018	62.7	–	62.7
Revenue recognised that was included in the deferred income balance at the beginning of the period	(28.7)	–	(28.7)
Increases due to cash received, excluding amounts recognised as revenue during the period	39.3	6.8	46.1
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 30 September 2020	83.0	22.5	105.5

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:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
No later than one year	162.4	163.1	–	–
Later than one year and no later than two years	105.4	108.1	–	–
Later than two years and no later than three years	39.5	43.3	–	–
Later than three years and no later than four years	5.6	5.6	–	–
Later than four years and no later than five years	1.8	1.8	–	–
Total	314.7	321.9	–	–

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:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
No later than one year	404.9	436.3	–	–
Later than one year and no later than two years	251.5	273.9	–	–
Later than two years and no later than three years	88.2	100.0	–	–
Later than three years and no later than four years	6.4	7.6	–	–
Later than four years and no later than five years	1.9	2.4	–	–
Total	752.9	820.2	–	–

21. Provision for customer rebates

	Good condition bonuses £m	Return to dealer payments £m	WAV support £m	Total £m
At 1 October 2018	133.1	2.1	4.6	139.8
Additional provisions accrued during the year	111.1	5.3	2.3	118.7
Utilised during the year	(76.8)	(4.2)	(2.2)	(83.2)
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 30 September 2020	159.7	2.0	5.5	167.2

Analysis of provisions

	2020 £m	2019 £m
Included in non-current liabilities	67.5	68.7
Included in current liabilities	99.7	106.6
Total	167.2	175.3

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

During the previous financial year, the Group increased the value of the customers' end-of-contract bonuses. This resulted in an increase to the provision for customer rebates of £37.2m. Therefore, these balances are always subject to some degree of uncertainty as the Board keeps the amounts of the bonus payments under review.

22. Insurance payables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Reinsurance premiums payable	22.8	14.8	–	–
Commissions and administration fee payable	18.2	8.0	–	–
Claims reimbursements payable	30.2	33.7	–	–
Total insurance payables	71.2	56.5	–	–

The carrying value of insurance payables approximates to fair value.

23. Trade and other payables

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Trade payables	61.6	73.6	–	–
Social security and other taxes	1.5	1.3	–	–
Accruals	122.5	182.9	–	–
Other payables	0.8	0.7	–	–
Inter-company payable	–	–	120.6	290.7
Advance payments received from DWP	8.2	1.1	–	–
Total	194.6	259.6	120.6	290.7

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 (2019: 30 days).

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

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 (2019: £30,000) each and every claim. Excess of loss reinsurance protects the Group and ceding insurer against individual losses exceeding £5,000,000 (2019: £5,000,000) each and every claim. Stop Loss reinsurance protects the Group against accumulation of losses exceeding 116.26% (2019: 119.27%) of the Group's net earned premium income or £318,150,000 (2019: £296,964,000) in the aggregate, whichever is the lesser. Stop Loss reinsurance cover is limited to a maximum of 127.11% (2019: 133.94%) of net premium earned or £29,700,000 (2019: £36,521,000) 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.

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	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Claims reserves	449.2	396.6	–	–
IBNR reserve	63.7	57.8		
IBNR recoveries	(53.0)	(39.7)		
Third-party recoveries reserve	(44.2)	(42.1)	–	–
Reinsurance recoveries reserve	(307.1)	(244.8)	–	–
Total net retained	108.6	127.8	–	–
Included in liabilities	512.9	454.4	–	–
Included in assets	(404.3)	(326.6)	–	–
Total net retained	108.6	127.8	–	–

The Board utilises the Group actuary to undertake an actuarial study of the motor quota-share reinsurance claims reserves. The Group actuary has used a combination of methods to determine the estimate. The methods adopted are summarised below:

Chain Ladder method

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

Expected Burning Cost method

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

Bornhuetter-Ferguson method

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

Average Cost per Claim method

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

The Directors have considered the report of the Group actuary and the 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	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Current year claims including IBNR	183.3	221.2	–	–
Prior year claims	(16.5)	21.1	–	–
Reinsurance commissions, MIB levies and administration fees	4.6	(59.1)	–	–
Insurance claims and commission costs	171.4	183.2	–	–

During the year reinsurance commissions of £4.2m were booked (2019: £66.5m) comprising a guaranteed element of £5.4m (2019: £5.2m) and a variable element of (£1.2m) (2019: £61.3m).

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	Total £m
At end of reporting year	251.7	290.6	348.5	401.3	354.8	
One year later	293.9	326.9	348.6	399.0		
Two years later	287.3	313.9	391.5			
Three years later	275.7	313.0				
Four years later	272.5					
Current estimate of cumulative claims	272.5	313.0	391.5	399.0	354.8	1,730.8
Cumulative payments to date	(256.2)	(290.7)	(315.2)	(304.8)	(187.7)	(1,354.6)
Rebates	20.5	25.0	26.4	25.9	26.4	124.2
Claims reserves included in the balance sheet	36.8	47.3	102.7	120.1	193.5	500.4
Claims reserves in respect of prior periods						12.5
Total liability included in the balance sheet						512.9

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 reduction in ultimate claims costs in the current financial year for the 2016 and 2017 underwriting years is due to small reductions in life expectancy assumptions in the Ogden tables published in late July 2020 and the revision of estimated ultimate loss reserves using more up to date reserving estimates.

The increase in estimated ultimate claims in 2018 is due to deterioration in reserves relating to known bodily injury losses following receipt of latest loss reports. The improvement in projected ultimate losses for 2019 is due to improvements in some small bodily injury claims where new information came to light.

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	Total £m
At end of reporting year	182.9	193.6	227.8	247.1	209.7	
One year later	190.1	194.5	236.0	235.0		
Two years later	183.4	197.4	232.8			
Three years later	173.5	197.6				
Four years later	173.3					
Current estimate of cumulative claims	173.3	197.6	232.8	235.0	209.7	1,048.4
Cumulative payments to date	(192.0)	(218.2)	(248.3)	(238.7)	(167.0)	(1,064.2)
Rebates	20.5	25.0	26.4	25.9	26.4	124.2
Claims reserves included in the balance sheet, net of recoveries	1.8	4.4	10.9	22.2	69.1	108.4
Claims reserves in respect of prior periods						0.2
Total net liability included in the statement of financial position						108.6
Comprises:						
Specific claims reserves including IBNR						459.9
Third-party recoveries reserve						(44.2)
Reinsurance recoveries reserve						(307.1)
Total						108.6

The small reductions in ultimate claims costs in the current financial year for the 2016 and 2017 underwriting years is due to small reductions in life expectancy assumptions in the Ogden tables published in late July 2020 and the revision of estimated ultimate loss reserves using more up to date reserving estimates.

The deterioration in estimated ultimate claims in 2018 is mitigated by the reinsurance structure in place, hence the reduction in estimated ultimate losses on a net basis.

The improvement in projected ultimate losses for 2019 is due to improvements in some small bodily injury claims where new information came to light.

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

Movements in insurance liabilities

	2020 Gross £m	2020 Recoveries £m	2020 Net £m	2019 Gross £m	2019 Recoveries £m	2019 Net £m
Claims						
Notified claims including IBNR	454.4	(284.5)	169.9	363.8	(228.2)	135.6
Notified claims recoveries	(42.1)	–	(42.1)	(44.6)	–	(44.6)
Total at beginning of year	412.3	(284.5)	127.8	319.2	(228.2)	91.0
Cash paid for claims settled						
In the year	(210.8)	24.8	(186.0)	(222.8)	17.3	(205.5)
*Movement in liabilities						
Current year claims including IBNR	280.9	(97.6)	183.3	310.9	(89.7)	221.2
Prior year claims	(13.7)	(2.8)	(16.5)	5.0	16.1	21.1
Total at end of year	468.7	(360.1)	108.6	412.3	(284.5)	127.8
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 end of year	468.7	(360.1)	108.6	412.3	(284.5)	127.8

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

* In prior year movements, insurance liabilities amounting to £53.0m gross and £45.6m reinsurance have been reclassified from prior to current year. The change is due to a change in risk margin allocation methodology in current year and the prior year has been updated to be consistent with the current year allocation methodology. The risk margin as at 30 September 2019 had been allocated on the basis of the level of incurred claims for each underwriting year but following an analysis into continued material adverse development it was agreed that the risk margin should be allocated to where the risk of claims uncertainty resided most, which was in the more recent underwriting years which would also include a larger proportion of the IBNR reserve.

25. Financial liabilities

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Current				
Accrued interest and coupon	29.3	35.4	29.3	35.4
Cash in the course of transmission	96.1	90.3	–	–
Bank overdrafts	–	1.0	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	–	300.0	–	300.0
Right-of-use asset lease liabilities	3.0	–	–	–
Total current	128.4	426.7	29.3	335.4
Non-current				
Bank loans	799.2	399.0	799.2	399.0
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	4,607.0	4,569.1	4,607.0	4,569.1
Preference shares	10.0	10.0	10.0	10.0
Right-of-use asset lease liabilities	42.1	–	–	–
Total non-current	5,458.3	4,978.1	5,416.2	4,978.1
Total	5,586.7	5,404.8	5,445.5	5,313.5
The financial liabilities are repayable as follows:				
On demand or no later than one year	128.4	426.7	29.3	335.4
Later than one year and no later than two years	402.7	–	399.3	–
Later than two years and no later than five years	1,761.9	1,283.1	1,749.6	1,283.1
Later than five years	3,293.7	3,695.0	3,267.3	3,695.0
Total	5,586.7	5,404.8	5,445.5	5,313.5

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

25. Financial liabilities continued

Bank borrowings

All bank borrowings as at 30 September 2020 and 2019 are at floating rates.

As at 30 September 2020 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 £400.0m was drawn as at 30 September 2020 (2019: £nil). 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 2020 £m	30 September 2019 £m
6.625% Sterling bond due 2019 (IV)	–	300.0
5.375% Sterling bond due 2022	399.3	398.9
1.625% Eurobond due 2023 (I)	497.1	485.2
0.875% Eurobond due 2025 (II)	453.3	443.1
0.375% Eurobond due 2026 (III)	543.7	531.4
3.750% Sterling bond due 2026	298.3	298.0
4.375% Sterling bond due 2027	297.5	297.1
1.750% Sterling bond due 2029	394.2	393.5
5.625% Sterling bond due 2030	298.8	298.6
2.375% Sterling bond due 2032	345.3	344.9
3.625% Sterling bond due 2036	590.7	590.1
2.375% Sterling bond due 2039	488.8	488.3
	4,607.0	4,869.1

(I) The repayment obligation in respect of the Eurobonds of €550m (£499.0m) 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 (£453.6m) 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 (£544.4m) 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) On 10 December 2019 the part redeemed Sterling bond of £300m (£450m at 6.625%) matured.

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 €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; and
- 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.

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 2020, the Eurobond debt liability was increased by £122.5m (30 Sep 2019: was increased by £89.0m). This movement of £33.5m is a result of Sterling weakening against the Euro to 1.10 (2019: 1.13). The associated assets and liabilities relating to derivatives at 30 September 2020 were a net asset of £93.9m (30 Sep 2019: net asset of £90.7m). This movement of £3.2m is a result of an increase in valuation. The net valuation difference at 30 September 2020 is therefore a liability of £28.6m which, after tax at 19%, leads to a hedging reserve of £23.2m.

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 2020 and 30 September 2019 were as follows:

	2020 Group %	2019 Group %	2020 Company %	2019 Company %
Current bank loans and overdrafts	–	1.7	–	–
Non-current bank loans	0.8	1.5	0.8	1.5
Non-current debt issued under the Euro Medium Term Note Programme	3.1	3.4	3.1	3.4
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2020 and 30 September 2019, the Group had the following undrawn committed borrowing facilities:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Working capital facility	100.0	99.0	90.0*	90.0*
Revolving credit facility	1,100.0	1,500.0	1,100.0	1,500.0
Total	1,200.0	1,599.0	1,190.0	1,590.0

* 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:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
No later than one year	10.0	9.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,190.0	1,590.0	1,190.0	1,590.0
Total	1,200.0	1,599.0	1,190.0	1,590.0

26. Derivative financial instruments

	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

26. Derivative financial instruments continued

	Group 2019		Company 2019	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	92.0	1,374.4	92.0	1,374.4
Interest rate swaps	(1.3)	400.0	(1.3)	400.0
Total	90.7	1,774.4	90.7	1,774.4
Included in non-current liabilities	(13.3)	738.2	(13.3)	738.2
Included in current liabilities	–	200.0	–	200.0
Derivative financial instrument liabilities	(13.3)	938.2	(13.3)	938.2
Included in non-current assets	104.0	836.2	104.0	836.2
Included in current assets	–	–	–	–
Derivative financial instrument assets	104.0	836.2	104.0	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%.

Interest rate swaps

At 30 September 2020, the fixed interest rates varied from 0.654% to 1.006% (2019: the fixed interest rates varied from 0.7463% to 1.0060%) 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 2020 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.

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
No later than one year	(20.0)	(20.1)	(20.0)	(20.1)
Later than one year and no later than three years	(36.7)	(36.7)	(36.7)	(36.7)
Later than three years and no later than five years	(20.8)	(30.9)	(20.8)	(30.9)
Later than five years	(2.8)	(10.8)	(2.8)	(10.8)
Total	(80.3)	(98.5)	(80.3)	(98.5)

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.

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 2018	366.5	(0.5)	1.4	(1.9)	365.5
(Credit)/charge to income	(89.8)	0.3	–	–	(89.5)
Charge to income due to change in UK tax rate	1.0	–	–	–	1.0
Credit to equity	–	–	(1.1)	–	(1.1)
Adjustment in respect of prior years	(7.0)	–	–	–	(7.0)
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)
Adjustment in respect of prior years	–	–	–	–	–
Net at 30 September 2020	264.1	(0.3)	(5.4)	(2.0)	256.4

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

	2020 £m	2019 £m
Deferred tax assets	–	–
Deferred tax liabilities	256.4	268.9
Net at 30 September	256.4	268.9

A UK corporation rate of 19% (effective 1 April 2020) was substantively enacted on 17 March 2020, reversing the previously enacted reduction in the rate from 19% to 17%. This will increase the Company's future current tax charge accordingly. The deferred tax liability at 30 September 2020 has been calculated at 19% (2019: 17.3%).

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 £1.4bn (2019: £1.6bn). Measured to unwind at 19%, this represents a deferred tax liability of £264.1m (2019: £270.7m unwinding at an average of 17.3%).

As new vehicles are added to the fleet and ex-lease vehicles are sold this balance will be re-measured next year in September 2021 when the timing differences will all be measured at 19%.

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Liability at 1 October 2018	–	–	1.4	–	1.4
Credit to equity	–	–	(1.1)	–	(1.1)
Controlled foreign company loss carried forward	–	–	–	–	–
Liability at 1 October 2019	–	–	0.3	–	0.3
Credit to equity	–	–	(5.7)	–	(5.7)
Controlled foreign company loss carried forward	–	–	–	–	–
Asset at 30 September 2020	–	–	(5.4)	–	(5.4)

28. Ordinary share capital

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

	2020	2019
Authorised:		
100,000 (2019: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2019: 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:

	2020 Group £m	2019 Group £m	2020 Company £m	2019 Company £m
Profit/(loss) before tax	217.2	(456.4)	21.3	28.2
Adjustments for:				
Depreciation and amortisation charge on corporate assets	20.3	12.2	–	–
Depreciation charge on operating lease assets	961.6	727.7	–	–
Impairment charge for assets used in operating leases	16.6	–	–	–
Impairment charge for financial assets at amortised cost	0.3	–	–	–
Inventory write-down	–	(0.1)	–	–
Finance costs/(income)	165.3	159.4	(21.2)	(35.9)
Gains on disposal of operating lease assets	(232.7)	(147.5)	–	–
Losses on operating lease assets written off through insurance	27.3	26.2	–	–
Gains on disposal of corporate assets	(0.1)	(0.2)	–	–
Increase/(decrease) in bad debt provisions	0.9	(0.4)	–	–
Operating cash flows before movements in working capital	1,176.7	320.9	0.1	(7.7)
Purchase of assets held for use in operating leases	(3,193.6)	(3,607.7)	–	–
Proceeds from sale of assets held for use in operating leases	2,038.5	2,279.2	–	–
Proceeds from insurance reimbursements of operating lease assets written off	31.9	32.0	–	–
Charitable donations paid	52.3	800.3	–	–
Increase in insurance receivables	(1.2)	(30.2)	–	–
Decrease/(increase) in other receivables	3.6	(11.7)	1.0	1.0
Increase in loans to and investment in subsidiaries	–	–	(100.0)	(1,112.2)
Increase in deferred rental income	31.8	36.0	–	–
(Decrease)/increase in provision for customer rebates	(8.1)	35.5		
(Decrease)/increase in provision for net insurance claims	(19.2)	36.9	–	–
Increase/(decrease) in insurance payables	14.7	(18.2)	–	–
(Decrease)/increase in payables	(65.0)	61.6	(170.2)	90.7
Cash generated from/(used in) operations	62.4	(65.4)	(269.1)	(1,028.2)

30. Analysis of changes in net debt

Group	At 1 October 2019 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £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)

* These were booked on the date of initial application of IFRS 16, being 1 October 2019. See note 37 for the opening lease liability on adoption of IFRS 16.

	At 1 October 2018 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 30 September 2019 £m
Cash and bank balances	327.7	122.8	–	–	–	450.5
Bank overdrafts and cash in the course of transmission	(41.7)	(49.6)	–	–	–	(91.3)
Cash and cash equivalents	286.0	73.2	–	–	–	359.2
Borrowings due after one year	(398.8)	–	–	–	(0.2)	(399.0)
Debt issued under the Euro Medium Term Note Programme	(3,804.1)	(1,072.9)	11.6	–	(3.7)	(4,869.1)
Derivative financial instruments	128.4	(20.0)	–	(17.7)	–	90.7
Preference shares	(10.0)	–	–	–	–	(10.0)
Financing activities	(4,084.5)	(1,092.9)	11.6	(17.7)	(3.9)	(5,187.4)
Total net debt	(3,798.5)	(1,019.7)	11.6	(17.7)	(3.9)	(4,828.2)

	2020 Group £m	2019 Group £m
Cash and bank balances	316.2	450.5
Derivative financial instruments	93.9	90.7
Current financial liabilities	(128.4)	(426.7)
Non-current financial liabilities	(5,458.3)	(4,978.1)
Total	(5,176.6)	(4,863.6)
Less interest accruals included in financial liabilities	29.3	35.4
Total net debt	(5,147.3)	(4,828.2)

31. Lease commitments as lessee

The Group's office buildings are held on leases with maturity dates of around six years (Bristol), ten years (Edinburgh) and sixteen 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.

Note 37 describes the impact of adopting IFRS 16 "Leases" this year.

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

	2020* £m
No later than one year	3.6
Later than one year and no later than five years	17.5
Later than five years and no later than ten years	16.1
Later than ten years	11.9
Total undiscounted cash flows	49.1
Current	3.6
Non-current	45.5

The total cash outflow for leases during the year was £3.6m (2019: n/a).

Amounts recognised in the income statement

	2020* £m
Depreciation on the right-of-use assets	4.5
Interest expense	0.6
Total	5.1

* The Group has adopted the standard using the "modified retrospective model" of transition, and therefore need not disclose comparative information.

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 2020 amounted to £6,042,332 (2019: £4,820,131). Net contributions due at the balance sheet date were £606,735 (2019: £514,118).

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 2 to 56.

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

The relationship of the Company to the Motability Charity is set out on the inside front cover.

Transactions

During the year the Group made a charitable donation of £52.3m (2019: £800.0m) to Motability's endowment fund, "The Motability Foundation". This was accrued for during 2019 as part of the Group's pledge to bring restricted reserves down by £370m by 30 September 2019.

During the year the Group paid Motability £nil (2019: £4.6m) relating to its administration costs (the 'Motability levy').

In addition, £nil (2019: £1.4m) was paid by the Group as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and Wheelchair Accessible Vehicles.

The funding of the Group and the Company through bank loans is provided by the shareholder banks on commercial terms (see note 9 for details of financing costs on bank loans; £0.4m (2019: £0.4m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2019: £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 £nil (2019: £10.0m) from MO Reinsurance Limited and made preference share dividend payments of £0.7m to the shareholder banks (2019: £0.7m).

At 30 September 2020 £237.9m of cash and cash equivalents were held with shareholder banks (30 September 2019: £201.4m). During the year the Group received interest payments on these cash deposits totalling £0.3m (2019: £0.6m).

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 £nil in relation to bond issuances (2019: £5.3m).

The Group enters into cross-currency and interest rate swap contracts (see note 26) with the shareholder banks to mitigate its exposure in interest rate risk and foreign exchange risk as part of its financial risk management policy (as described in note 36). During the year the Group made a net payment of £1.7m (2019: net payment of £0.3m) in respect of interest rate swaps, and a net payment of £19.2m (2019: net payment of £6.1m) in respect of cross-currency swaps.

During the year ended 30 September 2019 the Group entered into reverse sale and repurchase agreements on one-month terms with a shareholder bank (see note 15). At 30 September 2020 there was £nil invested in reverse sale and repurchase agreements (2019: £nil) and the Group received interest payments of £nil (2019: £0.2m).

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'.

	2020 £m	2019 £m
Short-term employee benefits	3.4	3.8
Post-employment benefits	–	–
Other long-term benefits	0.9	1.2
Total	4.3	5.0

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34. Directors' remuneration

During the year there was one Executive Director (2019: one) accruing benefits under a money purchase pension scheme.

	2020	2019
Highest-paid Director		
Salary	£389,667	£580,375
Performance-related payments	£71,699	£274,715
Vesting of deferred bonuses	£252,758	£nil
Payments in lieu of pension*	£97,417	£145,094
Retention payments	£200,000	£nil
Benefits	£29,027	£25,933
Aggregate emoluments in respect of qualifying services	£1,040,568	£1,026,117
Pension contributions under money purchase pension schemes	£nil	£nil
All Directors		
Salary	£1,222,275	£1,418,417
Performance-related payments	£136,787	£416,420
Vesting of deferred bonuses	£497,128	£nil
Payments in lieu of pension*	£134,485	£179,531
Retention payments	£200,000	£nil
Benefits	£47,963	£59,995
Aggregate emoluments in respect of qualifying services	£2,238,638	£2,074,363
Pension contributions under money purchase pension schemes	£9,000	£10,000

* 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.

Long-term incentive arrangements

Long-Term Performance Plan (LTPP) (formerly 'Long-Term Incentive Scheme (LTIS)')

In addition to the above, as previously disclosed, the former CEO participated in a five-year Long-Term Incentive Scheme (LTIS) that was introduced in 2010. During 2015, the LTIS was converted into a Long-Term Performance Plan or "LTPP" and it was agreed that any potential benefit from the LTPP would be deferred for seven years, during which period no additional allocations would be made into the Scheme and any potential benefit would continue to be linked to stretching financial performance targets. The LTPP payment crystallised this year upon his resignation.

During the reported year to September 2020 the total payment was £1,953,589 (2019: £nil). See the Remuneration Committee report for more information.

35. Events after the reporting year

There have been no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2020.

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 24, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

The Group's debt funding is provided through the Company via bank loans and debt issuance.

The objective of the Group's capital and reserves management policy is to ensure that the Group maintains adequate levels of equity capital and reserves to:

- maintain the sustainability and longevity of the business through having adequate reserves to withstand the impact of potential macro-economic, industry and Company-specific shock events;
- provide relative stability of pricing and affordability to customers; and
- provide confidence to lenders and credit rating agencies that allows the Group to raise sufficient funding at competitive rates.

As part of the capital and reserves management policy of the Group, any profits that arise in the Group are reinvested back into the Scheme for the benefit of disabled customers. The banks as owners of the Group cannot access reserves (the ordinary shares do not carry any entitlement to dividends).

The Risk Management Committee reviews the capital structure and particularly the level of restricted reserves on a regular basis. The Group operates an Economic Capital methodology to determine the level of capital required in the business. The Group aims to hold capital at a level that is considered at least adequate to ensure that it can withstand potential market or economic shock events.

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the adjusted Total Group Assets: Total Net Debt ratio is targeted to be no less than 1.25:1. At 30 September 2020 the ratio was 1.59:1, 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

	2020 Group carrying value £m	2019 Group carrying value £m	2020 Company carrying value £m	2019 Company carrying value £m
Non-derivative financial assets measured at amortised cost				
Financial assets at amortised cost	203.9	204.7	–	–
Trade receivables	116.6	112.5	–	–
Loans to other Group companies	–	–	5,324.4	5,224.4
Cash and bank balances	316.2	450.5	211.4	380.8
Total non-derivative financial assets	636.7	767.7	5,535.8	5,605.2
Non-derivative financial liabilities measured at amortised cost				
Trade and other payables	(193.1)	(259.7)	(120.6)	(290.7)
Financial liabilities	(5,586.7)	(5,404.8)	(5,445.5)	(5,313.5)
Total non-derivative financial liabilities	(5,779.8)	(5,664.5)	(5,566.1)	(5,604.2)
Net non-derivative financial instruments at amortised cost	(5,143.1)	(4,896.8)	(30.3)	1.0
Derivative financial instruments measured at fair value through other comprehensive income				
Interest rate swaps	(2.2)	(1.3)	(2.2)	(1.3)
Cross-currency swaps	96.1	92.0	96.1	92.0
Total derivative financial instruments	93.9	90.7	93.9	90.7
Total financial instruments	(5,049.2)	(4,806.1)	63.6	91.7

36. Funding and financial risk management continued

Fair value of financial instruments

	2020 Group carrying value £m	2020 Group fair value £m	2019 Group carrying value £m	2019 Group fair value £m
Cash and bank balances (I)	316.2	316.2	450.5	450.5
Trade receivables (II)	116.6	116.6	112.7	112.7
Financial assets at amortised cost (III)	203.9	204.4	204.7	206.1
Trade and other payables (II)	(193.1)	(193.1)	(259.7)	(259.7)
Bank overdrafts (IV)	–	–	(1.0)	(1.0)
Cash in the course of transmission and accrued interest and coupon (II)	(125.4)	(125.4)	(125.7)	(125.7)
Bank loans – non-current (IV)	(799.2)	(799.2)	(399.0)	(399.0)
Debt issued under the Euro Medium Term Note Programme* (III)	(4,607.0)	(5,278.8)	(4,869.1)	(5,455.8)
Redeemable preference share liabilities (III)	(10.0)	(14.6)	(10.0)	(14.3)
Net non-derivative financial instruments	(5,098.0)	(5,773.9)	(4,896.6)	(5,486.2)
Interest rate swap – cash flow hedge	(2.2)	(2.2)	(1.3)	(1.3)
Cross-currency swap – cash flow hedge	96.1	96.1	92.0	92.0
Total financial instruments requiring fair value disclosure	(5,004.1)	(5,680.0)	(4,805.9)	(5,395.5)
Right-of-use asset lease liabilities (V)	(45.1)	n/a	–	n/a
Total	(5,049.2)	(5,680.0)	(4,805.9)	(5,395.5)

* 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).

	2020 Company carrying value £m	2020 Company fair value £m	2019 Company carrying value £m	2019 Company fair value £m
Cash and bank balances (I)	211.4	211.4	380.8	380.8
Loans to other Group companies (IV)	5,324.4	5,324.4	5,224.4	5,224.4
Financial assets at amortised cost (III)	–	–	–	–
Trade and other payables (II)	(120.6)	(120.6)	(290.7)	(290.7)
Cash in the course of transmission and accrued interest and coupon (II)	(29.3)	(29.3)	(35.4)	(35.4)
Bank loans – non-current (IV)	(799.2)	(799.2)	(399.0)	(399.0)
Debt issued under the Euro Medium Term Note Programme* (III)	(4,607.0)	(5,278.8)	(4,869.1)	(5,455.8)
Redeemable preference share liabilities (III)	(10.0)	(14.6)	(10.0)	(14.3)
Net non-derivative financial instruments	(30.3)	(706.7)	1.0	(590.0)
Interest rate swap – cash flow hedge	(2.2)	(2.2)	(1.3)	(1.3)
Cross-currency swap – cash flow hedge	96.1	96.1	92.0	92.0
Total	63.6	(612.8)	91.7	(499.3)

* 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.

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

	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)

Group

	2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	206.1	–	–	206.1
	206.1	–	–	206.1
Non-derivative financial liabilities				
Financial liabilities	–	(5,470.1)	–	(5,470.1)
	–	(5,470.1)	–	(5,470.1)
Derivative financial instruments				
Interest rate swaps	–	(1.3)	–	(1.3)
Cross-currency swaps	–	92.0	–	92.0
	–	90.7	–	90.7
Total	206.1	(5,379.4)	–	(5,173.3)

36. Funding and financial risk management continued

Fair value of financial instruments continued

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)

Company

	2019 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	–	(5,470.1)	–	(5,470.1)
	–	(5,470.1)	–	(5,470.1)
Derivative financial instruments				
Interest rate swaps	–	(1.3)	–	(1.3)
Cross-currency swaps	–	92.0	–	92.0
	–	90.7	–	90.7
Total	–	(5,379.4)	–	(5,379.4)

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.

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 2020 of £799.3m (£400m drawn on MO Group's Revolving Credit Facility, unhedged) (2019: £399m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2020 of £4,607.0m (2019: £4,869.1m).

The Group and the Company have interest rate swaps of £200m maturing on 29 December 2020 and £200m maturing on 28 December 2021 (2019: £200m maturing on 28 December 2018 and £200m maturing on 28 December 2019). Under these swaps the Group and the Company pay an average fixed rate of 0.83% (2019: 0.88%).

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 £2.5m as at 30 September 2020 (2019: £1.0m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

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.

	2020 Average contract fixed interest rate %	2019 Average contract fixed interest rate %	2020 Nominal principal amount £m	2019 Nominal principal amount £m	2020 Fair value £m	2019 Fair value £m
No later than one year	1.0	0.7	200.0	200.0	(0.5)	–
Later than one year and no later than two years	0.7	1.0	200.0	200.0	(1.7)	(1.2)
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	400.0	(2.2)	(1.2)

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.

	2020 Contract fixed GBP interest rate %	2019 Contract fixed GBP interest rate %	2020 Nominal principal amount £m	2019 Nominal principal amount £m	2020 Fair value £m	2019 Fair value £m
No later than one year	–	–	–	–	–	–
Later than one year and no later than two years	–	–	–	–	–	–
Later than two years and no later than five years	2.5	3.0	836.2	402.5	107.8	91.4
Later than five years	1.8	1.9	538.2	972.0	(11.7)	0.6
Total			1,374.4	1,374.5	96.1	92.0

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.

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 2020 and 2019, and the highest limit and utilisation during the year attributable to banks/financial institutions.

	2020		2019	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Counterparty credit limit as at 30 September	1,390.0	315.6	1,160.0	449.5

	2020		2019	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Maximum counterparty credit limit for calendar year	1,390.0	563.1	1,860.0	1,492.1

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:

	2020 £m	2019 £m
Financial	79.4	86.9
Government	76.2	69.3
Transportation	5.0	12.5
Automotive	9.3	9.3
Consumer	12.5	9.1
Oil and gas	4.2	6.8
Base materials	6.6	4.2
Technology	4.2	4.3
Utilities	6.5	2.3
Total	203.9	204.7

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 help 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 5.0 years until maturity and a five-year revolving credit facility with 5.0 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed-rate bonds. The bonds, with average weighted maturities of nine years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 24 is a description of additional undrawn facilities that the Group has at its disposal.

The following tables detail the contractual maturity of the Group and the Company's non-derivative financial liabilities. The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities. The tables include liabilities for both principal and interest.

Group

	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.

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

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Financial liabilities – bank loans – variable interest rate	1.2	(5.2)	(9.3)	(404.7)	–	(419.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.4	(452.4)	(684.5)	(631.8)	(4,431.3)	(6,200.0)
Cash in the course of transmission	0.0	(90.3)	–	–	–	(90.3)
Financial liabilities – bank overdrafts and short-term borrowings	1.7	(1.0)	–	–	–	(1.0)
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	(259.7)	–	–	–	(259.7)
Total		(809.3)	(695.2)	(1,037.9)	(4,442.6)	(6,985.0)

* 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

	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.

Company

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Financial liabilities – bank loans – variable interest rate	1.2	(5.2)	(9.3)	(404.7)	–	(419.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.4	(452.4)	(684.5)	(631.8)	(4,431.3)	(6,200.0)
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	(290.7)	–	–	–	(290.7)
Total		(749.0)	(695.2)	(1,037.9)	(4,442.6)	(6,924.7)

* 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.

36. Funding and financial risk management continued

Liquidity risk management continued

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

	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)

Group

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Interest rate swaps	0.9	(0.9)	(0.4)	–	–	(1.3)
Cross-currency swaps	2.2	(19.2)	(36.3)	(30.9)	(10.8)	(97.2)
Total		(20.1)	(36.7)	(30.9)	(10.8)	(98.5)

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)

Company

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Interest rate swaps	0.9	(0.9)	(0.4)	–	–	(1.3)
Cross-currency swaps	2.2	(19.2)	(36.3)	(30.9)	(10.8)	(97.2)
Total		(20.1)	(36.7)	(30.9)	(10.8)	(98.5)

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

	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

Group

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Financial assets at amortised cost – fixed interest rate	2.2	68.0	106.1	19.7	15.8	209.6
Trade receivables – non-interest bearing	–	112.7	–	–	–	112.7
Cash and bank balances – non-interest bearing	–	450.5	–	–	–	450.5
Total		631.0	106.1	19.7	15.8	772.6

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

Company

	2019 Weighted average interest rate %	2019 Under 1 year £m	2019 Between 1-3 years £m	2019 Between 3-5 years £m	2019 Over 5 years £m	2019 Total £m
Financial assets at amortised cost – fixed interest rate	–	–	–	–	–	–
Loans to other Group companies	2.5	178.5	341.7	303.8	5,519.1	6,343.1
Total		178.5	341.7	303.8	5,519.1	6,343.1

37. Changes in accounting policies – the impact of IFRS 16

Except for the changes below, the Group has consistently applied the accounting policies to all periods presented in these consolidated financial statements.

The Group has adopted IFRS 16 *Leases* with a date of initial application of 1 October 2019. On transition to IFRS 16, the Group recognised additional right-of-use assets of £48.1m within property, plant and equipment and additional lease liabilities of £48.1m within financial liabilities.

The Group has adopted the standard using the "modified retrospective model" of transition, and therefore need not disclose comparative information.

When measuring lease liabilities for leases which were formerly classified as operating leases, the Group discounted lease payments using its incremental borrowing rate at 1 October 2019. The weighted-average annual rate applied was 1.4%.

	1 October 2019 £m
Operating lease commitments at 30 September 2019 as disclosed in the Group's consolidated financial statements	46.6
Conversion of opening balance to a cash basis rather than an accruals / accounting basis featuring rent holiday spreading	6.1
Restated operating lease commitments brought forward (cash basis)	52.7
Discounted using the incremental borrowing rate at 1 October 2019	(4.6)
Lease liabilities recognised at 1 October 2019	48.1

Impacts for the period

As a result of applying IFRS 16 for the first time, in relation to the leases that were previously classified as operating leases, the Group ended the year with £43.5m of right-of-use assets and £45.1m of lease liabilities at 30 September 2020.

Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs instead of an operating lease expense. During the financial year to 30 September 2020, the Group recognised £4.5m of depreciation charges and £0.6m of interest costs from these leases, rather than a rental expense of circa £3.6m which would have been booked under the previous standard, IAS 17.

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