Motability Operations | Group plc

Creating value

Annual Report and Accounts 2019

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* These sections constitute the 'Directors' Report' inclusive of the corporate governance statement on pages 58 to 59

Visit online for our website and online report:
www.motabilityoperations.co.uk

Purpose

We're here to give 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 634,000 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.

Creating value

Delivering
for our customers

Turn to pages 8-9 for more information

Empowering
our employees

Turn to pages 10-11 for more information

Motability Operations | Group plc

Positive
economic impact

Turn to pages 14-15 for more information

Supporting
disabled communities

Turn to pages 12-13 for more information

Highlights 2019

£213m

Investment, following consultation with Motability, into direct customer support delivering services in excess of the core worry-free mobility proposition

95%

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

91%

Customer renewal rate at the end of lease

£852m

Donation to Motability Foundation funding their wider support of the disabled community (FY2018: £400m)

98%

Overall customer satisfaction (independently measured)

>350

Minimum number of models available to customers throughout the year costing no more than the qualifying allowance

Explaining the Scheme

How we deliver and protect the Scheme

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

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

How we protect the Scheme

Risk

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.

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.

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.

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.

For further information on our funding please refer to the Finance Director's review on page 34

Suppliers

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

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. Currently 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

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 Charity

Motability

The Motability Scheme was established in 1977 by the late Lord Goodman and Lord Sterling, the current Chairman of Motability, 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.

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 highest 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:

https://www.motability.org.uk/Annual_Report_and_Accounts_2018-2019.pdf


Dreamline
CONTOUR
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Our business model

Delivering for our stakeholders

Our objectives

- Universal service offering
- Worry-free mobility
- Excellent customer service
- Affordable choice
- Value for money
- Efficiency
- Sustainability

How we add value

Our proposition

- 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.

The value we create

Delivering
for our customers

Turn to pages 8-9 for more information on how we deliver for our customers

634k
Customers on the Scheme

45%
Cheaper than market alternatives

98%
Worry-Free satisfaction rating

£213m
Reinvested into improving our customer proposition

Empowering
our employees

Turn to pages 10-11 for more information on how we empower our employees

95%
Employee engagement

50:50
Gender balance in senior leadership team

42%
Roles filled internally

7%
Talent retention is high with attrition less than 7%

Supporting
disabled communities

Turn to pages 12-13 for more information on how we support disabled communities

£852m
Donation to the Motability Foundation (FY2018: £400m)

70 cars
Provided for families of children through Family Fund and Motability (charity)

£55k
Donations based around employee fundraising

20,000
Attendees at 'One Big Day' events across the country

Positive
economic impact

Turn to pages 14-15 for more information on the positive economic impact of the Scheme

£3.6bn
Purchases from UK dealers

>49,000
Customers' and carers' studies supported by customer's car

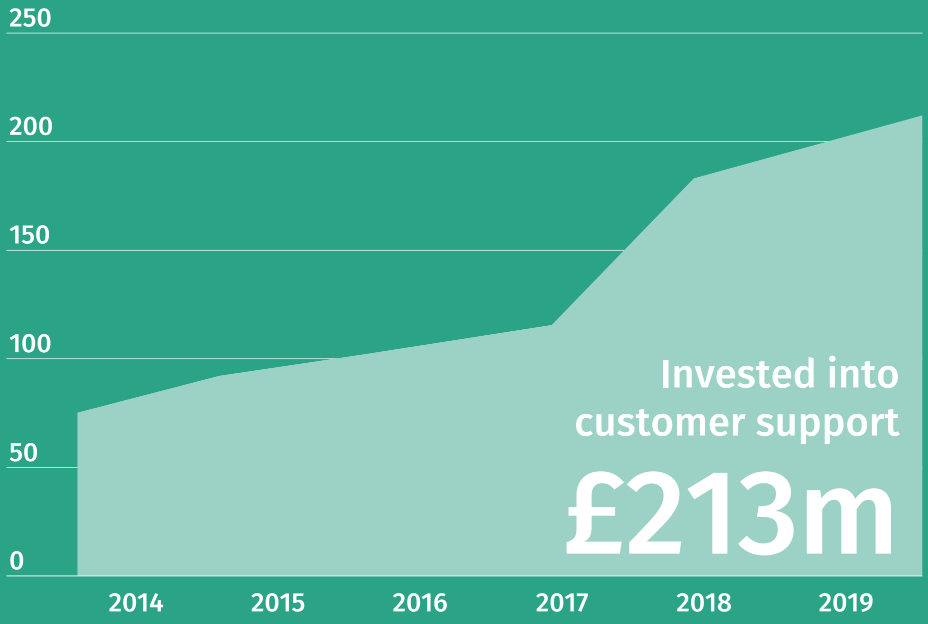
>32,000
Jobs linked to the Scheme

100
Jobs to be created at our new office opening near Edinburgh

Delivering

for our customers

How we improved our customer offering



Our initiatives in the year

- After consultation with Motability we increased our investment in the 'Good Condition Bonus' (GCB) available to reward customers who engage in our vehicle return process; this is paid to 94% of customers at the end of their lease and is now available for customers who find themselves in the position of having to hand their car back early.
- We continued to invest in a range of solutions to support continuous mobility should our customer's vehicle be off the road for a period of time (e.g. mechanical fault, accident repairs, etc.).
- Over 1m hire cars days were provided in the year and over 25,000 taxis funded.
- We subsidised the cost of adaptations that support specific customer needs. Many standardised adaptations are made available free of charge.
- We fitted almost 24,000 free adaptations for customers who have taken a new car during the year.
- We supported customers who lost their eligibility to the Scheme by providing a rent-free period following the loss of their allowance (generally eight weeks). Extended periods of rent-free cover are provided to support customers who are engaged in the PIP reassessment appeal process.

Empowering
our employees

Supporting employee satisfaction

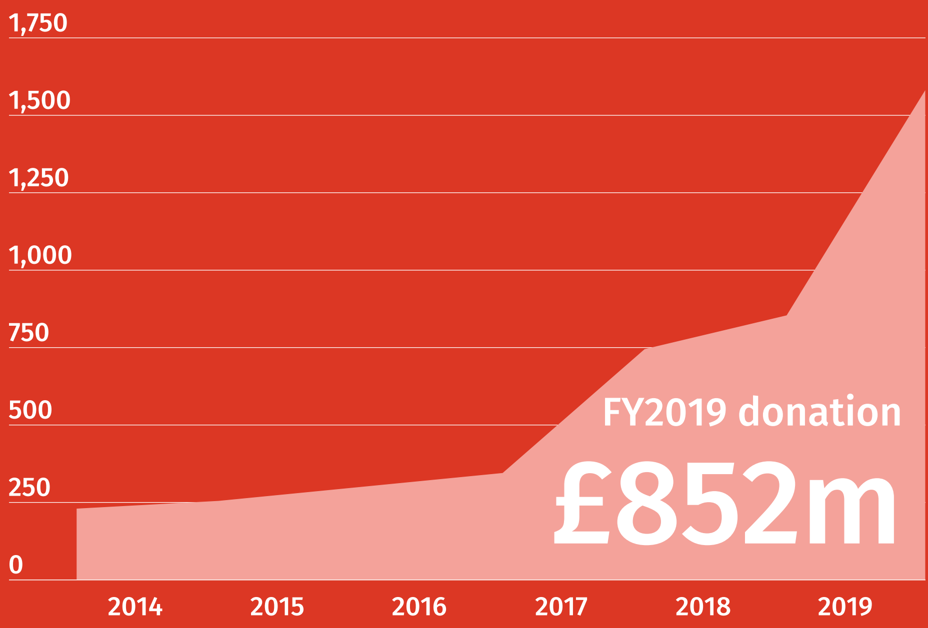
> The people at MO are what make this company special. Everyone is aiming for the same goal, to help our customers. We are all aligned in our day-to-day activity.

Our initiatives in the year

- Our commitment to providing excellent service to our customers is central to our culture and our employees live and breathe this every day.
- Regardless of whether an individual is in a directly customer-facing role or supporting behind the scenes, we all have the same overall goal and embrace our core values.
- We strive to bring out the best in our people by constantly refreshing what we do and the way we work.
- Over the last 12 months we have embedded a number of initiatives to create an inclusive workplace, ranging from dynamic working to launching supportive family-friendly approaches.
- Over the next 12 months we are looking to build on our significant achievements by continuing to focus on inclusive approaches to drive improvements in our gender pay gap, strengthen our leadership teams, integrate our new teams in Edinburgh, and refresh our early talent attraction strategies.

Supporting
disabled communities

Charitable donations to Motability (£m cumulative)



Our initiatives in the year

- The combination of an excellent trading performance and an above-target capital position enabled an exceptional charitable donation to the Motability Foundation. This was provided after committing an additional £100m for existing customer investments.
- The Motability Foundation, established by Motability, the Charity, will use its best endeavours to enhance the lives of disabled people and their families by helping with their transportation needs and independence.
- We continue to offer our facilities to a number of disability organisations to host meetings or events. This will continue with our new Edinburgh office which will include a sensory area and a registered Changing Place toilet facility.
- Employees engaged in supporting local and national initiatives with Company donations of £55k mainly via our “mycommunity” programme.
- A £300k charitable donation was made to Wizzybugs to support their provision of powered wheelchairs to disabled children.


South Downs Way

Positive
economic impact

Around 18,000 Motability Dealer Specialists employed across a national network of almost 5,000 approved Motability dealers

- An independent review (2018) of the economic impact of the Motability Car Scheme provided an estimate of the positive impact the Scheme has in both economic and social terms.
- The report estimates that more than 32,000 jobs are in some way reliant on the Motability Scheme.
- The social impact of the Scheme goes beyond its core economic contribution as the customer's chosen vehicle improves their independence, widens access to healthcare, education, employment and social activities.
- It is estimated that almost 50,000 customers and carers were able to study for qualifications due to a Motability car.
- To support call volumes and continue to provide customers with an excellent service, including extended opening hours, we are investing in a new building near Edinburgh which in due course will employ around 100 people in new roles.

Chairman's statement

Transforming lives

> An impressive performance during a year with some exceptional challenges.

Rt. Hon Sir Stephen O'Brien KBE
Chairman

£100m

Investment committed to enhance the proposition for existing Scheme customers

£852m

Strong trading performance and a capital release aligned to economic capital targets enabled an exceptional donation to the Motability Foundation

Having been pleased to take on the role of Chairman of Motability Operations Group plc earlier this year, I used the Half Year Report to pay tribute to my predecessor Neil Johnson, for his dedication and skill over many years. I repeat that grateful recognition here, in this, my first Full Year Report. Six months on, the Company can now reflect on an impressive year of performance and significant impact. Strong results are demonstrated across the board, from continuing top levels of customer satisfaction, to an exceptional financial outturn.

Significant profits achieved on the back of the continued strength of the car market have enabled us not only to make direct payments back to customers, but also to provide a substantial donation of £852m to Motability, the Charity, to further enhance the lives of people living with disabilities.

During the year, the business has also responded well to a number of exceptional challenges, which encompassed intensified political scrutiny through the joint enquiry by the Treasury and Work and Pensions Parliamentary Select Committees. We also welcomed the opportunity to engage with the National Audit Office (NAO) in its review of the Motability Scheme, and are taking advantage of this engagement to reflect on our practices and further hold our business to account with ever-greater transparency.

Our activities are delivered through a business model which works successfully to provide worry-free, affordable and sustainable leasing services for our customers. It also creates the potential for additional funds which go towards meeting the needs of the wider disabled community. Throughout Motability Operations, it is clear that our people at every level are passionate about successful delivery of these objectives, with the outcome that we see in these solid results.

While we can feel fulfilled by the transformative impact of what our business achieves, at the same time we recognise the ever-increasing expectation by all stakeholders that our business could be more fully aired, and that we go further to increase our transparency. To this end, we already have enhanced remuneration reporting beyond our legal and regulatory obligations, and continue to make strides in providing clearer and more detailed accounts, as well as engaging more directly with key stakeholders through roadshows, briefings, and online.

Customer service is, of course, core to our business, and on behalf of everyone at Motability Operations, I am proud that satisfaction levels were maintained at the excellent rating of 98% in the independent (CSI) survey of customers, carried out in April 2019. The result was also reflected in feedback given by customers through the national Institute of Customer Service survey. This gave our services a satisfaction score of 93.7%, and we were the highest performer with the highest rating in our sector (financial services).

With the Government's programme of welfare reform now in its sixth year, more than half of our customers now qualify for the Motability Scheme through the new Personal Independence Payment. The different criteria taken into account for this allowance are reflected in a growing volume of customers with mental health or neurological issues. We are committed to offering the highest levels of support across all customer groups, and provide specific training to help teams provide appropriate service, as well as using research to help tailor our proposition to specific needs.

We pay close attention to affordability and value, and throughout the year were able to provide more than 350 models on the price list that cost no more than the customer's allowance. The NAO report, published in December 2018, confirmed the Scheme to be 44% cheaper than market alternatives (around two fifths of this arising from direct impacts of the tax provisions made for the Scheme).

Our financial strength this year has enabled us to spend substantial sums on direct support for customers, including increasing to £600 the Good Condition Bonus awarded to those who bring their cars back in good order. In all, over £100m was invested 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.

Despite a difficult economic backdrop, there were also strong results for vehicle sales. However, early signs of a more challenging market emerged in the final weeks of the financial year, providing a clear indication of more testing market conditions in 2019/20. While the financial performance of the business remains strong, it is important that we maintain a prudent approach, given the range of variables which could affect our performance. These include the complex changes in the UK's relationship with the EU and international markets; the continuing impact of wider environmental issues; the uncertainties surrounding the used-car market; and the further anticipated decline in demand for diesel vehicles.

Given this backdrop, risks must always be a key focus, as the predictability and sustainability of our business are crucial for customers who depend on us. An assessment of risks is undertaken, including consultation with Motability, 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.

"Customer service is, of course, core to our business, and on behalf of everyone at Motability Operations, I am proud that satisfaction levels were maintained at the excellent rating of 98%."

The NAO published its report on the Motability Scheme in December. Motability Operations, in its role as operator of the Scheme, is pleased that the report recognised the Company's continuing impressive performance, its exceptionally high quality of customer service, and the Scheme's value for money.

As reported at the half year, we have fully accepted the NAO recommendations. To this end, we have already increased the transparency of reporting on executive remuneration, as set out in last year's Annual Report, to a level that well exceeds the regulatory requirements.

As a response to the second recommendation, Motability Operations has also commissioned a robust, wide-ranging review of its forecasting process, supported by third-party experts.

Motability Operations consulted with the NAO throughout the review process, and the NAO met all third-party experts to discuss their findings.

Critically, the independent third-party review has confirmed that Motability Operations' residual value forecasting approach is appropriate and effective. It finds no evidence of systemic bias that resulted in either under- or over-forecasting, nor was there anything which would lead to expectations of a materially different forecast output than that which has been seen over recent years.

The size of the business's capital reserves has also been the focus of public attention. It remains vital that these are kept at a level sufficient to ensure our continued operation. 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.

These capital reserves are used actively in meeting around a third of our total funding requirement; they are not held as cash, but invested in the car fleet.

As reported in the half year accounts, in line with NAO recommendations, Motability, the Charity initiated an external review from Oliver Wyman, to examine our capital modelling methodology and our applied risk appetite and confidence levels, and to benchmark our capital reserve levels against near-comparable companies.

"Our business demonstrably has a positive impact on many thousands of lives. This would not be achievable without the commitment and support, through close continuing relationships, of key business partners."

Significantly, the capital reserves 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 the business's unique risk profile.

The review did suggest that management should consider adjusting assumptions underpinning the calculation of a number of risk components, and refine the model by combining certain risk factors. This work will be undertaken next year.

Motability Operations recognises 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 continuous dialogue with Motability, the Charity. In the light of these considerations and other factors, including investor perspectives and the need to secure liquidity in the financial markets, balanced against the potential for some of the capital to be used in meeting the needs of a wider group of disabled people through charitable donation, the Board resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position (£150m of which is directly attributable to the Oliver Wyman review).

In September, the Board committed £100m of this release with immediate effect to support customers, while the balance of the release of capital reserves, along with all of this year's profits, was donated to the Motability Foundation (established by Motability, the Charity): a total of £852m (FY2018: £400m). The money will go into the new endowment fund, to be used to enhance the lives of current and future generations of disabled people through helping with their wider transportation needs.

Since capital reserves are not held as cash, but are used to purchase cars, the business has borrowed on the financial markets to put the release into effect.

While in effect, the donation requires Motability Operations to record a technical loss this year, this does not affect the business's ability to meet its liabilities, and it remains in strong financial health.

All of us at Motability Operations are enthusiastic about the impact of our Company's efficient and strong performance enabling us to make this substantial donation, which will help Motability improve the lives of many more people living with a disability. The Board is confident that following the rebasing to this revised capital position, and the donation of this year's profits, the business remains robust, affordable for customers, and sustainable for the long term.

Our business demonstrably has a positive impact on many thousands of lives. This would not be achievable without the commitment and support, through close continuing relationships, of key business partners, including RSA, RAC and Kwik Fit, and the leading car manufacturers and dealers. This year has seen us working closely with these partners to provide more seamless and integrated support for customers. Almost 5,000 approved dealers are available to provide high-quality front line services for customers. Equally, we place enormous value on the advice and strong relationships we have with a full range of disability organisations and other key stakeholders.

Irrespective of our high customer satisfaction ratings, as the new Chairman I am struck how deep and universal it is within Motability Operations' DNA for all our staff, from every part of the organisation, always to be striving to do better for customers, looking for opportunities to enhance services, and creating better value. Our digital roadmap is designed to transform online services to customers, and harness digital tools to increase flexibility and contact channels. This year has seen us relaunch our online application system for dealers and, by the end of the year, we will offer the first pilot online accounts for customers.

More digital support will be provided by teams, including those at our new office, which will open fully near Edinburgh early next year. Our Edinburgh office gives us access to an additional, high-quality labour market, and will provide 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. For disability organisations in the region, the state-of-the-art accessible building will also include space for local organisations to use the facilities to host meetings, training or events.

We see our culture as the bedrock for performance and regularly benchmark our employee engagement against UK and global high-performing organisations. This year we were pleased to see every division outperforming high-performing businesses across every category, with improvements in many areas. We are committed to becoming a fully inclusive organisation, and during the year we introduced a range of initiatives including the creation of diversity groups, and new approaches to working practices such as flexible working options.

As previously reported, while we pay equally for equal roles, in 2019 we identified a mean gender pay gap of 29.6%, a slight increase on the previous year. This was not entirely unexpected, but something we as a Board, management team and everyone throughout the Company are addressing. We are starting to see positive results from the various initiatives, but recognise that it will take time, continued commitment and focus to narrow our pay gap significantly.

> All of us at Motability Operations are enthusiastic about the impact of our company's efficient and strong performance.

Our CEO Mike Betts and the executive team, who have worked closely together over many years, continue to provide leadership, skills and management of the highest calibre, underpinning the success and inspirational quality of Motability Operations, and all the people who work in and with the Company. Given its scale and complexity, sustaining this high bar of achievement will be a management challenge. As announced last year, Mike Betts' time as CEO will conclude during the current financial period, once a suitable successor has been identified and appointed. Together with the Board, I am actively in the process of appointing a high-quality candidate for the CEO role, who is able to grasp these challenges and take the business forward.

As Mike's chapter draws to a close, his continuing commitment and passion for our mission and our business remains an inspiration and a mark of his qualities as a leader under which Motability Operations' customers and the Company have thrived.

It is with great sadness that I report that Joe Hennessy passed away in May this year. Joe sat on the original Executive Committee of Motability, the Charity from its foundings in 1977. Joe then served as an Independent Non-Executive Director on the Board of Motability Operations Group plc from its formation in 2008, having previously served as a Non-Executive Director of Motability Finance Ltd from 2006. I would like to take this opportunity to pay tribute to the outstanding contribution and energy Joe brought to his role in both organisations over many years, and in particular his single-minded focus in seeking continuous improvement of the service provided to our disabled customers. I know I speak for both organisations when I say that Joe will be greatly missed.

I would like to thank Lord Sterling and the governors of Motability for their support and engagement in discharging their oversight role. Together we enjoy a strong working relationship focused on delivery of the scheme to the highest possible standards for our disabled customers.

Looking ahead, we are moving into a challenging future, with a number of significant changes which will undoubtedly have an effect on the business. There will also be opportunities to address these challenges with fresh thinking and new approaches. Our key concern is to preserve worry-free affordability, stability and predictability for those who rely on our services. This year's excellent results set positive expectations of continued high-level performance and exceptional value for our customers.

Stephen O'Brien

Rt. Hon Sir Stephen O'Brien KBE
Chairman

Delivering our proposition

> We recognise that our customers rely on the Motability Scheme and that we need to protect this over the long term.
>
> **Mike Betts**
> Chief Executive

9.8/10

Customer service rating

20,000

One Big Day attendees

Overview

Our business is focused on delivering worry-free motoring to those who face considerable barriers in achieving mobility. Through affordable and straightforward leasing options, 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.

For all of us, this is not just a short-term objective. We recognise that our customers rely on the Motability Scheme, so we aim equally to make sure we sustain a secure financial base, to protect the Scheme over the long term. In addition, with no shareholder dividends to pay out, we are able to generate sums for further investment to improve services for customers, and to provide wider support for people with disabilities.

Our operation is delivered through a business model which enables us to provide great value for customers, while ensuring the long-term stability of the Scheme.

Our employees are passionate about delivering our objectives, and we nurture a culture of personal ownership and responsibility, supporting our people in delivering the right results for customers.

Customer service is our priority, and we are delighted that this year, customers have again rated our services at 9.8 out of 10, as well as putting us at the top of the Institute for Customer Services league table in our financial services sector, ahead of many familiar household names.

We continue to invest substantial sums in improvements to customer service, support and infrastructure. This year, among other things, we have increased to £600 the Good Condition Bonus, paid directly to customers who return their car in good order, while customers can also now add a third driver to their lease at no extra charge.

With more than half our customers now qualifying for the Scheme through Personal Independence Payment, we have experienced different challenges as we support customers with a wider variety of impairments, 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.

Strategy

Our planning is based around four strategic pillars: to ensure long-term sustainability; to maintain consistently high levels of customer satisfaction; to provide a wide variety of vehicles at affordable prices; and to create improved awareness and understanding of the Scheme. During the year, we saw solid progress across all these areas, delivering high levels of customer service and affordability, underpinned by robust finances.

Focus on customers

Customer service is at the heart of our business, and this has been a year of strong performance. Independent six-monthly customer surveys rated satisfaction levels at 9.8 out of 10. Ninety-eight per cent of customers said they would recommend the Scheme to others, and nearly 92% 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 93.7%, compared with a sector average of 80.4%.

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.

Looking ahead, we are planning to upgrade the support we provide through a major investment in online services. Our first online customer account is due by the end of December 2019. This year saw the first step in this new online journey with the delivery of an upgraded web-based tool for dealers handling applications. We have seen continuing development of our virtual assistant, which alongside webchat, enables customers to answer queries online. We also completed an extensive overhaul of the Scheme website, to provide a streamlined and simplified user experience, helping people get the information they need more quickly.

We continue to support customers who lose their allowance following their Department for Work and Pensions Assessment for Personal Independence Payment (PIP). During the year, over 7,000 Disability Living Allowance recipients lost eligibility for the Scheme, and returned their vehicle.

Currently, around 46% of working-age customers undergoing reassessment fail to qualify for the enhanced mobility rate of PIP. The Scheme also attracted around 72,000 new customers, who chose to use their allowance to lease a Motability car. This meant that following a period of slight decline, Scheme volumes began to grow again during the course of the year, finishing at 633,900.

We recognise the exceptional challenges facing those who lose access to the Scheme through changes to the allowance criteria. We support customers throughout this process offering advice as well as transitional support payments of up to £2,000 towards mobility needs.

Overall, the Scheme paid more than £14m in transitional support during the year. Customers who experience a stopped allowance for other reasons, such as a failed PIP-to-PIP assessment, will also now receive a transition payment of £1,000. This is covered by charitable funds supplied by Motability, the Charity (who determine policy on matters of support payments to those who lose eligibility).

PIP recipients comprise an ever-growing proportion of our customer base. By year end, we had around 329,000 PIP customers, some first time applicants, others transferring from Disability Living Allowance (DLA); they now make up more than half (52%) of our customers.

This transition brings new challenges as we engage with customers with a wider variety of conditions. In common with wider society, we see in addition more customers experiencing greater levels of depression and anxiety. We equip our teams with training and coaching to develop the right skills to support customers with diverse needs.

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, online and in the classroom. Early in 2019, we also held a series of dealer business briefings, attended by almost 3,000 dealer managers and specialists across the UK. Major topics included preparing for the development of online services, and understanding the implications of changes in our customer base.

The briefings were rated highly by attendees, who gave the events average scores of 92%. Nine out of ten said they planned to make changes as a result of attending, including making Motability signage more visible at their dealership.

In delivering the Scheme, we work closely with partner organisations, including RSA, Europcar, RAC and Kwik Fit. Over the year, we combined resources to improve experiences for customers requiring breakdown services or replacement cars, and further improvements are in the pipeline.

The year also saw increased satisfaction among our 16,500 powered wheelchair and scooter customers. All touch points rated at 90% or above in the Customer Satisfaction Survey. 96% of these customers now intend to renew, and 97% would recommend the Scheme to others.

"Our close partnership with disability organisations remains highly valued, and a number of individual briefings and visits took place through the year. We welcomed organisations at our Disability Organisations Forum in the summer, and more than 70 organisations receive our quarterly newsletter."

For many customers, an adaptation can make driving possible, offering a huge boost to freedom and independence. We continue to make substantial investment in this area, to support those requiring extra levels of help. Adapted vehicles comprise around 10% of our fleet. In addition, we now have over 31,000 wheelchair accessible vehicles (WAVs) on the fleet, and almost 2,000 'Drive from Wheelchair' vehicles. During the year we invested around £22m in subsidies for adapted and converted vehicles.

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

Our series of summer events, known as One Big Days, provide an opportunity for customers and potential customers to find out more about adaptations and conversions, and the Scheme in general. Around 20,000 visitors attended this year's five shows, including Edinburgh this year, and we arranged 1,684 adapted test-drives. Passenger WAV 'taster experiences', which provided the opportunity to try out a WAV before committing to one for the long term, continued to be popular. We also added a test-drive track for visitors to try out scooters. Guests evaluated the events on average at 91%, with most saying they would follow up their attendance with a dealer visit.

Our close partnership with disability organisations remains highly valued, and a number of individual briefings and visits took place through the year. We welcomed organisations at our Disability Organisations Forum in the summer, and more than 70 organisations receive our quarterly newsletter. We also present regularly at the Joint Committee on Mobility and Disability. Feedback from these organisations helps us shape our services and meet the developing needs of customers.

Financial strength

This year has seen robust financial performance, with significant profits achieved in part from the continued strength of the used-car market. It was also agreed by the Board earlier in the year that, after evaluation of a range of factors, by year end, we would release capital reserves to a level £370m below the September 2018 Balance Sheet position.

The release of capital reserves, together with all of this year's profits, has enabled us to invest more than £100m in direct support to customers, as well as making a substantial donation of £852.3m to Motability, the Charity, to further support a wider group of people living with disabilities.

The donation requires Motability Operations to record a loss this year, but this does not affect our ability to meet our liabilities, and we remain in excellent financial health.

We have not changed our capital reserves policy. It remains critical that these are sustained at a level capable of withstanding severe economic shock. The reserves are used to fund cars, reducing our borrowing requirement and resulting in savings for our customers.

The release of reserves did impact our credit rating, with a rating downgrade announced by Standard and Poor's. This has reinforced the Board's view of the complexity of the business, and underlines that taking action in one area can have serious consequences in another.

Affordability for customers remained stable through the year, with more than 350 cars available at no more than the allowance. On average more than 200 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.

The average purchase price of vehicles taken by customers this year is around 9% higher than in the previous year with no increase in the average additional customer contributions.

Our customer investment this year also included increasing the level of the bonus made to customers who bring their cars back in good order to £600. The bonus goes to around 94% of customers. In addition, we have augmented our support for wheelchair accessible vehicles and adaptations.

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 an £11m profit. MORL is fully reserved to cope with volatility in claims.

Sustainability into the long term

Our culture sits at the heart of our business. Our people are passionate about our business, and their engagement is one of our most important measures. We evaluate engagement 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 for team workshops, and greater availability of flexible working.

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 2019 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 29.6%. We are committed to addressing this. A range of initiatives already underway will build on our culture of diversity and inclusion, to create supportive environments for all employees.

Sustainability of our business needs the right infrastructure, and we continue to invest in IT development. Following the major upgrade onto the new Alfa leasing system completed in 2017, we have retired 14 legacy systems. Work has continued to replace and upgrade our online applications tool, pricing and vehicle remarketing systems.

The next few years will see us transform the way we interact with customers, business partners and stakeholders, using web-based platforms.

Another major investment is our new office, to be based near Edinburgh. Already operating in temporary premises, the new building will open in April 2020, and is expected to be the base for around 100 people in due course. The new office will provide extended operational capability for customer services and will provide us with the capacity for some of the customer base growth we expect in coming years.

For disability organisations in the region, the building will include space for local organisations to use the facilities to host meetings, training or events.

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

"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."

National Audit Office

Our appetite for risk, the balance of reserves, and forecasting were key areas of focus for the National Audit Office (NAO), as it carried out a review of the Motability Scheme, published in December 2018.

We welcomed the review and were pleased to note that the NAO commended the excellent value for money and high levels of customer service we offer. It confirmed that Scheme prices were 44% below any market alternative for the period reviewed.

In line with an NAO recommendation, we recently completed a review of residual value (RV) forecasting, supported by third-party experts, to establish whether factors affecting past performance could be more accurately forecast in the future. We engaged with the NAO throughout the process.

I am pleased to note that the review has concluded that Motability Operations' RV forecasting approach is appropriate and effective. Third-party forecasting experts, Cambridge Econometrics have established that there was no evidence of systemic bias that resulted in either under- or over-forecasting.

The review found that variations between forecast and outcomes were largely driven by unexpectedly buoyant markets, the effects of which were experienced across the wider industry.

We continue to work with Motability as it carries out its review of the performance framework for the Scheme (as recommended by the NAO), including targets linked to Motability Operations' Executive Director remuneration.

Outlook

A number of challenges set the backdrop for next year, including the continuing impact of welfare reform, and the changing expectations of our customer base. There were early signs of a more difficult used-car market in the final weeks of the financial year, setting the expectation of tougher conditions in 2019/20. We could potentially see further pressures on Sterling as the UK focuses on establishing future trading relationships.

Despite this, we see many exciting opportunities on the horizon. These include the delivery of our ambitious digital and IT agenda; ensuring that we devote appropriate resources to raising greater awareness and understanding of the Scheme; addressing demands for greater choice around environmentally sustainable travel; and continuing our working relationship with the Scottish government, as well as launching our new office in Edinburgh.

As this is my last full year as CEO, I’d like to use this opportunity to pay tribute to those people that I’ve worked with over the years: partners; suppliers; disability organisations; Lord Sterling and the governors and employees of Motability, the Charity; and our Board. It has been hugely rewarding to engage with so many interesting and inspiring people.

In particular, I’d like to thank all those special colleagues who have been so supportive to me during my time at Motability Operations. These are the people who have strived tirelessly to meet the needs of our customers, to address the interests of our stakeholders, and who have shaped the business to the position it holds today. It has been a privilege to be part of this exceptional organisation, and its success is a credit to their passion and dedication.

Mike Betts
Chief Executive

“As this is my last full year as CEO, I’d like to use this opportunity to pay tribute to those people that I’ve worked with over the years: partners; suppliers; disability organisations; Lord Sterling and the governors and employees of Motability, the Charity; and our Board.”

Sustainability

We have retired 14 legacy systems as part of the planned roadmap ensuring that we have the right IT infrastructure to support long-term sustainability and enable enhancements in how we interact with customers, partners and stakeholders.

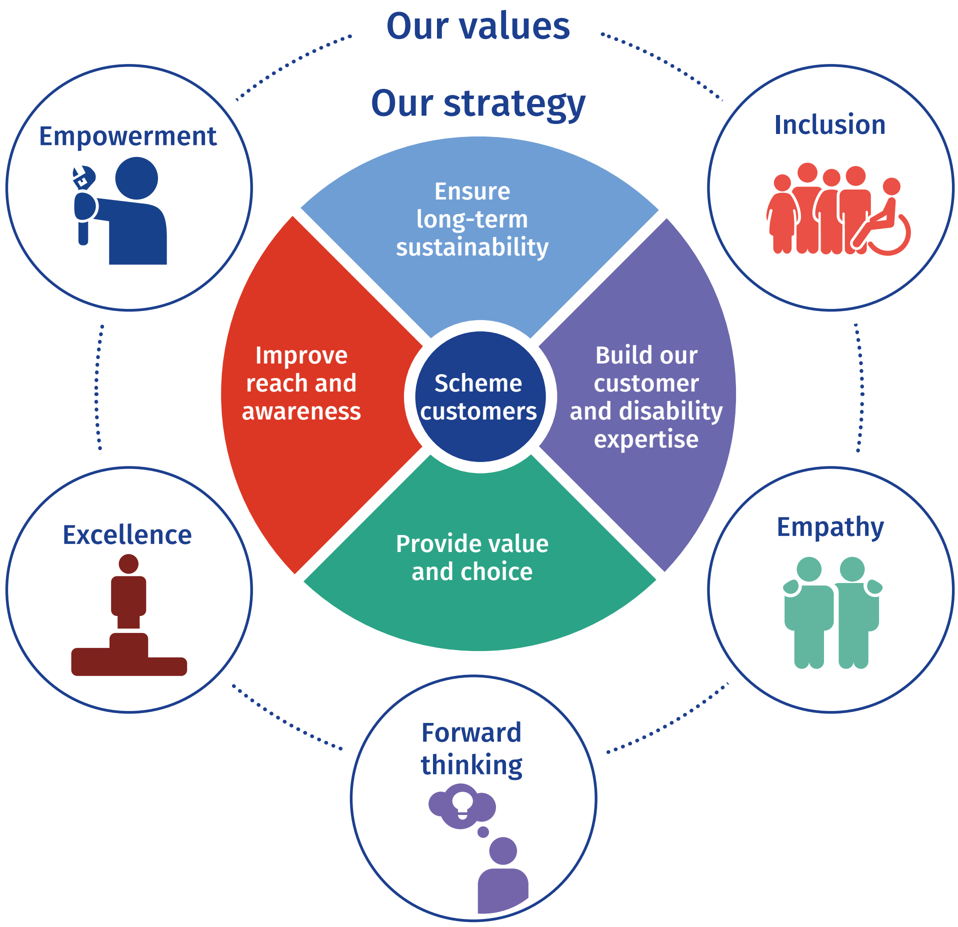
New jobs

We have made a major investment in a new office near Edinburgh, which will be the base for around 100 new jobs in due course, focused on providing additional capacity for customer services.

Strategy in action

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 45 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 26-33 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 46-48 for more information on our people

Performance

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

Turn to pages 26-33 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 49-56 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.

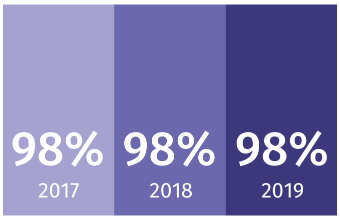
93.7%

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

86%

Satisfaction rating for our complaints handling

KPIs

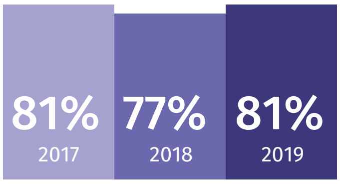


98%

Target of >92%

Overall customer satisfaction

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



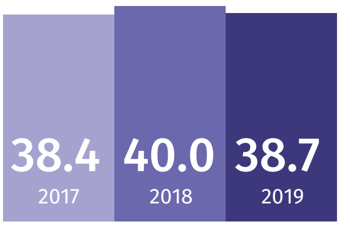
81%

Target of >80%

Calls answered within 20 seconds

We continue to invest in our call centre to meet the increasingly complex needs of our changing customer base.

We are opening a new office near Edinburgh which will increase our call centre capacity in the next year.



38.7 min

Target of <42 mins

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

Objectives	Initiatives
Deliver best-practice customer service through our call centre	Continued investment in our front-line customer services team to address more complex customer needs that have arisen through our changing customer base. An essential part of this is resolving queries in an efficient and effective manner and our first-call resolution rate means that most customers only have to speak to one advisor to resolve their query. Expanded our digital offering to provide customers with access to information at any time of the day. Our online channel has proven particularly popular with customers who are unable, or prefer not, to use the telephone. Invested in our Edinburgh office, increasing our capacity.
Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets	Our 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. Through this programme we have organised over 25,000 taxi journeys and over 1m days of hire car provision at no extra cost to the customer. Supported the converters of our most complex vehicle solutions in increasing the supply of 'Drive from Wheelchair' vehicles, with over 400 being handed over in the year to some of our most vulnerable customers.
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	Increased our investment in adaptations to maximise the range available to customers when they choose their vehicle, many of which are provided free of charge to the customer. Extended our support to improve Wheelchair Accessible Vehicle (WAVs) affordability, a 14% increase over the previous year.
Provide our customers with the information and tools they need to select a suitable car from the wide range available	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 to ensure it is right for their needs and make an informed decision on selecting a vehicle which is typically on a five-year lease term.
Provide information to support decision-making to meet customers' mobility needs	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.
Work with disability organisations for guidance and support	Hosted a summer Forum attended by over 30 disability organisations to update attendees on Scheme changes and discuss development in customer requirements.

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.

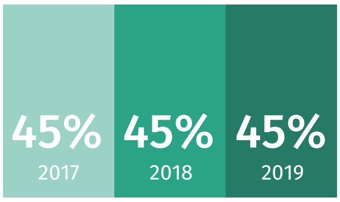
To this end we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms – the aim being to provide value without compromising choice or quality.

Brand participation % on Scheme*

>92%

***Weighted by UK market share**

KPIs

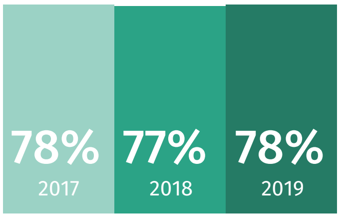


>45%

cheaper

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.

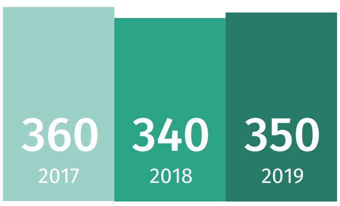


78%

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 2019, 78% of vehicles were sold online.



>350

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 2019 we exceeded this target with at least 351 models at any one time.

Objectives

Initiatives

Provide stability in pricing and choice throughout the economic cycle

Maintain a range of at least 200 cars at 'nil advance payment'

Worked with car manufacturers to maintain choice and affordability for customers with more than 350 cars available at no more than the allowance. This was achieved despite cost pressures from exchange rates and supply challenges related to the emissions testing being introduced through the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).

Provide a wide selection of vehicle models and brands

Increased the volume of cars by (on average) 20% through the year that were available at less than the customer's full allowance with 237 cars available in the final quarter.

Ensure that our residual value-setting and forecasting is the best in the industry

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".

Retain our market leadership for vehicle remarketing

Our remarketing activity has been designed and developed to gain maximum value through our disposals process. We have a track record of delivering additional value which can then be reinvested into the customer proposition and we have plans to ensure we retain a market-leading position:

- Continued activity on the long-term development of the supporting 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.
- Further 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.
- Our dealer engagement programme has enabled us to optimise our sale opportunities whilst delivering our best-ever buyer satisfaction score.

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.

We work with around

18,000

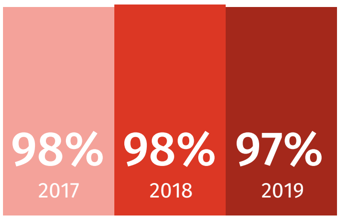
Motability Dealer Specialists

Across a national network of almost

5,000

approved Motability Dealers

KPIs

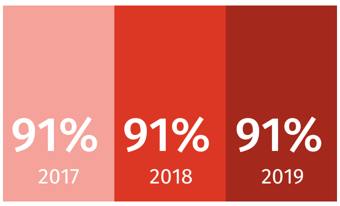


97%

Trust in the Scheme

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.

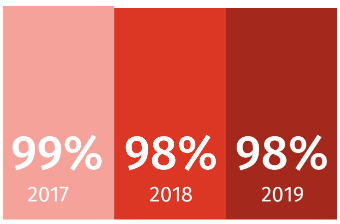


91%

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 2019 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	Initiatives
Raise understanding of Scheme elements and confidence and trust in the Scheme	Completed our annual series of summer events, known as One Big Days, offering current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. These events attracted almost 20,000 visitors and an impressive 1,684 adapted test drives. This year we also streamed live talks which extended the reach of these events to many more via social media. Feedback across these events was excellent with 91% saying the event was worthwhile. Overhauled the Scheme website to offer users a simpler, cleaner journey in line with our updated branding and redesigning the way key information is ordered and displayed.
Maximise effectiveness of multimedia channels to increase understanding within the eligible customer base	Successfully launched a new online application system designed to support dealers in providing an improved service to customers who submit a vehicle application. The system provides dealers with a clear view of activity aligned to our worry-free proposition and standards under the Motability Dealer Partnership programme (MDP). The new online application system will ultimately support the option for customers, if they wish, to manage elements of their application and other in-life changes online.
Identify and, where appropriate, remove any barriers for potential customers	Continued to worked 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 the Motability Tenth Anniversary Trust (TAT), and during the year 70 families were supported by the provision of an appropriate vehicle.
Continue to encourage Motability dealers to promote the Scheme in line with our brand	Successfully delivered our 'Opportunity Through Change' business briefings to nearly 3,000 delegates from UK dealerships at nine locations across the UK. These events focused on how dealers and manufacturers can better support awareness and understanding of the Scheme, as well as increasing dealer confidence in addressing the needs of customers with a wide variety of conditions.

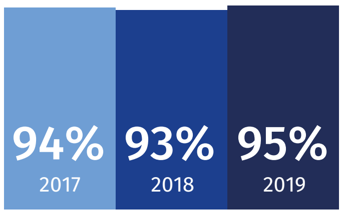
Ensure long-term sustainability

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



Employee engagement

95%

Target to exceed HPO benchmark (84%)

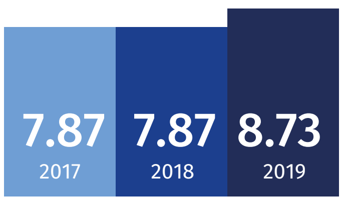
Employee engagement

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

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).



8.73 yrs

Debt maturity profile

The Group aims to retain a well-laddered debt maturity profile in order to effectively manage refinancing risk. Following bond refinancing activities during the year, the average debt maturity profile has increased to 8.73 years.

Objectives	Initiatives
Maintain a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events	Delivered a robust financial result, underpinned largely by continued buoyancy in the used-car market during the first half of the year. As announced in the Group's Half Year Report (published in June), the Board resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position; a level which is consistent with the Board's revised assessment of the 99.99% confidence level, whilst also retaining 15% headroom in line with existing policy. Commissioned an independent external review of the forecasting methodology during the year. The review confirmed that our modelling followed best practice.
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	In June 2019, the Group completed a significant refinancing exercise, issuing three bonds, totalling £1.44bn, under its Euro Medium Term Note (EMTN) programme. This incremental financing provided the liquidity to fund the donations outlined above, enabled the repayment drawings on the Revolving Credit Facility, and provided capacity to settle the Group's £300m bond maturity in December 2019.
Ensure that our premises and information technology infrastructure are robust and future-proof	Continued development aligned to our strategic IT roadmap that will secure systems sustainability (replacing aged legacy systems) with linked benefits flowing across business operations. Initiated the development of a new office near Edinburgh.
Attract and retain quality people	Our annual independent employee culture survey recorded an engagement score of 95%, 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.
Continue to nurture effective partnerships with key stakeholders	Maintained a proactive engagement programme with key stakeholders, operating in a transparent and straightforward manner.
Maintain a forward-looking environmental policy, providing a choice of environmentally friendly vehicles on the Scheme, balancing customer needs with fuel economy and emissions	Ensured a good range of lower-emission, higher-MPG vehicle choices are available across vehicle categories and feature green choices in our promotional mailings.

We remain focused on protecting the long-term financial sustainability of the Scheme

"The business delivered excellent performance across the full range of financial and non-financial measures."

Matthew Hamilton-James
Finance Director

Performance overview

During the year to September 2019, the business delivered excellent performance across the full range of financial and non-financial measures. This performance continues to evidence the effectiveness of our business model, and commitment of our people, in supporting our aim of providing an exceptional and affordable customer offering on a long-term, sustainable basis.

As announced in the Group's Half Year Report (published in June), the Board resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position, a level which is consistent with the Board's revised assessment of the 99.99% confidence level, whilst also retaining 15% headroom in line with existing policy.

In order to implement this capital reduction, the Board committed £100m to support existing customers (through a number of initiatives including an increase in the bonus paid to customers who return their cars in good condition at the end of lease), with the balance, along with all of this year's profits, to be donated to the Motability Foundation. In line with this commitment, Motability Operations announced and donated an initial £800m on 26 September 2019 (based on the projected financial results) and pledged a further balancing payment prior to the finalisation of the financial statements. Consequently, Motability Operations donated a further £52.3m on 11 December, with the aggregate donation of £852.3m (reflected in the financial statements for the year to September 2019) resulting in a post-tax loss of £370m, thereby delivering the capital reduction announced in June this year.

The Board is confident that, following the rebasing to this revised capital reserves position, the business remains robust, affordable for customers, sustainable into the long term and capable of withstanding extreme shock events, whilst not compromising the overriding priority of preserving stability and predictability for our customers. Following the announcement of the revised capital target in June, Moody's reaffirmed the Group's credit rating as A1 (stable outlook) and Standard & Poor's reduced the rating by one notch to single A (stable outlook). With the capital reduction subsequently implemented, both rating agencies have reconfirmed these ratings.

In June 2019, the Group completed a significant refinancing exercise, issuing three bonds totalling £1.44bn under its Euro Medium Term Note (EMTN) programme. This incremental financing provided the liquidity to fund the donations outlined above, enabled the repayment of drawings on the Revolving Credit Facility, and provided capacity to settle the Group's £300m bond maturity in December 2019.

Financial performance

As reflected in the Half Year Report, results during the first six months of the year were buoyed by continued resilience of used-car values and reinsurance commission in MO Reinsurance Ltd. This resulted in the half year financial results being ahead of both planned and priced expectations.

The results for the second half of the year, as expected, reflect a more challenging wider economic and sector-specific backdrop, with increases in the supply of used cars and a cautious demand-side outlook resulting in softening conditions in the used-car market. Whilst these effects had largely been anticipated through our fleet revaluation (with values written down accordingly) this has nonetheless resulted in reduced vehicle resale profitability during the second half of the year. Pre-tax, pre-donation profitability during the second half of the reporting period was £86m compared with £310m during the six months to March 2019 (FY2019: £396m).

In terms of the full year result, our reported profit excluding the donation represents a Return on Assets of 3.5% (Profit after tax as proportion of Total Assets), higher than our long-term target profitability of 1.5%. As noted above, profitability was skewed toward the first six months of the year, with the results for the second half being in line with the targeted 1.5% Return on Assets.

The table below demonstrates the impact on profitability, excluding the donation to the Motability Foundation, from the positive used-car market whereby current and estimated future disposal values are higher than the original expectations included in the lease price. These effects manifest as profit on disposal and through adjustments to depreciation related to both the live fleet and vehicles that expired during the year. This upside was partly offset by the decision to increase the Good Condition Bonus (GCB) award available to customers who engage in our returns process.

£m	FY2019	FY2018
Reported profit before tax	**(456)**	131
Charitable donation*	**852**	400
Reported profit before tax and donation	**396**	531
Vehicle resale profitability **	**(148)**	(237)
Depreciation adjustment *	**(153)**	(146)
Increase in GCB ***	**37**	66
Adjusted Profit before tax	**132**	215

* See note 6, page 100 (£153m is netted within Depreciation on assets used in operating leases attributable to vehicles that expired during the year and adjustments to the live fleet)
** See note 4, page 97
*** See note 21, page 111

Net of the £852m charitable donation to the Motability Foundation, a post-tax loss of £370m was recorded, representing a Return on Assets of – 4.0% (2018: 1.4%).

The post-tax loss of £370m (FY2018: £116.6m profit) results in restricted reserves on the Balance Sheet decreasing to £2,172m (FY2018: £2,542m), a level consistent with the policy of maintaining 15% capital headroom above the 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

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 a new benefit assessed using different criteria, some people have lost/are losing their eligibility for the Motability Scheme. Other potential customers are qualifying for the first time. As a consequence of this reassessment process, customer numbers had reduced by 5% since 2015.

Today, with the original PIP reassessment process moving towards completion, customer numbers on the Scheme have begun to increase again, with 633,900 customers on the Scheme in September 2019, representing 1.2% growth year on year (2018: 626,600).

This growth is underpinned by a consistently high customer renewal rate at the end of a lease, with over 91% of customers deciding to take a new lease once their original contract expires; the retention of customers is one of our key measures of performance. We also saw over 72,000 brand new customers joining the Scheme during the year.

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, as is the relative stability of prices through the economic cycle. It is pleasing therefore to report that, working closely with manufacturers, we have been able to maintain a competitive price list with at least 350 vehicles available costing no more than the customer's allowance (versus a target of 200 vehicles).

We have continued to invest in the customer proposition, with more than £213m invested in direct customer initiatives during the year to September 2019, a 16% increase on the previous year (2018: £183m). Customer investments include expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing an enhanced Good Condition Bonus for customers who return their vehicle in appropriate condition at the end of lease, and expenditure to support the cost of vehicle adaptations and the affordability of wheelchair accessible vehicles.

Revenue

Total revenue increased by 4% to £4,271m (FY2018: £4,107m):

- Rental revenue: Underlying customer rentals increased on the back of the marginal increase in customer numbers in addition to the 2.4% uplift in mobility allowances in April 2019 (allowances are uplifted each April based on the Consumer Price Index from the previous September).
- Good Condition Bonus (GCB): The underlying increase in total customer rentals was partly offset by a stepped increase in the provision for customer rebates consequent to the increase in the GCB available to customers who return their vehicles in appropriate condition. This investment, raising the eligibility and value of GCB awards, required a stepped increase in the provision (see note 20, page 110) to match the increased future liability, reducing rental income by £37m.
- Disposal revenue: The increased revenue from vehicle resale at the end of lease (an increase of 7% year on year) was driven by the combined impact of a strong used-car market, particularly in the first half of the year.

Vehicle remarketing

During the year we sold over 220,000 vehicles as these were handed back at the end of lease. The remarketing team has continued to perform effectively during the year with 78% of car disposals completed using our proprietary online b2b remarketing platform, mfldirect. This platform is the largest single vendor remarketing platform of its type in Europe and is a key component in maximising the net return for each individual car sold. In 2019 we further developed our new online auction platform, allowing us to reach a broader base of used-vehicle buyers whilst optimising our operational processes.

Whilst revenue from vehicle resale was up 7% year on year, profitability was reduced at £148m (2018: £237m), with profit being significantly skewed towards the first six months of the year. Whilst profits continued to be realised against the sale of early-terminating leases during the second half of the year, the disposal of three-year-old expiry sales generated a marginal loss versus adjusted residual value, reflecting softening market conditions.

Assets and residual values

Operating Lease Assets were £7,496m at September 2019 with the unguaranteed fleet residual valued at £5,963m. 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.

As noted on page 55 of the Risk Section, the Group commissioned an independent external review of the forecasting methodology during the year. The review confirmed that there were no systemic issues with the methodology and that our modelling followed best practice.

At September 2019, the projected gross revaluation of the fleet versus the priced position reflected an anticipated gross gain of £439m which, after adjusting for selling costs and early-terminating leases, results in a net gain of £153m of which £60m was credited to depreciation in the current year.

Although the outlook remains positive versus original priced assumptions this has reduced through the year as the market for used-cars has softened (March 2019 reported net gain of £237m).

We continue to apply a measured approach in the context of the general economic uncertainty surrounding the final terms and impact of Brexit. Consequently, whilst our view of future residual values continues to take account of the higher base position, our overall assessment of valuation remains cautious. Our fleet revaluation process is covered in more detail later in the report.

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.

Consequent to the reported loss in the year, the Group received a tax credit of £87.4m (19.1%). There was a £1.0m deferred tax charge following the remeasurement of deferred tax in relation to changes in the UK corporation tax rate (see note 27, page 119 for further detail).

Cost management

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

We also recognise the need to invest appropriately to ensure the long-term stability of our infrastructure and we have continued to invest in our systems infrastructure aligned to our strategic IT roadmap. During the year we have continued to retire several legacy systems, launched an enhanced online application process for customers, implemented a new pricing engine which supports a more streamlined process with manufacturers, and continued to develop our vehicle remarketing systems to ensure that we continue to provide a market-leading service that supports purchasing dealers and maximises our commercial opportunities.

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

Customer proposition

During the year we have continued to support our worry-free proposition for today's customers in addition to the significant donation to the Motability Foundation:

- Customer proposition: Initiatives targeted at directly and indirectly improving the customer experience, such as pricing support for adaptations and heavily adapted vehicles, ensuring continuous mobility for customers, an enhanced Good Condition Bonus for customers who return their vehicle in appropriate condition at the end of lease, and investment to ensure that our dealer network provides customers with a first-class customer experience. The financial impact of these initiatives translates to a £288m (FY2019: £255m) cost through the income statement, including £213m of direct customer investment (reducing customer payments or providing customer rebates), and £75m of indirect investments to support the delivery of the customer proposition.

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 97-99 highlighting a profit of £11m in the year to September 2019. The MORL profit includes commission in respect of a quota-share reinsurance contract that effectively rebates MORL if claims experience is better that anticipated (see note 3, page 96). The commission has been partly offset by an increase in the average cost of repairs linked to more advanced vehicle technology (now fitted as standard in many new cars) and some temporary capacity constraints in the repair network with the former being appropriately reflected in future pricing assumptions.

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 100) is in line with our accounting policy (see note 2, page 90).

Capital management

We use an Economic Capital (EC) model to determine the level of capital appropriate to protect the business from economic shocks. The size of the business's capital reserves has been the subject of public debate. It remains vital that these are kept at a level sufficient to ensure our continued operation. 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.

In line with NAO recommendations, Motability (the Charity) commissioned 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, the review confirms the appropriateness of Motability Operations' economic capital approach and supports the Group's application of a 99.99% confidence level (or one in ten thousand loss event), given Motability Operations' unique risk profile. While supportive of the general economic capital approach, the review notes that management should consider adjusting assumptions underpinning the calculation of a number of conservative risk components (while remaining consistent with the 99.99% assumption).

As part of the annual refresh of the Economic Capital model the Board has considered the Oliver Wyman review along with credit rating implications and investor perspectives. Our ability to secure liquidity is of primary importance and investor confidence is essential. The Board is also aware of the increased financing costs associated with operating with a lower level of capital (and so higher level of debt) that would ultimately be borne by our disabled customers. That said, the Board also understands the implications of holding capital which could be deployed by Motability (the Charity) in delivering its broader mandate of enhancing the lives of disabled people in general.

Having given due weight to all these factors and after consultation with Motability, the Board has resolved to release capital reserves to a level £370m below the September 2018 Balance Sheet position (£150m of which is directly attributable to the Oliver Wyman review); a level which is consistent with the Board's revised assessment of the 99.99% requirement whilst also retaining 15% headroom in line with existing policy.

Looking ahead Motability Operations will continue to develop its economic capital modelling to ensure that this remains appropriate and in line with best practice and will seek regular independent benchmarking of its approach.

Cash and funding

The Group continues to pursue a strategy aimed at maintaining diversified sources of funding to protect structural liquidity and supporting a well-laddered debt maturity profile. In determining the timing of refinancing activities, in addition to taking into account the dates of our upcoming debt maturities, operational cash requirements, and potential donations, careful consideration is given to the economic and political backdrop, to the extent that they may affect the availability of liquidity in the market.

In June 2019 the Group completed a triple-tranche bond issuance securing two Sterling bonds with tenors of 10 and 20 years respectively and a 6.5-year EUR transaction with total GBP proceeds of £1.44bn. This financing initiative provided the Group with the necessary liquidity to make the subsequent £852.3m charitable donation to the Motability Foundation, to repay drawings on the Revolving Credit Facility and provided capacity to settle the £300m December 2019 bond maturity.

Of the Group's £359m Cash and Cash Equivalents balance reported at 30 September 2019 (see note 17, page 107), £70m is ring-fenced in respect of insurance liabilities in MO Reinsurance Ltd, with a further £300m assigned to settle the Group's December 2019 bond maturity. After meeting these commitments, excluding operational cash flow, the Group expects to hold a marginal net cash deficit of £11m.

The Group exercised the final extension clause on the current bank facilities during 2018 meaning the £400m term loan and £1.5bn Revolving Credit Facility have four years remaining, expiring in September 2023.

Existing bank facilities, in combination with the 12 bonds in issuance under our EMTN programme, provide the Group with liquidity in line with targets. The Group's average debt maturity was 8.73 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 four fixed-rate Eurobonds using cross-currency swaps. The Group's overall interest rate risk management strategy is to convert all new issued foreign-denominated debt into the Group's functional currency of Sterling.

We 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 of the hedging reserve at 30 September 2019 was £1.4m post-tax.

Brexit

As in previous reporting periods the uncertainty related to the structure and timing of a future trade deal with the European Union has been assessed against our key risks (pages 50-53) with the potential range of outcomes relatively unchanged.

Our most significant risk relates to unforeseen movements in the market value of second-hand vehicles and our fleet revaluation continues to include a Brexit overlay based on our assessment of the potential impact from an 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 £78m of this booked as at 30 September 2019.

Our quarterly pricing process enables us to respond quickly to any changes to the cost base that may occur, either through further weakening of exchange rates or potential import tariffs. Inflation in vehicle base costs and/or servicing would likely need to be passed through to customer pricing. However, 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.

Given that leases being priced today will in the main not be returning for between three and five years, we do not include any specific Brexit overlays into current lease pricing.

We already 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 related to import delays we are operationally secure in ensuring we can keep our customers mobile by extending their current leases.

We have already secured the financing required to pay a bond maturing in December (£300m) and are undrawn on our Revolving Credit Facility which provides adequate contingency to support our needs should debt capital markets be inaccessible temporarily.

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

Matthew Hamilton-James
Finance Director

Excellent service levels and a consistent proposition

Overview

As outlined in the ‘Strategy in action’ section (pages 24-31), the year ended September 2019 saw the Group continue to deliver high levels of performance across a range of targets.

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

Customer awareness and advocacy of the Scheme

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

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

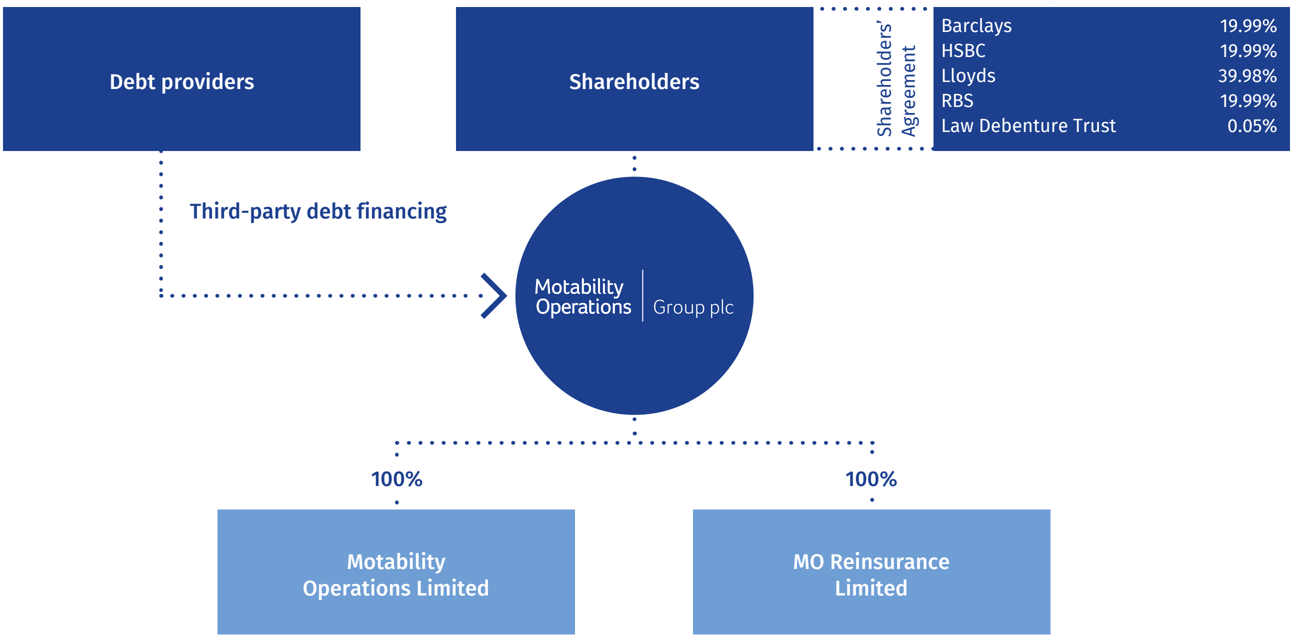
One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 98% would recommend the Scheme.

In addition, a number of promotional programmes have enhanced customers’ awareness, including our successful ‘One Big Day’ regional open days, which provide an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. These events continue to be very popular, with around 20,000 people taking the opportunity to visit and find out more.

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

Corporate structure

The diagram below sets out the Group’s corporate structure



Government Welfare Reform changes

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

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

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

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

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

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

We further enhanced the customer offer to allow an extension beyond the 26-week extension period originally available where customer appeals are yet to be determined.

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

- Customers who entered into their first lease agreement with the Scheme before January 2013 and therefore could not have been aware of PIP and the associated risks when they joined (the vast majority of customers), are eligible for transitional support of £2,000 if the vehicle is returned within eight weeks of the DLA payments ending or a reduced payment of £500 if they choose to retain the vehicle for up to 26 weeks. This provides an extended timeframe in which customers can seek alternative mobility arrangements, and aims to keep them mobile in the event they seek mandatory reconsideration or appeal their original assessment decision. For many customers, the transitional support enables them to continue to have mobility by using the support payment to put towards the purchase of their Scheme vehicle or other used car.
- Customers who entered into their first lease agreement with the Scheme with an awareness of PIP being introduced and of the risk that they could lose eligibility following a future PIP reassessment, i.e. after January 2013 and up to December 2013, are being provided with £1,000 of transitional support if the vehicle is returned within eight weeks of the DLA payments ending or a reduced payment of £250 if they choose to retain the vehicle for up to 26 weeks.
- Customers who have made an 'advance payment' (an additional upfront payment to lease a larger or more complex vehicle on the Scheme) are having their 'advance payment' refunded on a pro-rata basis. No further charges are being applied to customers whose leases end early as a result of a PIP reassessment.
- To help departing customers plan their next step, we are providing general information on motoring, insurance and other services outside the Scheme. This includes information, for example, on buying a new or used car, and arranging insurance. We are working with a leading UK insurance broker who offers insurance quotations to former Scheme customers that recognise their no-claims history on the Scheme.

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

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

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

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

As of September 2019, 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.

Product offering

We have managed to consistently exceed our targets on affordability and the choice of vehicles we offer to our customers on the Scheme. This has been achieved despite the continuing pressures from the wider economic impacts on prices.

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

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

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.

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

Protecting the Scheme from abuse

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

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

Like any organisation 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 27,000 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 12,000 cases resulted in enforcement action, including over 6,000 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 particular disability needs.

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

Customer experience

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

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

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

Our customer call centre plays a pivotal role in supporting our customers. The strong customer satisfaction results are in no small part attributable to the consistent service levels delivered by the call centre, with the vast majority of 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 and the website, creating a more welcoming impact, and more than doubling the information available. This included the launch of our online 'News and Views' section and monthly customer email programme
- Removal of Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly, and implementation this year of web chat, which has proved particularly popular with customers who are unable, or prefer not, to use the telephone
- Availability of an online 'car search', which gives customers a user-friendly and readily navigable tool to find the vehicle that best meets their needs
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

Excellent service underpins our customer recommendations and renewal rates at the end of lease. In fact, 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.

Fleet insurance arrangements

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

RSA continues to provide policy and claims administration activities through its dedicated Motability unit in Liverpool, ensuring seamless continuity of service for customers. These insurance arrangements enable the continuation of excellent customer service and deliver significant additional benefits to the Scheme.

MO Reinsurance Ltd (MORL) – Overview

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

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

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

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

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

From a Group perspective financial performance aligned to expectations, as outlined in the Finance Director's review on page 37.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 93% brand availability based on market share, with 30 manufacturers currently on the Scheme. This now provides our customers with access to over 2,000 vehicle derivatives, delivered through a network of almost 5,000 Motability-approved car dealerships. During the year we accounted for over 9% of UK car registrations.

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

While we take responsibility for the overall customer experience, around 18,000 trained Motability specialists employed by the car and PWS dealerships conduct the primary face-to-face relationship with the customer. We introduced the Motability Dealer Partnership (MDP) programme in 2004 to ensure that customers receive a consistently high level of service in the car dealerships. This is designed to influence dealer behaviour and performance in every key element of the leasing process (supply, service and aftersales) with a particular emphasis on customer service. The MDP programme has been refined over time to ensure that it continues to focus dealer efforts on delivering the best possible customer outcomes. Feedback from our independent customer satisfaction surveys confirms that this investment in the MDP programme has been successful in delivering improvements that have led to a better customer experience at car and PWS dealerships.

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

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

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

Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2019, we sold over 220,000 cars. We continue to develop our multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online process which is augmented by a proactive auction programme. Our online sales channel, '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 a number of advantages over physical channels, including its lower cost and supporting a more targeted approach that increases the average value of disposals. Following an upgrade to the system platform last year a second round of digital enhancements was delivered to provide a series of customer-requested improvements. We ensure we listen to our remarketing customers and in an independent satisfaction questionnaire our customers rated our remarketing team at 96% for trust.

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

Through '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 2019. Cars that do not sell online are usually routed to auction and sold at one of our branded events. We have progressively routed more of our early terminating stock via the online channel, and with early terminating volumes having increased as the PIP reassessment process gathers momentum, this route to market ensures that we optimise the value obtained for these vehicles.

Through the versatility of our remarketing strategies, the proactive management of stock and an increased buyer base, the remarketing team has delivered an excellent performance in 2019, 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 a number of initiatives that provide information and choice for our customers. These include:

- Introducing alternative vehicles with lower CO_2 emissions, including hybrids, combined fuel and new technology products
- 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.

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

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

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.

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

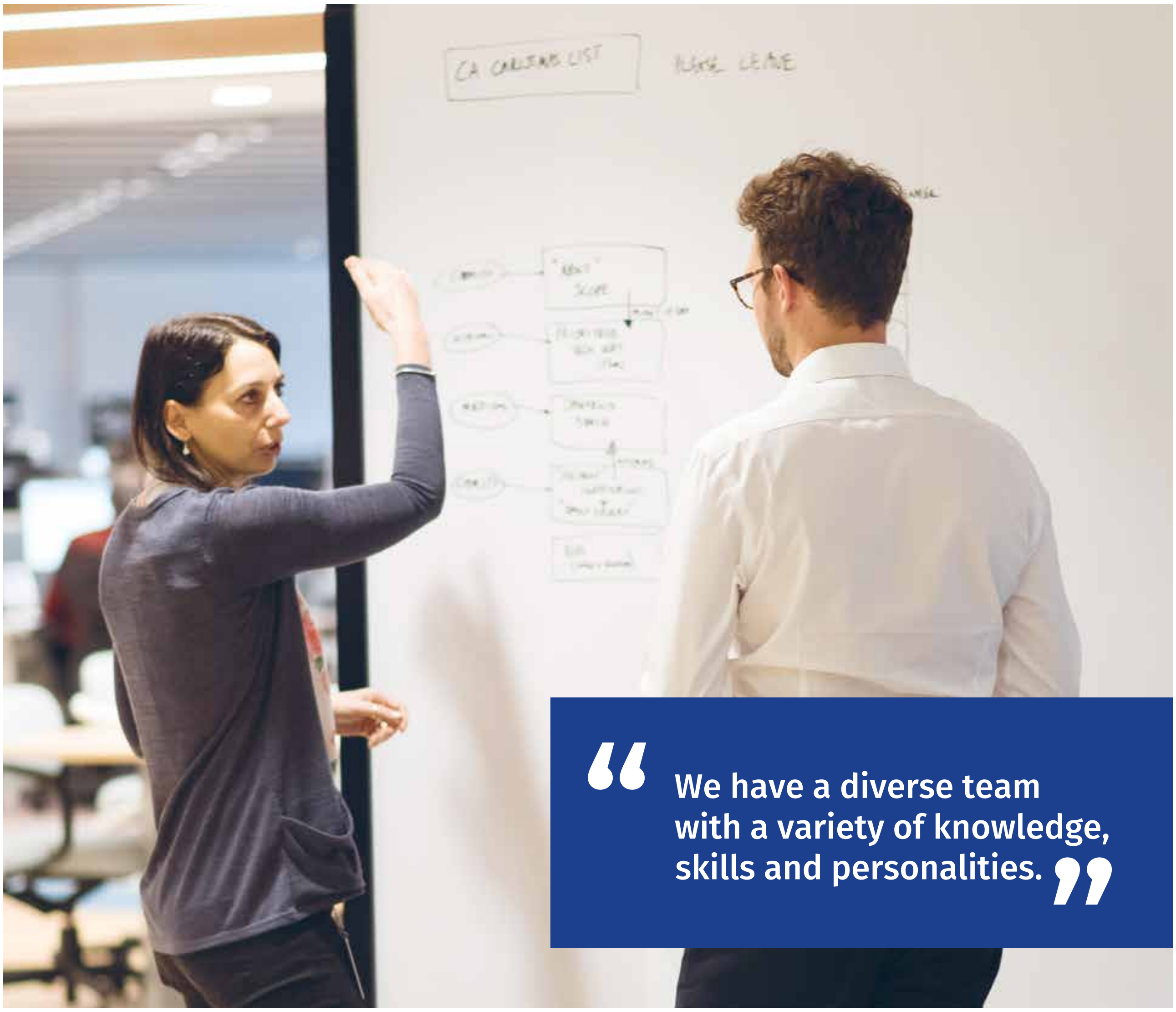
Empathy
- We act honestly and with integrity
- We recognise when others need support
- We strive to understand the needs of our customers, both internal and external

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

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

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

"99% of our employees fully support the values for which Motability Operations stands."

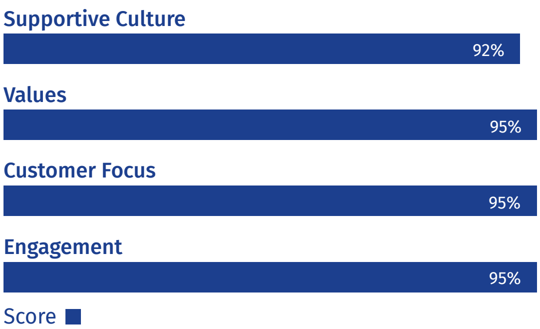


> We have a diverse team with a variety of knowledge, skills and personalities.

Culture

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 2019, we achieved a survey response rate of 94%, with exceptionally high scores in our key measures of engagement, our values, customer focus, and supportive culture.



Inclusion

We pride ourselves on creating an environment that is inclusive, and recognise that everyone has differences in capabilities, needs and aspirations. Within our business this means providing the same opportunities for every employee and sustaining a culture in which people are free to flourish and where their contribution is rewarded equally regardless of race, national or ethnic origin, disability or gender.

All of our business leaders attend challenging and thought-provoking workshops, facilitated by leading occupational psychologists, which encourage them to consider the anatomy of their teams and how they can bring out the best in their people, utilising individual differences to enhance team performance.

Our memberships with organisations such as Stonewall, Business in the Community, Working Families and the Business Disability Forum, ensure that we continuously learn and improve our working practices.

Through our Diversity Networking Groups, we continue our journey of awareness-raising, collaboration and celebrating what makes us different.

Talent

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.

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 2018/19, 42% of our vacant positions were filled internally.

We manage the risk of losing key individuals through regular talent reviews and succession planning. High-performing employees with potential are identified and plans are designed to develop them. Our Nominations Committee reviews the succession plans for Directors and Senior Managers and takes an active interest in the different talent programmes operating within the business.

Support and wellbeing

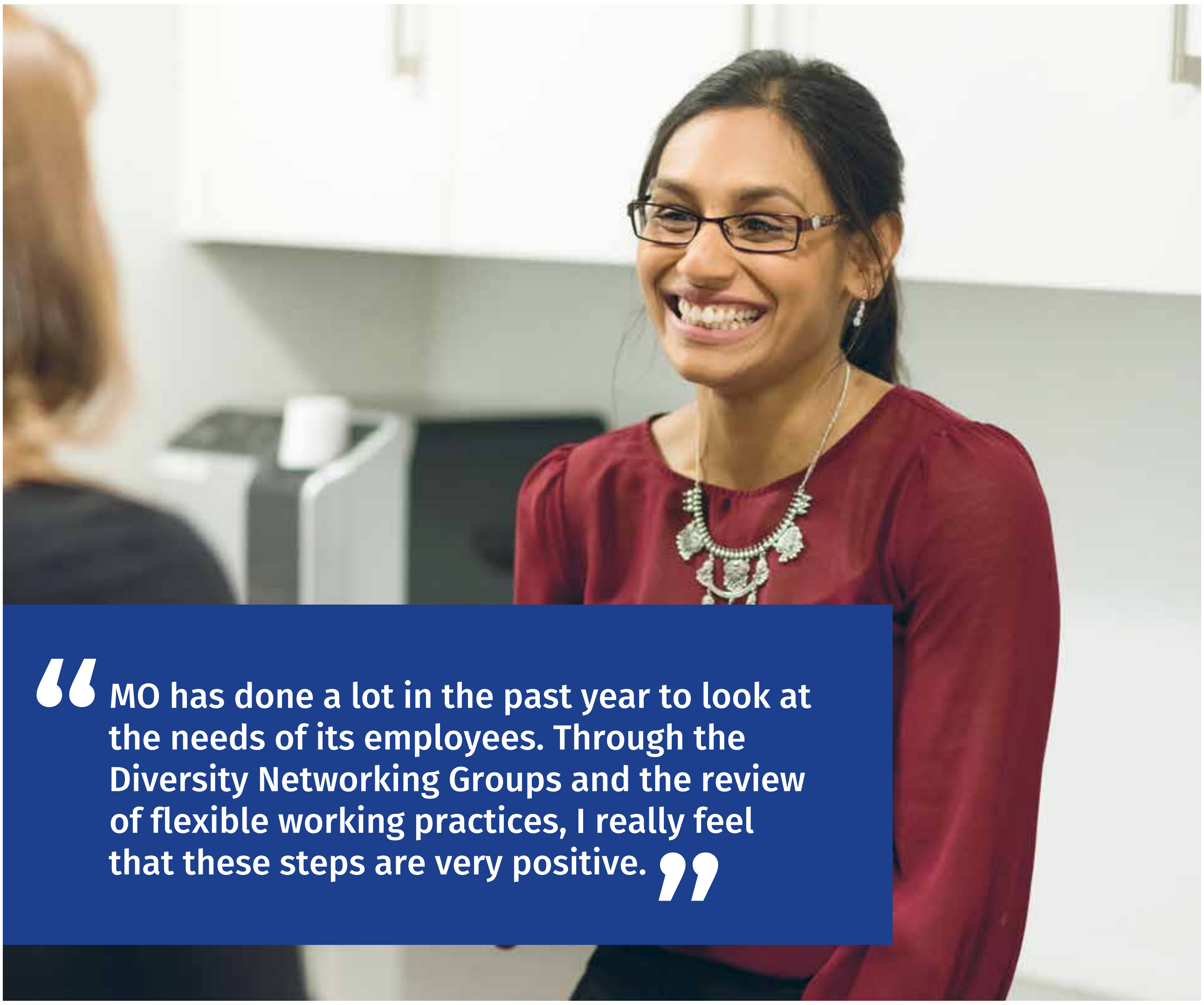
We recognise the importance of supporting our employees to enable them to be the best that they can be whilst at work. We do this by creating an environment that recognises our employees have important roles to play both in and out of the workplace.

To ensure we support our employees throughout different life events and challenges, we have reviewed and updated our family-friendly policies, which include competitive changes to maternity, paternity and shared-parental leave and pay.

Our established practice of ‘Dynamic Working’ has enabled our leaders to respond to requests of ad-hoc flexibility from employees in an agile way without the need for contractual and formalised processes. Through the use of technology, we provide options for employees to work from home and adjust start and finish times to balance personal commitments as well as more formal arrangements to request permanent changes to working patterns.

The wellbeing of our employees remains a key priority. Ranging from mental and financial wellbeing workshops, mindfulness sessions to lunchtime yoga we have a number of programmes and initiatives which are continuously reviewed and updated to ensure they are relevant and reflective of our employee’s needs.

“You can really feel the supportive culture at MO. Everyone is willing to help each other out and we work together as a big team to achieve our goals.”



> “MO has done a lot in the past year to look at the needs of its employees. Through the Diversity Networking Groups and the review of flexible working practices, I really feel that these steps are very positive.”

Reward and recognition

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

All employees are assessed on the basis of their results and behaviours, each carrying equal importance. Leaders are also assessed using 360 degree feedback. Company performance is communicated to employees regularly during the year through team meetings, roadshows and our intranet, Freeway.

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

We are fully committed to paying our people at least 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.

Performance-related pay is discretionary and dependent on Company and individual performance.

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

Gender pay

Our gender pay gap report in 2018/19 reported a mean gap of 29.6%, and a gender bonus gap of 68.5%, primarily driven by the uneven distribution of men and women across different roles within the business. 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.

Our dynamic and robust approach

Through our comprehensive risk management processes we identify and assess the potential risks that we face. Having understood the nature of these risks, we ensure that we have effective 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. Established in 2015, 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.

Risk management framework

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

1st line of defence Primary risk management	• Controls designed into processes and procedures • Control Risk Self-Assessments and control action plans	• Project risk identification and management processes • Directors' Risk Assessments
2nd line of defence Risk control	• Risk department activities • Policies and procedures, e.g. Authorities Manual	• 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	Net impact*	Net likelihood*	Risk status	Change to risk status
1. Residual values 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.			↑	• An increased risk status is primarily linked to the uncertainty around Brexit and potential impacts on the UK-used car market
2. Insurance risk 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.			↔	• An established reinsurance captive, managed through a wholly owned subsidiary (MORL), continues to deliver a robust and cost-effective insurance solution
3. Treasury risk 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.			↑	• An increased risk status is linked to Brexit and the higher level of debt financing following the capital distribution and donation to Motability (the Charity) as well as the potential impact to the UK credit rating
4. Supplier failure 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.			↔	• Appropriate due diligence processes are in place to ensure that we continue to engage with partners and suppliers on a commercial and sustainable basis

* Net assessment incorporates mitigating controls.

Key

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

Potential impact	How we mitigate	Link to strategy
• Volatility in profitability, reserves and pricing • Potential impact on affordability and choice	• Sophisticated in-house residual value setting and forecasting process • Risk capital management for asset risk using Economic Capital principles • Market-leading remarketing approach	• 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)
• 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)	• 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	• Our insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term
• Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• 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	• The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk-averse
• 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	• Strong supplier relationships and communication • Active monitoring of credit ratings and market announcements • Diversification of supply • Diversified portfolio	• 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

Principal risks *continued*

Key Risk	Net impact*	Net likelihood*	Risk status	Change to risk status
5. Operational The efficiency of our business is key to delivering excellent customer service and also ensuring we maximise and protect the value of our assets.	●	●	↓	• The ongoing investment in our strategic IT roadmap continues to replace legacy systems, enhancing controls which have improved the risk status.
6. Cyber risk and information security 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.	●	●	↑	• The risk status is linked to a general increase in the threats faced by all companies in protecting information and maintaining system stability
7. Credit risk Customers assign their allowances to us, and this is paid directly from the DWP. As a result, the credit risk is considered to be very low and MO Group does not hold any capital against this risk, with the benefit that this confers passed through to customers. 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.	●	●	↔	• We have an excellent working relationship with the DWP who are engaged in ensuring that our processes operate in an effective and efficient manner.

* Net assessment incorporates mitigating controls.

Key

Low	Medium	High	Very High	Increasing	Stable	Decreasing

Potential impact	How we mitigate	Link to strategy
• Potential financial and reputational risk • Risk of business disruption	• 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	• We ensure that we make appropriate strategic investments in our infrastructure, systems and processes
• Potential impacts to customer and stakeholder confidence • Potential financial and reputational risk • Risk of business disruption	• 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	• Customer confidence in the Scheme underpins our strategy • The strategic pillar of ensuring long-term sustainability ensures compliance with key regulation
• Potential impact on cash inflows and consequent write-off to income statement	• 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	• The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme

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 will form part of a wider development exercise in 2020.

Following the external review we ran a 2019 review and saw a reduction (6%) in our calculated EC requirement which included a £150m adjustment directly attributable to the Oliver Wyman review and was in line with the approach agreed by the MO Group Board and reflected in the 2019 Half Year report. The final level translates to a £2.2bn minimum capital level to cover the current fleet.

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

Calculating the 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.

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 25% reduction in our risk assessment for 2019. Combined with the diversification impacts within different risks themselves, our total diversification impact for 2019 is 37%.

Residual Value risk

Market risk £0.90bn

MO is exposed to unforeseen and material movements in the market value of used cars, measured as the difference between the original forecast value used in lease pricing and the market value at the end of the lease.

To provide a fixed lease price for customers, the future value of each new lease must be estimated between three and five years in advance of the vehicle being returned, with any shortfall on this estimate being borne by Motability Operations.

Performance risk £0.46bn

An associated risk relates to a difference arising on the market value of used cars and the value which MO is able to realise on disposal.

MO sells an average of more than 25 cars per hour, every hour, every day, into the highly competitive used-car market and performance can be affected by our internal processes, vehicle mix, condition or concentrations (MO sells around 20% of all three-year-old cars sold in the UK).

Forecasting Residual Values

An estimated residual fleet value of £6.0bn means that even a 1% error in our forecast equates to a £60m 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.

> "Our aim is to ensure that customer pricing is fair and reasonable."
>
> **Clare Ickringill**
> Head of Asset Risk and Pricing

Effective remarketing

The UK used-car market is one of the most mature and competitive in Europe, with other leasing companies, vehicle manufacturers and remarketing organisations competing to maintain buyer engagement and maximise vehicle resale values.

Within this environment the remarketing of Scheme vehicles is one of the largest risks the business faces and the effective remarketing of our vehicles is vital to the continued success of our operating model.

During the year we sold over 220k used cars and wheelchair accessible vehicles worth over £2.3bn with 78% of these vehicles sold using our own proprietary online b2b remarketing platform, mfldirect. This platform is the largest single vendor remarketing platform of its type in Europe, and is a key component in maximising the net return for each individual car sold.

Through this platform we actively manage a portfolio of 3,500 purchasing dealers who recently gave a 96% score in the level of trust they have with our remarketing teams.

We continue to augment our online channels working with leading auction organisations throughout the UK. We have also continued to develop our online auction platform, allowing us to reach a broader base of used-vehicle buyers whilst optimising our operational processes.

> "Our market-leading online sales platform helps us maximise potential."
>
> **Damian Oton**
> Head of Commercial Operations

Risk Appetite Framework

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

The framework builds on our strong risk management culture and aligns our strategic planning and risk management activities. The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which includes over 140 risk metrics.

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

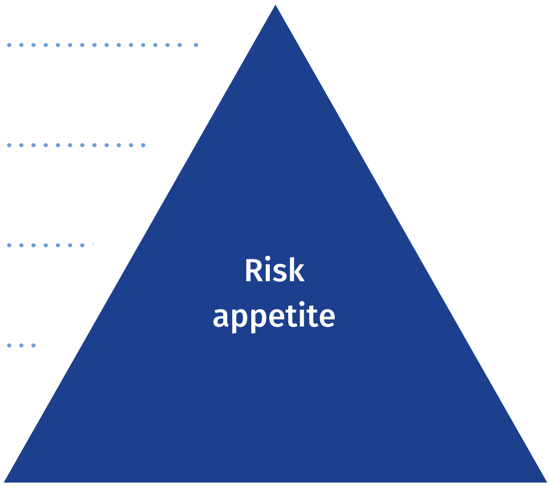
Key risk driver and related risk appetite statements, measures and limits

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

Viability Statement

Whilst the Company is not required to comply with the 2016 UK Corporate Governance Code the Directors have voluntarily considered provision C.2.2 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 2022.

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 49 to 56.

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

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

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

- Across the next three years the Group will be required to repay two bonds. The first is due in December 2019 (£300m GBP equivalent) and the second in June 2022 (£400m). Directors assess that the Group has access to sufficient liquidity to make these repayments from existing cash balances (see page 38, cash and funding) and its committed bank credit facilities 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.

Committed to high standards of governance

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

Effective governance is fundamental to our aim of delivering outstanding performance, providing long-term stability and offering enduring value to customers. The Board’s role is to provide clear and informed judgement in determining business strategy; 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.

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

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 Directors and functional heads to ensure they reflect the developments within the Group and the meet the requirement of being fair, balanced and understandable.

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

This year’s extensive strategy overview once again focused on our customers and ensuring our proposition continues to meet their needs, particularly in consideration of insights gained into the impact of PIP changes on customer conditions and support needs. As a result, departments have a clear line of sight towards ensuring that our high performance is maintained and fully sustainable.

Risk has an embedded focus with our Risk Appetite Framework central to providing effective oversight of the systemic management of risk throughout the business.

An annual review of governance committees was completed to support this structure, and Company policies were also reviewed and relaunched.

We periodically review and assess the performance of our governance committees, and it is of course reassuring to be able to confirm once again that all committees continue to operate effectively.

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

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

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

Stephen O'Brien

Rt. Hon Sir Stephen O’Brien KBE
Chairman

Motability Operations Group plc Board

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

The Board's responsibilities

Matters reserved for the Board include:

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

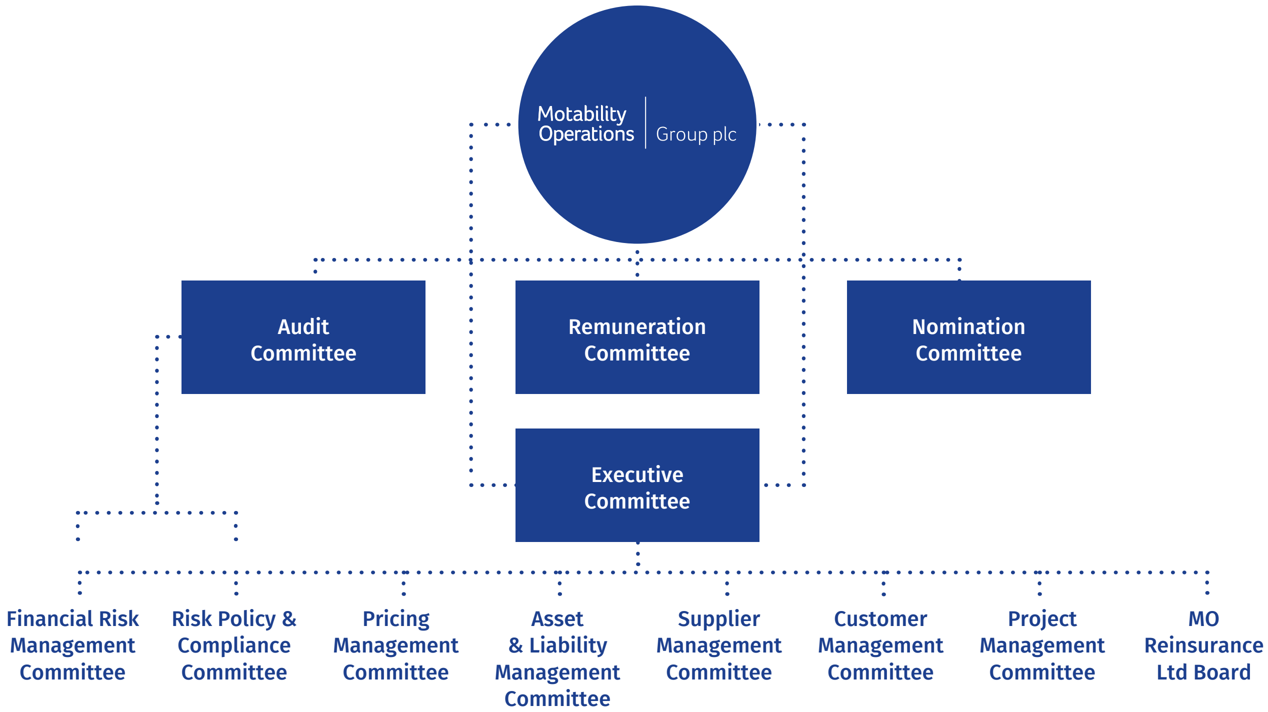
Roles of the Chairman and Chief Executive

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

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

Non-Executive Directors

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



Our Board

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

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

Executive Directors

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

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

Non-Executive Directors

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).

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).

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 Arness, appointed 01 December 2019).

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

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.

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

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

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

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

Executive Committee

> Over the years we have worked hard to build a financially secure and robust business that can withstand the full range of risks which may affect us.
>
> **Mike Betts**
> Chief Executive

The Executive Committee is chaired by Mike Betts, Group Chief Executive, and includes Matthew Hamilton-James, Group Finance Director, and the other members of the Motability Operations Ltd Board – Ian Goswell, Commercial Director; Jo Pentland, Corporate Services 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.

Mike Betts
Chief Executive

Audit Committee

> **“The committee has welcomed the “fresh pair of eyes” from auditor transition and is pleased to have received an unqualified audit opinion.”**
>
> **Ruth Prior**
> Audit Committee Chair

The Audit Committee comprises three Independent Non-Executive Directors and four shareholder-appointed Non-Executive Directors. In my capacity as an Independent Non-Executive Director I chair the committee, with other members during the year being Lisa Bartrip, Daniel Meredith Jones, Barry O’Byrne, David Smith, 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.

In 2017 a tender exercise was undertaken to appoint a new Group external auditor as PricewaterhouseCoopers (PwC) came to the end of their term. Following the tender exercise KPMG LLP (KPMG) were appointed effective as of 1 October 2018 and ratified at the Annual General Meeting on 6 March 2019. To facilitate a smooth transition from the previous external auditors (PwC) to KPMG a comprehensive transition plan was implemented and delivered under the stewardship of the committee. This ensured that any alternative accounting judgements and views could be dealt with in a timely and appropriate manner. The committee has welcomed the “fresh pair of eyes” challenges from auditor transition and is pleased that KPMG has been in a position to provide an unqualified audit opinion.

Similarly, for rotation reasons the requirement to appoint a new Head of Internal Audit came about this year. We are delighted that we have been able to appoint an internal succession candidate, Anja Andersson, to the position of Head of Internal Audit as of 1 July 2019. In addition, we will shortly be looking to replace one of the three Independent Non-Executive Directors as his appointment comes to an end in June 2020, following an extension to his current term of appointment.

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 and Compliance Committees, presented by the responsible Executive Directors
- Internal Audit reports and issue resolution on a quarterly basis, together with the appropriate resourcing of the function. No significant issues were encountered
- Reports on any significant control failures or incidents over the previous quarter, and resolution to the satisfaction of the Committee.

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

- Received updates and considered the output and recommendations from the independent review (commissioned by Motability, the Charity) of the reserves position with particular focus on the economic capital approach and methodology, which confirmed that Motability Operations' approach to economic capital is appropriate given the risk profile and that the 99.99% (one in 10,000) confidence level, whilst high, was appropriate
- Received updates on the reserves forecasting review which looks at broadening the scope of the regular residual value reforecasting and re-calibration process , to address the recommendation of the National Audit Office report issued in December 2018, and which forms a key part of the economic capital model used to underpin the assessment of capital adequacy to secure long-term sustainability
- The strategic project to rebuild the Economic Capital model which will deliver an enduring approach to the model, data validation and benchmarking of the Group's economic capital requirements
- Reports were received from management on a continued proactive programme of security initiatives including the outcome of the independent Information Security Assurance and Benchmarking review which continues to show the Group's progress against an evolving threat landscape and that it remains ahead of those companies that it is benchmarked against
- 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
- Validation of the annual risk review process, including the establishment of a separate compliance function to ensure management and control of the regulatory and cyber risk that the Group's digital agenda will import
- 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
- Motability Operations' decision to take part in HRMC's pilot scheme for submitting VAT returns (Making Tax Digital)
- 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 financial statements for the half year and full year which are considered in depth at the Committee's May and December meetings respectively, with the benefit of a detailed report on the findings of the external auditors, KPMG, who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2019 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 64.

The committee has had a busy year inducting new auditors and reviewing a number of significant reports and recommendations following the National Audit Office review which have supported our approach to economic capital, reserves and forecasting.

Ruth Prior
Audit Committee Chair

Audit Committee *continued*

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

Key judgements in financial reporting	Audit Committee review and conclusions
Residual values	
The estimation of the residual values of the vehicle fleet is subject to a number of economic, industry and portfolio-specific factors. Volatility and/or inaccuracy in estimating residual values could have a material impact on the Group's reported financial position.	• The estimation of residual values is identified as a key business risk and was subject to regular scrutiny and review by the Audit Committee during the year. • The Audit Committee reviewed management's accounting estimates of residual values as part of the financial reporting cycle to understand and evaluate assumptions and estimates. • 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 payout rates may affect the reported financial result.	• The Committee assessed accounting estimates as part of the review process for the financial statements. • The Committee discussed the work and findings of Internal Audit 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 the succession plans are in place and initiated a process to appoint 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 Director attend where appropriate. The Head of Human Resources acts as secretary to the Committee.

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

- Review the structure, size and composition (including the skills, knowledge and experience) of the Board
- Review the leadership needs of the organisation, both executive and non-executive, to ensure the continued ability of the business to operate successfully
- Develop and review succession and retention plans for Directors and other senior managers, taking into account the challenges and opportunities facing the Company and the skills and expertise which are needed in the future
- Review proposals for any new Executive and Non-Executive Director appointments
- Identify and nominate candidates to fill Executive and Non-Executive Directors' roles (including the role of Senior Independent Director), including the 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
- 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 graduate programme
- Evaluate the effectiveness of the Committee every two years.

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

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

- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and continue to meet business needs
- The composition of the Board was reviewed and agreed during the year
- Chief Executive Director recruitment process was initiated to prepare for Mike Betts leaving the organisation during the next financial year
- Designated a Non-Executive Director responsible for employee engagement.

Stephen O'Brien

Rt. Hon Sir Stephen O'Brien KBE
Chairman

Remuneration Committee

> **“An excellent year of performance as assessed across a broad range of financial and non-financial measures.”**
>
> **Neill Thomas**
> Remuneration Committee Chair

Letter from the Committee Chair

I am pleased to present the Directors’ remuneration report for the year ending September 2019.

National Audit Office (NAO) Report

The NAO report, published in December 2018, made some recommendations with regard to greater remuneration transparency and I am pleased to confirm that they have been addressed in this report.

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 25 to 33) 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

During the year Motability Operations has delivered an excellent set of results across the broad range of financial and non-financial measures by which Company performance is assessed.

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 shared corporate targets is given significant weighting and account for 75% of the Directors’ maximum target bonus payment with a further 25% 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 exceptional step-change events or performance during the year but ensure that there is an absolute limit on individual payments that can be made.

Details are set out in the remuneration report below and in the Strategy section of this report (pages 25 to 33); however, headlines in terms of performance targets include:

- Customer: A score of 93.7% (2018 : 94.3%) overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 77.7% and a sector average (Bank & Building Societies) of 80.4%
- Culture: Business culture scores, as independently measured through Willis Towers Watson's 'High-Performing Organisations' culture survey, statistically significantly outperformed the UK 'High-Performing Organisations' Norm groups across all comparable categories (including a Customer Focus score of 95% (2018: 95%) and Employee Engagement of 95% (2018: 93%))
- Financial: Financial metrics in relation to capital adequacy and liquidity remain in line with target. The one notch credit rating downgrade (S&P) was an anticipated impact of the large donation to Motability (the Charity) with current ratings now at A/A1 (stable outlooks) from S&P and Moody's respectively.

The Committee also evaluated the individual objectives of the Chief Executive Officer and Finance Director which supported bonuses becoming payable of 63% and 77% of the maximum potential awards respectively.

To support appropriate decision-making, 50% of bonus awards are deferred for a period of three years with performance criteria used to assess the final release of this payment. Against these criteria deferred bonus payments related to FY2016 were released. Our policy ensures we do not encourage inappropriate behaviours or actions and we do not reward poor performance or failure.

Approach for next year

The Remuneration Policy was reviewed within the year and confirmed and no material changes have been made for the policy for the next performance year.

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

Salary

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

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 a challenging range of corporate and individual targets covering financial and non-financial measures.

Core benefits

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

Pension

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

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.

Base salary	Current annual salaries are as follows: Mike Betts – £580k (FY2018: £564k) Matthew Hamilton-James – £296k (FY2018: £274k) The salaries shown above include a salary increase that was effective from 1st January 2019 of 2.9% and 7.5% for the CEO and Finance Director respectively; this was aligned to general inflationary salary uplift across the Company and development in role.
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 – £145k (FY2018: £141k) 25% of salary Matthew Hamilton-James – £45k (FY2018: £41k) 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 – £275k (FY2018: 50% paid @ £264k) 63% of maximum awarded Matthew Hamilton-James – £142k (FY2018: 50% paid @ £132k) 77% of maximum awarded
Long-term incentive	The Long-Term Incentive Plan (LTIP) ceased in December 2015 with final payments vesting in December 2018 based on performance against agreed qualifying criteria. In addition retention awards are in place for the CEO of £120k per annum for three years from FY2019 to FY2021. The Finance Director received a retention payment in FY2018 of £150k. Mike Betts – £666k (FY2018: £727k) Matthew Hamilton-James – £95k (FY2018: £150k)

Long-Term Incentive Scheme

A five-year Long-Term Incentive Scheme (LTIS) for the current CEO 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 will be made into the Scheme and any potential benefit will continue to be linked to stretching financial performance targets. Future payments under these long-term incentive arrangements are subject to malus and clawback.

FY2019 outcomes

The table below sets out the remuneration outcomes for the Executive Directors for FY2019.

	Base Salary (£k)		Benefits (£k)		Pension contribution (£k)		Annual performance incentive (£k)		Long-term incentive (£k)	
	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019	FY2018	FY2019
Mike Betts	564	580	25	25	141	145	264	275	727	666
Matthew Hamilton-James	274	296	16	16	41	45	132	142	150	95

Annual performance incentive – measurement

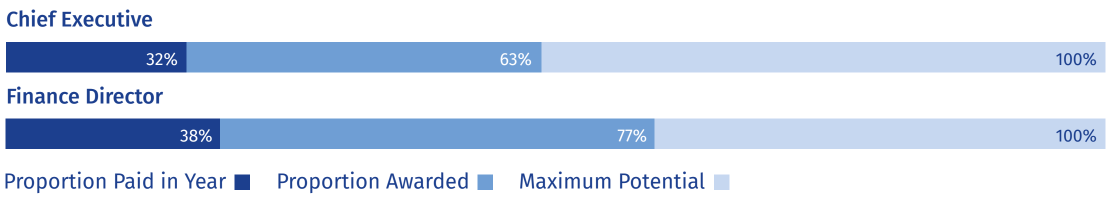
Annual performance-related payments are not guaranteed and are linked to clear and sustainable measures of business and individual performance, with levels of stretch incorporated to encourage and reward outstanding performance.

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.

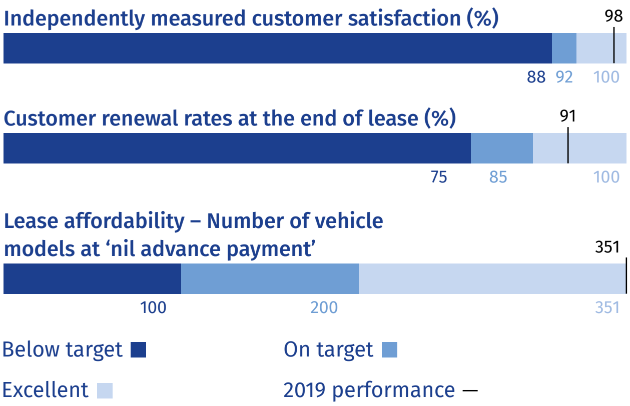
In terms of corporate objectives, performance is set with reference to customer service, business culture and financial targets as well as governance, risk management and the delivery of strategic initiatives.

Annual performance incentive awards were based on the Remuneration Committee evaluation of Company and individual performance across the broad range of criteria and paid out 63% and 77% of maximum potential awards for the CEO and Finance Director respectively.



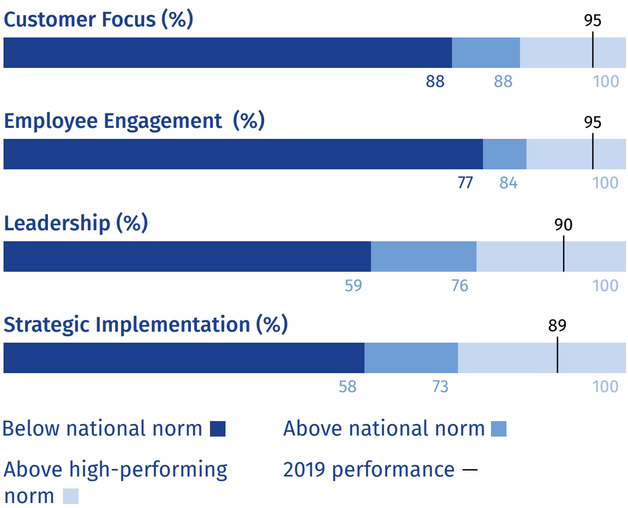
Customer service

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



Business culture

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



Financial performance

Financial performance targets are in place to ensure that the Company remains robust and sustainable through the economic cycle, thereby safeguarding the future of the Scheme in the long term. Financial performance measures include the assessment of capital adequacy, liquidity and cost efficiency. Management is set targets against these measures. During the year to September 2019:

- 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.

The development and delivery of strategic initiatives also forms an important part of both Company and individual performance evaluation.

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 2016	2016-2019	Dec 2019	253	253
	Oct 2017	2017-2020	Dec 2020	263	263
	Oct 2018	2018-2021	Dec 2021	264	264
	Oct 2019	2019-2022	Dec 2022	275	275
Matthew Hamilton-James	Oct 2016	2016-2019	Dec 2019	103	103
	Oct 2017	2017-2020	Dec 2020	121	121
	Oct 2018	2018-2021	Dec 2021	132	132
	Oct 2019	2019-2022	Dec 2022	142	142

LTIS/LTPP	Date of award	Performance period	Date receivable	Vesting value expected at Dec 2022 £k	Vesting value if withdrawn at Dec 2019 £k
Mike Betts	Dec 2010	2010-2022	Dec 2022	2,217	1,933

Retention incentives	Date of award	Service period	Date receivable	Maximum vesting value £k	Value expected at vesting £k
Mike Betts	Oct 2017	2018-2019	Dec 2019	120	120
		2019-2020	Jun 2020	80	80

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. In addition, the Senior Independent Director receives a fee to reflect the role's responsibilities.

The remuneration for the Senior Independent Director and the Independent Non-Executive Directors, previously reviewed in 2016, was reviewed again in 2019 with recommendations being made to the Board in December 2019. Any proposed changes, which were in line with pay increases for employees, would be implemented from 1 January 2020. Due to the recent appointment there was no review of the Chairman's fees.

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	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
Executive Directors														
Mike Betts	580	564	26	25	–	–	145	141	275	264	666	727	1,692	1,721
Matthew Hamilton-James	296	274	16	16	–	–	45	41	142	132	95	150	594	613
Independent Non-Executive Directors														
Sir Stephen O'Brien (Chairman from 1 April 2019)^	88	–	–	–	3	–	–	–	–	–	–	–	91	–
Neil Johnson (ex-Chairman)^	89	152	14	21	–	–	–	–	–	–	–	–	103	173
Neill Thomas	73	67	–	–	–	–	–	–	–	–	–	–	73	67
Ruth Prior^^	64	32	–	–	–	–	–	–	–	–	–	–	64	32
Joe Hennessy^	33	50	–	–	–	–	–	–	–	–	–	–	33	50
David Smith	50	50	–	–	–	–	–	–	–	–	–	–	50	50
Ruth Owen^^	49	16	–	–	–	–	–	–	–	–	–	–	49	16
Alison Hastings^^	49	16	–	–	1	1	–	–	–	–	–	–	50	17
Simon Minty^^	49	4	–	–	–	–	–	–	–	–	–	–	49	4
Christopher Lendrum^^	–	50	–	–	–	1	–	–	–	–	–	–	–	51
John Callender^^	–	13	–	–	–	–	–	–	–	–	–	–	–	13
Frank Gardner^^	–	6	–	–	–	–	–	–	–	–	–	–	–	6

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 50% of the award that is payable for the current 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 and £150k in respect of a retention payment for Matthew Hamilton-James paid in October 2017. The first potential release of deferred bonuses under the new policy will be 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, Joe Hennessy (until May 2019), Neil Johnson (until April 2019) when he was replaced by Sir Stephen O'Brien, Ruth Prior and David Smith.

The Chief Executive attends the Committee (but is absent for any discussion about his own remuneration). The Corporate Services & HR Director acts as secretary to the Committee (but is absent for any discussion about her own remuneration) and provides subject matter expertise to the Committee as required in its consideration and application of the Company's Remuneration Policy. Individuals are not involved in any 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 broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee
- Oversight of the Gender Pay Gap reporting. In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. The second Gender Pay Gap report, highlighting a mean pay gap of 29.6% compared with 27.2% the previous year, was published in April 2019. Our gender pay gap continues to be driven by gender imbalance influenced by a number of factors including; the loss of one of two female directors, the competition for female talent in specialist technical roles and a large proportion of females in our customer contact centre where roles are offered on flexible shift patterns. (For further detail please refer to the People and culture section, pages 45 to 48).

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 three years. A review was undertaken in October 2018 with positive feedback being received from the Committee members and the Board concluding that it had full confidence in the effectiveness and thoroughness of the Committee.

Advisers

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

Activities of the Remuneration Committee during the year

The Committee met three times in the financial year ending 30 September 2019 and its main activities during the year in respect of the remuneration of the Executive Directors were to:

- Review and agree any changes to base salaries and annual performance-related payments
- Assess performance criteria in relation to vesting units under the previous LTIP (now in run-off) and the LTIS and the application of any decrease or increase in value
- Review pension and benefits
- Review of Service Contracts and 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 & HR Director work with the Remuneration Committee to ensure that contractual terms on termination, and payments made, are fair to the individual and the Group and failure is not rewarded. The remuneration for a new Executive 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 and 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 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 44.

We have an environmental policy which is reviewed through the Group's Health & Safety Committee and Motability Operations is registered with the Carbon Trust.

Social matters

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 £36,345 (2018: £52,000) to support and sponsor local initiatives directly through our "mycommunity" programme. In addition, the Group made a £852.3m charitable donation to Motability (2018: £400m) and a charitable donation to Wizzybugs supporting the provision of powered wheelchairs to disabled children
- We operate a Scholarship Programme providing financial support and work experience for a number of disabled students each year and started an Apprenticeship Programme
- We recognise the importance of supporting employees to look after their own health and wellbeing. Please see page 47 for further details.

People

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 Our People on pages 45 to 48.

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 2019, 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 93.7%
- Our customer services team is UK-based and can be reached via a low-cost 0300 number with over 81% of calls made to our customer services team answered within 20 seconds
- Vast majority of calls/enquiries are resolved at the first point of contact
- For issues that cannot be resolved at first point of contact, a team of account managers is ready to assist.

Customer Service Data

- Our customer services team handled 1.2 million telephone calls in the year ending 30 September 2019
- Motability Operations has a customer base of circa 633,900.

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 2018 – 30 September 2019	2,287

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 2019 we contacted a representative sample of customers who had complained to us between December 2018 and February 2019. They rated us with an overall score of 8.6 out of 10 for our complaint handling.

There were 50 customers who asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2019. Of the 50 requests for review by customers, the FOS has found in favour of Motability Operations in relation to 19 of these and 29 are pending the FOS decision.

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.

Corporate governance report

The corporate governance statement as required by Rule 7.2.1 of the Financial Conduct Authority's Disclosure Guidance and Transparency Rules (DTRs) is set out on pages 58 to 59.

Statement of Directors' Responsibilities

Statement of Directors' responsibilities in respect of the financial statements

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 & Accounts includes a Viability Statement. This can be found on page 57 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

Mike Betts, Lisa Bartrip, Barry O'Byrne, Matthew Hamilton-James, Alison Hastings, Daniel Meredith Jones, Simon Minty, Ruth Owen, Ruth Prior, Neill Thomas, Paul Thwaite and David Smith served as Directors throughout the year.

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

Neil Johnson resigned as Non-Executive Chairman on 1 April 2019.

Stephen O'Brien was appointed as Non-Executive Chairman on 1 April 2019.

Joe Hennessy (deceased) ceased to be an Independent Non-Executive Director on 26 May 2019.

Martin Dodd resigned as an alternate Director on 20 August 2019.

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

11 December 2019

Independent auditor's report

to the members of Motability Operations Group plc

1. Our opinion is unmodified

We have audited the financial statements of Motability Operations Group plc ("the Company") for the year ended 30 September 2019 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 2019 and of the Group's loss 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 one financial year ended 30 September 2019. We have fulfilled our ethical responsibilities under, and we remain independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard as applied to public interest entities. No non-audit services prohibited by that standard were provided.

Overview	
Materiality: Group financial statements as a whole	£16.0m 0.8% of revenue (excluding proceeds from disposals of operating lease assets)
Coverage	100% of Group revenue, profit before tax and total assets
Key audit matters	
Recurring risks	Residual value of used cars
	Valuation of insurance reserves
	Recoverability of Parent company's loans to Group companies
Event driven	The impact of uncertainties due to the UK exiting the European Union on our audit

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

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. We summarise below the key audit matters in 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 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 at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, 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, where forecast cash flows are required to be discounted, considered adjustments to discount rates for the level of remaining uncertainty; and • **Assessing transparency:** As well as assessing individual disclosures as part of our procedures on the residual value of used cars 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 value 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 (£5,963.3 million; 2018: £5,469.7 million) Refer to page 64 Audit Committee Report, accounting policies and 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 and 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 Each quarter, the Group updates the residual values for the fleet 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 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: • **Control observation:** We attended two Residual Value forum meetings, in which the Group sets the estimated three-year residual values of used cars as part of their price setting process; • **Control observation:** We also attended two Fleet Revaluation forum meetings, whereby the Group reassesses the previous estimates of the residual values of used cars; • **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; • **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 company. 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 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. **Our results** • We found the resulting estimates of the residual values of used cars and the related disclosures to be acceptable.

Key audit matter	The risk	Our response
Valuation of insurance reserves (gross and net) Gross £454.4 million, 2018: £363.8 million. Net £127.8 million, 2018: £91.0 million. Refer to page 64 Audit Committee Report, accounting policy and Note 24 financial disclosures.	**Subjective estimate** The Group financial statements include the consolidated results of its reinsurance captive subsidiary, MORL. Claims outstanding represent a critical estimate for MORL and the Group. 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, 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.	Our procedures included: • **Independent re-performance:** Independent re-projection of the gross and net reserve balances using our own models. • **Benchmarking assumptions:** Comparison of assumptions, reserving methodologies and estimates of 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 speed or amount. • **Sensitivity analysis:** Evaluation of sensitivity analysis over key judgements and assumptions, such as large claims, the discount rates for longer tail classes of business and Periodic Payment Order projections. • **Margin evaluation:** Evaluation of the appropriateness of the margin to be 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.

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

Key audit matter	The risk	Our response
Valuation of insurance reserves (continued)	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. **Data Capture** The valuation of claims 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.	• **Data comparisons:** Inspection of 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 assess the integrity of the data used in the actuarial reserving process. • **Tests of detail:** Using Data & Analytics techniques we identified unusual transactions, individually or groups of, that did not meet our expectation. We then compared the claims case reserves, including large loss reserves, to appropriate documentation, such as reports from loss adjusters in order to test the valuation of individual claims reserves, particularly where such claims may be subject to recovery under reinsurance arrangements. • **Assessing transparency:** We assessed the adequacy of the Group’s disclosures in respect of the valuation of insurance reserves, **Our results** • We found the resulting estimates of the valuation of insurance reserves to be to be acceptable.
Recoverability of Parent company’s loans to group companies (£5,244.4 million; 2018: £4, 112.2 million)	**Low risk, high value** The carrying amount of the Parent company’s loans to group companies represents 96% (2018: 95%) of the Parent 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: • **Tests of detail:** We assessed 100% of 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 Group’s assessment of the recoverability of the loans to group companies balance to be acceptable.

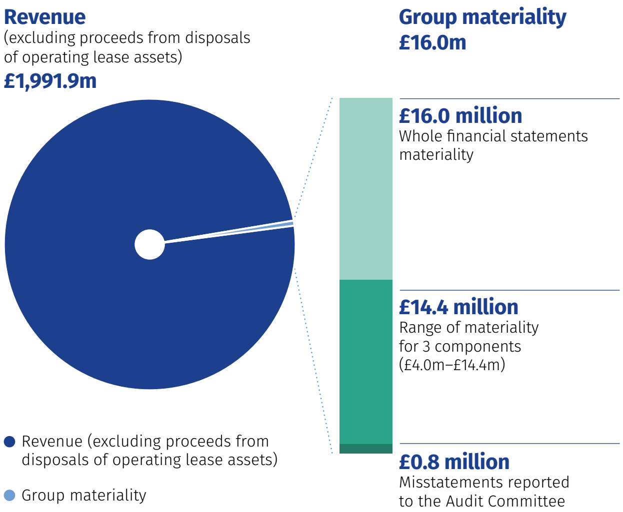
3. Our application of materiality and an overview of the scope of our audit

Materiality for the Group financial statements as a whole was set at £16.0m, determined with reference to a benchmark of revenue (excluding proceeds from disposals of operating lease assets), of which it represents 0.8%.

We consider revenue (excluding proceeds from disposals of operating lease assets) to be the most appropriate benchmark as it provides a more stable measure year on year than both total revenue and profit before tax.

Materiality for the parent company financial statements as a whole was set at £12m, determined with reference to a benchmark of company total assets, of which it represents 0.3%.

We agreed to report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.8m, in addition to other identified misstatements that warranted reporting on qualitative grounds.



We subjected all 3 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 – £12m
- Motability Operations Reinsurance Ltd – £4m
- Motability Operations Ltd – £14.4m

KPMG Isle of Man is the component auditor of MORL. 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.

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 Company or the Group or to cease their operations, and as they have concluded that the Company's and 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 or the Company will continue in operation.

In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's and Company's business model and analysed how those risks might affect the Group's and Company's financial resources or ability to continue operations over the going concern period. The risks that we considered most likely to adversely affect the Group's and Company's available financial resources over this period were:

- availability of funding and liquidity in the event of a market wide stress scenario including the impact of Brexit, and
- the impact of Brexit on the Group's supply chain and impact of changes in pricing.

4. We have nothing to report on going concern (continued)

As these were risks that could potentially cast significant doubt on the Group's and the Company's ability to continue as a going concern, we considered sensitivities over the level of available financial resources indicated by the Group's financial forecasts taking account of reasonably possible (but not unrealistic) adverse effects that could arise from these risks individually and collectively and evaluated the achievability of the actions the Directors consider they would take to improve the position should the risks materialise.

Based on this work, 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, and we did not identify going concern as a key audit matter.

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 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 77, 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, 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

11 December 2019

Income statement

For the year ended 30 September 2019

	Note	2019 Group £m	2018 Group £m Restated*
Revenue	4	4,271.1	4,106.9
Net operating costs excluding charitable donations		(3,715.4)	(3,409.1)
Charitable donations		(852.7)	(400.4)
Net operating costs	6	(4,568.1)	(3,809.5)
(Loss)/profit from operations		(297.0)	297.4
Finance costs	9	(159.4)	(164.3)
(Loss)/profit before tax		(456.4)	133.1
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	10	87.4	(25.2)
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	10	(1.0)	10.4
(Loss)/profit for the financial year		(370.0)	118.3

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 2019

	Note	2019 Group £m	2018 Group £m Restated*
(Loss)/profit for the financial year		(370.0)	118.3
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
(Losses)/gains on movements in fair value of cash flow hedging derivatives	25	(17.7)	19.0
Gains/(losses) on foreign currency translation	25	11.6	(14.0)
Tax relating to components of other comprehensive income		1.2	(0.9)
Other comprehensive (loss)/income for the year, net of tax		(4.9)	4.1
Total comprehensive (loss)/income for the year		(374.9)	122.4

* Restated due to the adoption of new accounting standards. See note 37. In addition, the 2018 movements through other comprehensive income were reclassified in line with 2019 to reflect derivatives settled in the year.

The notes on pages 90 to 138 form an integral part of these financial statements

Balance sheets

As at 30 September 2019

	Note	2019 Group £m	2018 Group £m Restated**	2019 Company £m	2018 Company £m Restated**
Assets					
Non-current assets					
Intangible assets	11	67.0	49.6	–	–
Property, plant and equipment	12	18.4	18.6	–	–
Assets held for use in operating leases	13	7,495.9	6,829.2	–	–
Financial assets at amortised cost	15	139.9	137.9	–	–
Investment in subsidiaries	16	–	–	110.9	113.5
Loans to Group companies	16	–	–	5,224.4	4,112.2
Trade and other receivables	19	20.5	21.2	3.0	4.8
Derivative financial instruments	26	104.0	106.4	104.0	106.4
		7,845.7	7,162.9	5,442.3	4,336.9
Current assets					
Corporation tax receivable		20.4	29.5	–	–
Inventories	14	106.0	82.5	–	–
Financial assets at amortised cost	15	64.7	94.8	–	30.0
Cash and bank balances	17	450.5	327.7	380.8	243.6
Insurance receivables	18	74.6	44.4	–	–
Trade and other receivables	19	297.5	290.2	1.4	6.1
General insurance provisions	24	326.6	272.8	–	–
Derivative financial instruments	26	–	22.0	–	22.0
		1,340.3	1,163.9	382.2	301.7
Total assets		9,186.0	8,326.8	5,824.5	4,638.6
Liabilities					
Current liabilities					
Corporation tax payable		–	–	(9.1)	–
Deferred rental income	20	(163.9)	(153.2)	–	–
Provision for customer rebates	21	(106.6)	(83.1)	–	–
Insurance payables	22	(56.5)	(74.7)	–	–
Trade and other payables	23	(259.6)	(198.0)	(290.7)	(202.9)
General insurance provisions	24	(454.4)	(363.8)	–	–
Financial liabilities	25	(426.7)	(427.3)	(335.4)	(385.6)
Derivative financial instruments	26	–	–	–	–
		(1,467.7)	(1,300.1)	(635.2)	(588.5)
Net current liabilities		(127.4)	(136.2)	(253.0)	(286.8)
Non-current liabilities					
Deferred rental income	20	(216.1)	(190.8)	–	–
Provision for customer rebates	21	(68.7)	(56.7)	–	–
Financial liabilities	25	(4,978.1)	(3,865.6)	(4,978.1)	(3,865.6)
Derivative financial instruments	26	(13.3)	–	(13.3)	–
Deferred tax liabilities	27	(268.9)	(365.5)	(0.3)	(1.4)
		(5,545.1)	(4,478.6)	(4,991.7)	(3,867.0)
Total liabilities		(7,012.8)	(5,778.7)	(5,626.9)	(4,455.5)
Net assets		2,173.2	2,548.1	197.6	183.1
Equity					
Ordinary share capital	28	0.1	0.1	0.1	0.1
Hedging reserve		1.4	6.3	1.4	6.3
Restricted reserves*		2,171.7	2,541.7	196.1	176.7
Total equity		2,173.2	2,548.1	197.6	183.1

* 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.

** Restated due to the adoption of new accounting standards. See note 37.

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 £28.5m (2018: £80.9m), of which £13.0m (2018: £65.0m) was a result of dividends received from subsidiaries (see note 16).

These financial statements on pages 84 to 136 were approved by the Board of Directors on 11 December 2019 and signed on behalf of the Board.

Mike Betts, Chief Executive
Motability Operations Group plc, Registered number 6541091

The notes on pages 90 to 138 form an integral part of these financial statements

Statements of changes in equity

For the year ended 30 September 2019

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 30 September 2017, as previously reported	0.1	2.2	2,430.9	2,433.2
Adjustment on initial application of IFRS 15	–	–	(7.5)	(7.5)
Restated balance at 1 October 2017 *	0.1	2.2	2,423.4	2,425.7
Comprehensive income – restated *				
Profit for the year	–	–	118.3	118.3
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	19.0	–	19.0
Losses on foreign currency translation	–	(14.0)	–	(14.0)
Tax relating to components of other comprehensive income	–	(0.9)	–	(0.9)
Total comprehensive income – restated *	–	4.1	118.3	122.4
At 30 September 2018 – restated *	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 foreign currency translation	–	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 30 September 2019	0.1	1.4	2,171.7	2,173.2

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2017	0.1	2.2	95.8	98.1
Comprehensive income				
Profit for the year	–	–	80.9	80.9
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	19.0	–	19.0
Gains on foreign currency translation	–	(14.0)	–	(14.0)
Tax relating to components of other comprehensive income	–	(0.9)	–	(0.9)
Total comprehensive income	–	4.1	80.9	85.0
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 foreign currency translation	–	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 30 September 2019	0.1	1.4	196.1	197.6

* Restated due to the adoption of new accounting standards. See note 37.

The notes on pages 90 to 138 form an integral part of these financial statements

Statements of cash flows

For the year ended 30 September 2019

	Note	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Cash flows from operating activities					
Cash (used in)/generated from operations	29	(65.4)	311.0	(1,028.2)	(330.2)
Interest (paid)/received		(153.0)	(166.9)	32.5	12.6
Income tax paid		–	(45.0)	–	(14.0)
Charitable donations		(800.3)	(400.4)	–	–
Net cash used in operating activities		(1,018.7)	(301.3)	(995.7)	(331.6)
Cash flows from investing activities					
Dividend received	16	–	–	10.0	65.0
Purchase of intangible assets	11	(25.6)	(10.6)	–	–
Purchase of corporate property, plant and equipment	12	(4.2)	(5.2)	–	–
Proceeds from sale of corporate property, plant and equipment	12, 29	0.6	0.6	–	–
Investment in financial assets at amortised cost	15	28.2	(130.6)	30.0	(30.0)
Net cash (used in)/generated from investing activities		(1.0)	(145.8)	40.0	35.0
Cash flows from financing activities					
Bonds issued	25	1,418.8	–	1,418.8	–
Bonds redeemed		(345.9)	(441.9)	(345.9)	(441.9)
Proceeds from settlement of derivatives		20.0	16.7	20.0	16.7
Net cash generated from/(used in) financing activities		1,092.9	(425.2)	1,092.9	(425.2)
Net increase/(decrease) in cash and cash equivalents		73.2	(872.3)	137.2	(721.8)
Cash and cash equivalents at beginning of year		286.0	1,158.3	243.6	965.4
Cash and cash equivalents at end of year	17	359.2	286.0	380.8	243.6

The notes on pages 90 to 138 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 page 39.

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.

The Group reclassified certain items in the balance sheet to gross up the presentation of insurance liabilities and reinsurance assets. This adjustment had nil impact on the net assets in the financial statements. The cumulative impact of the changes on the 2018 balances of the affected assets and liabilities components are as follows:

30 September 2018

	As previously reported £m	Reclassification £m	As reclassified £m
Change in current assets			
Insurance receivables	298.9	(254.5)	44.4
General insurance provisions	–	272.8	272.8
	298.9	18.3	317.2
Change in current liabilities			
General insurance provisions	(345.5)	(18.3)	(363.8)
	(345.5)	(18.3)	(363.8)

Except as described below, the accounting policies have been applied consistently to the years 2019 and 2018.

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.

IFRS 9	*Financial Instruments*
IFRS 4 (Amendments)	*Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts*
IFRS 15	*Revenue from Contracts with Customers*
IFRIC 22	*Foreign Currency Transactions and Advance Consideration*

2. Significant accounting policies continued

Adoption of new or revised standards continued

IFRS 9 *Financial Instruments* and IFRS 15 *Revenue from Contracts with Customers*

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting.

IFRS 15 covers the disaggregation of revenue and its recognition in line with contractual performance obligations.

Both standards are effective for the first time for entities with an annual reporting period commencing on or after 1 January 2018, so for the Group the first period of adoption is the year ended 30 September 2019.

The impact on the Group of the adoption of these standards is disclosed in note 37.

Adoption of both standards has not had a material impact on either the Group's consolidated financial statements or Motability Operations Group plc's individual Company financial statements.

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

IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*
IFRIC 23	*Uncertainty over Income Tax Treatments*
Annual Improvements to IFRSs	*2015–2017 Cycle*

IFRS 16 Leases

IFRS 16 must be applied for financial years commencing on or after 1 January 2019, so for the Group the first period of adoption will be the year ending 30 September 2020. The Group has undertaken an initial assessment of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors, and the only material impact on the Group as a lessee will arise through the recognition of leased premises on the balance sheet. This will result in an increase in the Group's "property, plant and equipment" assets at the date of transition on 1 October 2019 (representing the right to use the premises) of approximately £42m and a similar increase in financial liabilities (representing the commitment to pay rentals). The Group will apply the "modified retrospective approach" to transition when applying the standard. Following transition, the impact on next year's income statement will be to show a depreciation expense of approximately £3.2m and an interest expense of £0.6m, rather than a rental expense of £3.3m.

IFRS 17 *Insurance Contracts*

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

Aside from IFRS 17 (which is still being assessed), the Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group, and do not plan to apply any of the new IFRSs in advance of their required dates.

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

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 58. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 34 to 38. 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 Group has considerable financial resources together with a long-term contract with Motability to operate the 'Motability Scheme'. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

After making enquiries, the Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Annual Report and Accounts.

2. Significant accounting policies continued

Basis of consolidation

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

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

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

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

Investment in subsidiaries

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

Intangible assets

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

Property, plant and equipment

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

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

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

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

Assets held for use in operating leases

Assets leased to customers, under agreements which do not transfer substantially all the risks and rewards of ownership, are classified as operating leases. Operating lease assets are capitalised and depreciated on a straight-line basis over their anticipated useful lives to estimated residual values. Estimated residual values are reviewed at the balance sheet date against 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.

Inventories

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

Revenue recognition – leasing

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 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 significant risks and rewards of ownership of the assets have been transferred to the buyer.

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

Rental income received in respect of in-life service costs or insurance services is deferred to the extent that it relates to future performance obligations. See note 37 for more details on the Group's adoption of IFRS 15.

2. Significant accounting policies continued

Leasing obligations

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

Net operating costs

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

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

2. Significant accounting policies continued

Foreign currency translation

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

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

Financial assets

Trade and other receivables

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

Trade receivables do not carry any interest and are stated at their nominal value, which approximates to the fair value because of their short maturities, as reduced by appropriate provisions for estimated irrecoverable amounts. These provisions are established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables, and under tests for expected credit losses (see below).

Insurance receivables

Receivables arising from insurance contracts are classified in this category and are reviewed for impairment as part of the overall impairment review of receivables. Insurance receivables relate to insurance premium debtors and amounts recoverable on reinsurance policies where claims reported have exceeded the Group's retentions. Further details of critical accounting judgements and key sources of estimation uncertainty relating to insurance receivables are disclosed in note 3 to the financial statements.

Cash and cash equivalents

Cash and cash equivalents comprise cash and bank balances and bank overdrafts. Cash and bank balances comprise cash held by the Group, cash in the course of transmission and collection, and short-term bank deposits with an original maturity of three months or less. The carrying value of these assets approximates to their fair value and are also subject to expected credit loss reviews under IFRS 9 (see below). In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

Financial assets at amortised cost

Financial assets at amortised cost (previously "held to maturity investments") are primarily fixed-income bonds; financial assets that the Group has the positive intent and ability to "hold to collect" until their maturity date.

These assets are recognised initially at fair value, including any directly attributable transaction costs. Subsequent to initial recognition, these financial assets are measured at amortised cost using the effective interest method, less any impairment loss allowance based on lifetime expected credit losses (see below).

Expected credit losses ("ECL")

With the adoption of IFRS 9, expected credit loss or "ECL" adjustments are calculated 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.

Financial liabilities including trade and other payables

Trade and other payables

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

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

Financial liabilities

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

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

2. Significant accounting policies continued

Financial liabilities including trade and other payables continued

Insurance payables

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

Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 26 to the financial statements.

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

Insurance contracts

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

Recognition and measurement

Insurance and reinsurance claims and loss adjustment expenses are charged (and credited) to the income statement as incurred based on the 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).

Hedge accounting

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

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

Note 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.

Cash flow hedges under IAS 39 (for the prior year comparatives)

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

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

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

Hedging policy under IFRS 9

Details of the new key policies adopted from 1 October 2019 under IFRS 9 are described in note 37.

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.

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 is an adjustment of £109.5m (2018: £110.8m) with regards to downside risk to vehicle resale values due to uncertainty around Brexit negotiations and the European/domestic political landscape.

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 2019, 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 £59.6m (2018: £54.7m). 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 impact this year's depreciation charge by approximately £18.5m (2018: £18.1m).

Key estimate and judgement: Insurance contracts

There are certain 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, as described in more detail in note 24.

The critical accounting estimates relating to insurance contracts are a) the estimation of the ultimate liabilities arising from claims and b) the recognition of the reinsurance commission receivable under insurance contracts.

The estimation of the ultimate liabilities which drive the loss ratio (and therefore the reinsurance commissions which are based on the loss ratios) are affected by future legislative and economic developments, both in the UK and the Isle of Man. During the 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 5 years. Any change in the Ogden Rate would not impact on the Group's retained liabilities but would have an effect on the Group's gross liabilities and reinsurance contingent commissions. The bill received Royal Assent, and a new Ogden Rate of -0.25% became effective on 5 August 2019.

Ultimate claims liabilities

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. Statistical estimation techniques are used and compared with best estimates calculated by independent actuaries. See note 24 for details of claims reserves balances.

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 uncertainty associated with this balance is similar to claims reserves, see note 24. The carrying amount of reinsurance commission receivable at the reporting date is £32.0m (2018: £2.0m). The amounts recognised in the year are shown in note 24.

4. Revenue

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

	2019 £m	2018 £m Restated*
Proceeds from disposal of operating lease assets (I)	2,279.2	2,139.5
Rentals receivable from operating lease assets (II)	1,211.2	1,163.6
Rentals receivable from operating lease in-life services	186.3	191.6
Rentals receivable from operating lease insurance	554.3	574.7
Insurance reimbursements from disposal of operating lease assets	32.0	29.4
Finance income	5.3	5.3
Other income	2.8	2.8
Total revenue	4,271.1	4,106.9

(I) During the year, the Group made a gain of £147.5m on the disposal of operating lease assets (2018: £236.5m), with the gain being the difference between proceeds from disposal of operating lease assets in the table above and the net book value of disposed operating lease assets shown in note 6. See note 29.

(II) During the year the Group increased the value of the customers' end-of-contract bonuses. This resulted in an increase to provisions for customer rebates (see note 21) of £37.2m.

* See note 37.

Reinsurance premiums earned by the Group's insurance captive of £234.0m (2018: £257.3m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

5. Segmental analysis

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

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

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

Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

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

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

Segmental performance

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

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 2019 and 30 September 2018.

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)
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
General insurance business 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)
General insurance business provisions	–	(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

5. Segmental analysis continued

Year ended 30 September 2018 Restated*	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets*	1,163.6	–	–	1,163.6
Rentals receivable for operating lease in-life services*	191.6	–	–	191.6
Rentals receivable for operating lease insurance*	574.7	–	–	574.7
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,168.9	–	–	2,168.9
Inter-segment proceeds	37.2	–	(37.2)	–
Insurance income	–	257.3	(257.3)	–
Other revenue	6.0	2.1	–	8.1
Total revenue	4,142.0	259.4	(294.5)	4,106.9
Net book value of disposed operating lease assets	(1,957.1)	–	–	(1,957.1)
Fleet operating costs*	(610.3)	–	257.3	(353.0)
Insurance claims and commission costs	–	(221.7)	37.2	(184.5)
Depreciation on assets used in operating leases	(679.4)	–	–	(679.4)
Other operating costs	(234.0)	(1.1)	–	(235.1)
Charitable donations	(400.4)	–	–	(400.4)
Net operating costs	(3,881.2)	(222.8)	294.5	(3,809.5)
Profit from operations	260.8	36.6	–	297.4
Finance costs	(164.3)	–	–	(164.3)
Profit before tax	96.5	36.6	–	133.1
Taxation	(7.8)	(7.0)	–	(14.8)
Profit for the year	88.7	29.6	–	118.3
PPE & intangible assets	68.2	–	–	68.2
Assets held for use in operating leases (including inventories)	6,911.7	–	–	6,911.7
Derivative financial instruments	128.4	–	–	128.4
Insurance receivables**	–	254.3	(209.9)	44.4
General insurance business provisions**	–	–	272.8	272.8
Trade and other receivables	311.3	0.1	–	311.4
Corporation tax receivable	29.5	–	–	29.5
Financial assets	377.0	284.6	(101.2)	560.4
Total assets	7,826.1	539.0	(38.3)	8,326.8
Deferred rental income and provisions for rebates*	(483.8)	–	–	(483.8)
Insurance payables	–	(74.7)	–	(74.7)
Trade and other payables	(197.8)	(0.2)	–	(198.0)
Financial liabilities	(4,292.9)	–	–	(4,292.9)
Deferred taxation	(365.5)	–	–	(365.5)
General insurance business provisions**	–	(300.9)	(62.9)	(363.8)
Total liabilities	(5,340.0)	(375.8)	(62.9)	(5,778.7)
Net assets	2,486.1	163.2	(101.2)	2,548.1
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	6.3	–	–	6.3
Restricted reserves	2,479.7	62.0	–	2,541.7
Total equity	2,486.1	163.2	(101.2)	2,548.1

* As described in note 37, deferred income and provisions for rebates have been restated on adoption of IFRS 15, and rentals receivable disaggregated into three distinct revenue streams.

** The consolidation adjustments (only) for these comparative figures have been reclassified to conform to the current year presentation of the subsidiary accounts.

6. Net operating costs

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

	2019 £m	2018 £m Restated**
Net book value of disposed operating lease assets	2,131.7	1,903.0
Net book value of operating lease assets derecognised as insurance write-offs	58.2	54.1
Charitable donations	852.7	400.4
Fleet operating costs including insurance, maintenance and roadside assistance costs*	433.6	394.7
Insurance claims expense	183.2	184.5
Other operating costs	25.2	24.9
Employee costs	58.4	54.2
Other product costs including continuous mobility costs, adaptations support, communications	54.5	50.8
Legal and professional fees	24.5	23.9
Bad debt charges and movement in bad debt provisions	(0.9)	17.5
Motability levy and rebates	6.3	11.1
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	3,828.2	3,119.9
Depreciation on assets used in operating leases	727.7	679.4
Depreciation and amortisation of property, plant and equipment and intangible assets	12.2	10.2
Net operating costs	4,568.1	3,809.5

* These costs are presented net of insurance premium rebates in line with the accounting policy in note 2.
** See note 37.

The depreciation charge on assets used in operating leases includes a £60.3m release (2018: £125.9m release) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditor remuneration

	2019	2018**
Auditor remuneration: Audit fees for Group and Company financial statements	£340,000	£496,900
Total audit fees for Group and Company financial statements	£340,000	£496,900
Audit fees paid on behalf of subsidiaries	£168,500	£140,600
Audit-related assurance services*	£73,000	£70,900
Tax compliance services	£0	£0
Tax advisory services	£0	£0
Internal audit services	£0	£0
Other assurance services	£25,000	£22,400
Corporate finance services	£0	£0
Total other fees payable to the auditors	£266,500	£233,900

* These services relate to the review report on the consolidated interim financial statements.
** The audit fee for 2018 has been restated to reflect the full and final costs charged by the previous auditor.

8. Employee costs

The employee costs for the Company are £nil (2018: £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

	2019	2018
Administrative staff	939	890

	2019 £m	2018 £m
The breakdown of staff costs is as follows:		
Wages and salaries	47.8	44.7
Social security costs	5.8	4.6
Other pension costs	4.8	4.9
Total employee costs	58.4	54.2

9. Finance costs

The finance costs for the Group are:

	2019 £m	2018 £m
Interest and charges on bank loans and overdrafts	12.2	11.2
Interest on debt issued under the Euro Medium Term Note Programme	146.5	152.4
Cost of early redemption of debt issued under the Euro Medium Term Note Programme	–	–
Preference dividends	0.7	0.7
Total finance costs	159.4	164.3

10. Taxation

The major components of the Group tax expense are:

	2019 £m	2018 £m
Current tax		
Charge for the year	2.1	–
Adjustment in respect of prior years	7.0	–
Total	9.1	–
Deferred tax		
Origination and reversal of temporary differences	(89.5)	25.2
Adjustments recognised in the current year in relation to the deferred tax of prior years	(7.0)	–
Impact of change in UK tax rate	1.0	(10.4)
Total	(95.5)	14.8
Tax on (loss)/profit	(86.4)	14.8

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

	2019 £m	2018 £m
Profit before tax restated for IFRS 15		133.1
Less: IFRS 15 restatement		(1.7)
(Loss)/profit before tax	(456.4)	131.4
Tax calculated at appropriate tax rates applicable to profit	(86.6)	24.9
Expenses not deductible for tax purposes	0.3	0.3
Adjustment to current year taxation relating to transition to IFRS 15	(1.1)	–
Adjustment 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	(87.4)	25.2
Non-recurring items		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	1.0	(10.4)
Total tax on profit	(86.4)	14.8

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, profits are taxable at 19% for this accounting year (2018: 19%).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 18.9% (2018: 19.2%). 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 18.1% as next year's standard rate will be 18% for the whole year (as the standard UK rate changes from 19% to 17% from April 2020). Therefore, the blended rate applicable to the Group will be 18%.

Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments become payable during the year with the remaining two being payable after the year end. During 2019, the Group paid £nil towards the overall current tax charge of £9.1m (2018: £28.5m towards a tax charge of £nil) as this current tax charge was only established at the year end following confirmation that profits from a controlled foreign company could not be relieved by charitable donations. The cumulative effect is a debtor balance of £20.4m (2018: £29.5m), shown as corporation tax receivable 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 2017	67.6
Additions	10.6
At 1 October 2018	78.2
Additions	25.6
At 30 September 2019	103.8

Accumulated amortisation and impairment	
At 1 October 2017	21.9
Amortisation charge for the year	6.7
At 1 October 2018	28.6
Amortisation charge for the year	8.2
At 30 September 2019	36.8

Carrying amount	
At 1 October 2017	45.7
Additions	10.6
Amortisation	(6.7)
At 1 October 2018	49.6
Additions	25.6
Amortisation	(8.2)
At 30 September 2019	67.0

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

At 30 September 2019, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £7.1m (2018: £3.2m). These amounts relate to IT system replacement projects.

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2017	2.7	22.1	12.7	37.5
Additions	0.6	3.2	1.4	5.2
Disposals	(0.9)	–	–	(0.9)
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 30 September 2019	2.3	25.0	11.6	38.9
Accumulated depreciation				
At 1 October 2017	0.9	8.7	10.6	20.2
Charge for the year	0.6	1.6	1.3	3.5
Eliminated on disposals	(0.5)	–	–	(0.5)
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 30 September 2019	0.9	10.3	9.3	20.5
Carrying amount				
At 1 October 2017	1.8	13.4	2.1	17.3
Additions	0.6	3.2	1.4	5.2
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.6)	(1.6)	(1.3)	(3.5)
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 30 September 2019	1.4	14.7	2.3	18.4

At 30 September 2019, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £8.6m (2018: £1.3m).

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2017	7,932.3
Additions	3,049.0
Transfer to inventory	(2,795.1)
At 1 October 2018	8,186.2
Additions	3,607.7
Transfer to inventory	(2,953.2)
At 30 September 2019	8,840.7

Accumulated depreciation	
At 1 October 2017	1,519.1
Charge for the year	679.4
Eliminated on transfer to inventory	(841.5)
At 1 October 2018	1,357.0
Charge for the year	727.7
Eliminated on transfer to inventory	(739.9)
At 30 September 2019	1,344.8

Carrying amount	
At 1 October 2017	6,413.2
Additions	3,049.0
Depreciation	(679.4)
Transfer to inventory (note 14)	(1,953.6)
At 1 October 2018	6,829.2
Additions	3,607.7
Depreciation	(727.7)
Transfer to inventory (note 14)	(2,213.3)
At 30 September 2019	7,495.9

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

	2019 £m	2018 £m
No later than one year	1,727.9	1,723.9
Later than one year and no later than two years	1,818.5	1,737.7
Later than two years and no later than three years	2,328.7	1,930.1
Later than three years and no later than four years	38.9	36.6
Later than four years and no later than five years	49.3	41.4
Total exposure	5,963.3	5,469.7

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

	2019 £m	2018 £m
Amounts released/(charged) in prior years	29.6	(133.8)
Amounts released in current year*	60.3	125.9
Total adjustments to depreciation carried at 30 September**	89.9	(7.9)
Amounts to be released in future years	63.1	83.5
Total increase in estimated residual value	153.0	75.6

* 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 2019 of £89.9m (2018: (£7.9m)) is included within the accumulated depreciation balance of £1,344.8m (2018: £1,357.0m) on assets held for use in operating leases.

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:

	2019 Group £m	2018 Group £m Restated*	2019 Company £m	2018 Company £m
No later than one year	1,040.8	928.5	–	–
Later than one year and no later than two years	540.5	494.5	–	–
Later than two years and no later than three years	185.4	167.4	–	–
Later than three years and no later than four years	7.7	6.4	–	–
Later than four years and no later than five years	2.4	2.0	–	–
Total	1,776.8	1,598.8	–	–

* See note 37.

14. Inventories

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Ex-operating lease assets held for sale	106.0	82.6	–	–
Provisions	–	(0.1)	–	–
Ex-operating lease assets held for sale (net)	106.0	82.5	–	–

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 (2018: £0.1m). During the year there was a £0.1m decrease in provision and £0.1m written off (2018: £0.1m movement in provision and £0.1m written off).

The total value of inventories recognised as expense and included in net operating costs amounted to £2,189.9m (2018: £1,957.1m).

The movements of the inventories in 2019 and 2018 are as follows:

	£m
At 1 October 2017	86.1
Transfer from operating lease assets (note 13)	1,953.6
Disposals (including insurance write-offs)	(1,957.1)
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 30 September 2019	106.0

15. Financial assets at amortised cost

	2019 Group £m	2018 Group £m Restated*	2019 Company £m	2018 Company £m
Financial assets at amortised cost				
Fixed-income bonds	204.6	202.7	–	–
Reverse sale and repurchase agreements	–	30.0	–	30.0
Total	204.6	232.7	–	30.0
Included in non-current assets	139.9	137.9	–	–
Included in current assets	64.7	94.8	–	30.0
Financial assets at amortised cost	204.6	232.7	–	30.0

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

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
On demand or no later than one year	64.6	94.6	–	30.0
Later than one year and no later than two years	51.3	62.1	–	–
Later than two years and no later than five years	71.8	62.4	–	–
Later than five years	16.9	13.6	–	–
Total	204.6	232.7	–	30.0

There were no disposals or allowances for impairment on financial assets at amortised cost during the year.

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

	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	–	–

	2018 Group carrying amount £m	2018 Group fair value £m	2018 Company carrying amount £m	2018 Company fair value £m
Current financial assets at amortised cost	94.8	94.8	30.0	30.0
Non-current financial assets at amortised cost	137.9	137.1	–	–
Total	232.7	231.9	30.0	30.0

* See note 37.

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 with Moody's. The average effective interest rate of the quoted debt securities is 2.2% per annum (2018: 2.3%), with coupon rates ranging from 0.1% to 6.1% per annum (2018: 0.1% to 6.1%). The fixed-income bonds are denominated in Sterling, which is the functional currency of the Group.

15. Financial assets at amortised cost continued

Reverse sale and repurchase agreements

The Group's reverse sale and repurchase agreements are settled and administered by a central clearing counterparty (CCP). Collateral is held for the Group by the CCP against these exposures in the form of marketable securities (UK Government debt (Gilts)) or cash.

As at 30 September 2019, there were no reverse sale and repurchase agreements (30 September 2018: 100% marketable securities with a single bank at a yield of 0.67%).

The table below shows the amount of collateral accepted in respect of reverse sale and repurchase agreements:

	2019 Group £m	2018 Group £m
Receivables from reverse sale and repurchase agreements	–	30.0
Collateral required including interest outstanding	–	30.0
Fair value of collateral accepted in respect of the above*	–	30.5

* In 2018, the Group invested £30.0m in reverse sale and repurchase agreements secured against a collateral basket of UK Gilts with a market value of £30.5m. The over-collateralisation reflects a 2% initial margin sufficient to take account of the unexpected loss that the Group may face due to the difficulty of selling that security in response to a default by the counterparty.

Reverse sale and repurchase agreements continued

Transactions are undertaken and administered via a CCP using an enforceable netting agreement. This agreement does not meet criteria for offsetting in the financial statements as:

- the parties may only enforce the right to offset recognised amounts following an event of default or other predetermined events; and
- the Group does not intend to settle on a net basis.

The disclosure below shows financial assets that are subject to the enforceable netting agreement:

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Amount recognised as financial asset	–	30.0	–	30.0
Related amounts not offset in financial statements				
Financial instruments (including non-cash collateral)	–	30.5	–	30.5
Cash collateral received	–	–	–	–
Total	–	30.5	–	30.5

All amounts are measured on an amortised cost basis.

16. Investment in subsidiaries

	2019 £m	2018 £m
Investment in subsidiaries at 30 September	110.9	113.5

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
Route2mobility Limited	I	100%	Dissolved
MO Reinsurance Limited	II	100%	Provision of Scheme reinsurance arrangements
Indirectly owned			
Motability Hire Purchase Limited	I	100%	Dissolved
Motability Leasing Limited	I	100%	Dissolved

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 £10.0m (2018: £65.0m) from MO Reinsurance Limited and £3.0m (2018: £nil) from Route2mobility Limited.

Loans to Group companies

	2019 Company £m	2018 Company £m
Motability Operations Limited	5,224.4	4,112.2
Total	5,224.4	4,112.2

	2019 Company £m	2018 Company £m
Loans to Group companies – non-current	5,224.4	4,112.2
Total	5,224.4	4,112.2

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 £175.3m (2018: £179.0m) 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

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Cleared balances	450.5	327.4	380.8	243.6
Cash in the course of collection	–	0.3	–	–
Cash and bank balances	450.5	327.7	380.8	243.6
Cleared overdrafts	(1.0)	–	–	–
Cash in the course of transmission	(90.3)	(41.7)	–	–
Cash and cash equivalents	359.2	286.0	380.8	243.6

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

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Insurance premium debtor	27.9	32.7	–	–
Claims recoveries and rebates	12.1	7.6	–	–
Reinsurance claims recoveries and commissions receivable	34.6	4.1	–	–
Total insurance receivables	74.6	44.4	–	–

The carrying value of insurance receivables approximates to fair value.

19. Trade and other receivables

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Trade receivables	112.7	89.2	–	–
Other receivables	94.3	114.7	–	–
Prepayments and accrued income	111.0	107.5	4.4	10.9
Total	318.0	311.4	4.4	10.9
Included in current assets	297.5	290.2	1.4	6.1
Included in non-current assets	20.5	21.2	3.0	4.8
Total	318.0	311.4	4.4	10.9

Trade receivables include an allowance for estimated irrecoverable amounts of £1.4m (2018: £1.8m). This allowance has been made by reference to past default experience and the ECL rules of IFRS 9. During the year there was a £0.4m decrease in provisions and £0.4m of receivables written back (2018: £0.3m increase in provision and £16.9m written off). The average receivable days period is ten days (2018: eight days). The balances written off in 2018 related to rentals billed and subsequently written off due to the customers' allowances being stopped. In 2019 these are no longer billed and therefore do not appear in either revenue or debt.

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 £42.2m (2018: £45.5m) 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 four days (2018: one day).

Ageing of past due but not impaired receivables:

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Past due by 1-30 days	42.0	43.6	–	–
Past due by 31-60 days	0.1	1.6	–	–
Past due by 61-90 days	–	0.1	–	–
Past due by 91-120 days	0.1	0.1	–	–
Past due by more than 120 days	–	0.1	–	–
Total	42.2	45.5	–	–

20. Deferred rental income

	2019 Group £m	2018 Group £m Restated**	2019 Company £m	2018 Company £m
Current				
Customers' advance payments*	147.6	138.0	–	–
Vehicle in-life service income	13.0	15.2	–	–
Vehicle insurance income	3.3	–	–	–
Total current	163.9	153.2	–	–
Non-current				
Customers' advance payments*	152.3	143.3	–	–
Vehicle in-life service income	60.3	47.5	–	–
Vehicle insurance income	3.5	–	–	–
Total non-current	216.1	190.8	–	–
Total	380.0	344.0	–	–

* 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.

** See note 37.

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 2017	62.0	13.1	75.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(31.2)	(13.1)	(44.3)
Increases due to cash received, excluding amounts recognised as revenue during the period	31.9	–	31.9
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 30 September 2019	73.3	6.8	80.1

Transaction price allocated to the remaining performance obligations

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

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
No later than one year	163.1	157.5	–	–
Later than one year and no later than two years	108.1	102.3	–	–
Later than two years and no later than three years	43.3	38.8	–	–
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	321.9	306.0	–	–

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:

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
No later than one year	436.3	454.5	–	–
Later than one year and no later than two years	273.9	289.7	–	–
Later than two years and no later than three years	100.0	101.2	–	–
Later than three years and no later than four years	7.6	8.8	–	–
Later than four years and no later than five years	2.4	2.8	–	–
Total	820.2	857.0	–	–

21. Provision for customer rebates

	Good condition bonuses £m	Return to dealer payments £m	WAV support £m	Total £m
At 1 October 2017	64.9	2.6	4.4	71.9
Additional provisions accrued during the year	104.9	2.4	2.3	109.6
Utilised during the year	(36.7)	(2.9)	(2.1)	(41.7)
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 30 September 2019	167.4	3.2	4.7	175.3

Analysis of provisions

	2019 £m	2018 £m
Included in non-current liabilities	68.7	56.7
Included in current liabilities	106.6	83.1
Total	175.3	139.8

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 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

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Reinsurance premiums payable	14.8	16.3	–	–
Commissions and administration fee payable	8.0	31.5	–	–
Claims reimbursements payable	33.7	26.9	–	–
Total insurance payables	56.5	74.7	–	–

The carrying value of insurance payables approximates to fair value.

23. Trade and other payables

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Trade payables	73.6	71.7	–	–
Social security and other taxes	1.3	1.4	–	–
Accruals	182.9	122.0	–	–
Other payables	0.7	0.5	–	–
Inter-company payable	–	–	290.7	202.9
Advance payments received from DWP	1.1	2.4	–	–
Total	259.6	198.0	290.7	202.9

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 (2018: 30 days).

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

24. General insurance provisions and insurance risk management

Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is defined although occurrence is random and therefore unpredictable. The principal risks of insurance relate to underwriting and insurance provision (reserving) risk. Underwriting risk is the risk that premiums charged are insufficient to cover the cost of the claims, either through an inaccurate assessment of the risks or due to other unforeseen/uncontrollable factors. Insurance provision (reserving) risk is the possibility that actual claims payments differ from the carrying amount of the insurance reserves. This could occur because the frequency or severity of claims is greater or less than estimated.

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

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

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

Motor insurance risks

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

Sources of uncertainty in the estimation of future claim payments

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

The estimation of the incurred but not reported (IBNR) reserve will be determined by utilising an actuarial assessment and based on historical claims experience. In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and legal advisers and information on the cost of settling claims with similar characteristics in previous periods.

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £30,000 (2018: £30,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2018: £5,000,000) each and every claim. Stop Loss reinsurance protects the Group against accumulation of losses exceeding 119.27% (2018: 118.30%) of the Group's net earned premium income or £296,964,000 (2018: £309,348,000) in the aggregate, whichever is the lesser. Stop Loss reinsurance cover is limited to a maximum of 133.94% (2018: 129.47%) of net premium earned or £36,521,000 (2018: £29,266,000) 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. General insurance provisions and insurance risk management continued

General insurance provisions

General insurance provisions are specific claims reserves including adjustments for insurance claims incurred but not reported.

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	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Claims reserves including IBNR	414.7	345.5	–	–
Third-party recoveries reserve	(42.1)	(44.6)	–	–
Reinsurance recoveries reserve	(244.8)	(209.9)	–	–
Total net retained	127.8	91.0	–	–
Included in liabilities	454.4	363.8	–	–
Included in assets	(326.6)	(272.8)	–	–
Total net retained	127.8	91.0	–	–

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	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Current year claims including IBNR	213.8	197.8	–	–
Prior year claims	28.5	(16.0)		
Reinsurance commissions, MIB levies and administration fees	(59.1)	2.7	–	–
Insurance claims and commission costs	183.2	184.5	–	–

During the year reinsurance commissions of £66.5m were booked comprising a guaranteed element of £5.2m and a variable element of £61.3m. (2018: Guaranteed element of £5.3m only.)

24. General insurance provisions 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 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Underwriting year 2019 £m	Total £m
At end of reporting year	179.9	251.7	290.6	348.5	348.1	
One year later	198.9	293.9	326.9	408.9		
Two years later	197.4	287.3	326.3			
Three years later	192.0	285.7				
Four years later	194.4					
Current estimate of cumulative claims	194.4	285.7	326.3	408.9	348.1	1,563.4
Cumulative payments to date	(181.5)	(249.1)	(278.0)	(294.4)	(223.5)	(1,226.5)
Rebates	12.9	20.5	25.0	26.4	25.9	110.7
Claims reserves included in the balance sheet	25.8	57.1	73.3	140.9	150.5	447.6
Claims reserves in respect of prior periods						6.8
Total liability included in the balance sheet						454.4

Rebates are amounts received relating to volume, referral and wholesale discounts from trade partners, which have reduced the cost of claims to the Company.

Increases in projected ultimate claims costs and subsequent reductions during the 2016 and 2017 underwriting years were primarily caused by the movements in the Ogden Rate and the effect upon future cost of care assessments. In addition, large claims during the 2018 underwriting year developed adversely, as these were subject to adverse legal case developments and changes in the circumstances of the claimant.

The above table is gross of the effects of reinsurance but net of claims recoveries due from third party insurers.

Estimate of ultimate claims cost net of reinsurance	Underwriting year 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Underwriting year 2019 £m	Total £m
At end of reporting year	131.9	182.9	193.6	227.8	235.1	
One year later	132.6	190.1	194.5	240.3		
Two years later	128.9	183.4	200.6			
Three years later	127.4	176.3				
Four years later	128.7					
Current estimate of cumulative claims	128.7	176.3	200.6	240.3	235.1	981.0
Cumulative payments to date	(138.9)	(189.6)	(212.9)	(236.9)	(186.4)	(964.7)
Rebates	12.9	20.5	25.0	26.4	25.9	110.7
Claims reserves included in the balance sheet, net of recoveries	2.7	7.2	12.7	29.8	74.6	127.0
Claims reserves in respect of prior periods						0.8
Total net liability included in the statement of financial position						127.8
Comprises:						
Specific claims reserves including IBNR						414.7
Third-party recoveries reserve						(42.1)
Reinsurance recoveries reserve						(244.8)
Total						127.8

The net projected ultimate claims costs include a £6m reduction relating to the movement in the Ogden Rate in the year.

The above table is net of the effects of reinsurance and net of claims recoveries due from third-party insurers.

The net projected ultimate claims costs include a £6m reduction relating to the movement in the Ogden Rate in the year.

24. General insurance provisions and insurance risk management continued

Movements in insurance liabilities

	2019			2018*		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	363.8	(228.2)	135.6	314.5	(183.1)	131.4
Notified claims recoveries	(44.6)	–	(44.6)	(36.8)	–	(36.8)
Total at beginning of year	319.2	(228.2)	91.0	277.7	(183.1)	94.6
Cash paid for claims settled						
In the year	(222.8)	17.3	(205.5)	(201.5)	16.1	(185.4)
*Movement in liabilities						
Current year claims including IBNR	258.0	(44.2)	213.8	255.5	(57.7)	197.8
Prior year claims	57.9	(29.4)	28.5	(12.5)	(3.5)	(16.0)
Total at end of year	412.3	(284.5)	127.8	319.2	(228.2)	91.0
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 end of year	412.3	(284.5)	127.8	319.2	(228.2)	91.0

Notified claims recoveries and reinsurance recoveries on notified claims are shown within current assets, as general insurance provisions.

* The 2018 split of movements in the year have been reclassified between current and prior year claims to amend a misclassification in the prior year.

25. Financial liabilities

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Current				
Accrued interest and coupon	35.4	38.3	35.4	38.3
Cash in the course of transmission	90.3	41.7	–	–
Bank overdrafts	1.0	–	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	300.0	347.3	300.0	347.3
Total current	426.7	427.3	335.4	385.6
Non-current				
Bank loans	399.0	398.8	399.0	398.8
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	4,569.1	3,456.8	4,569.1	3,456.8
Preference shares	10.0	10.0	10.0	10.0
Total non-current	4,978.1	3,865.6	4,978.1	3,865.6
Total	5,404.8	4,292.9	5,313.5	4,251.2
The financial liabilities are repayable as follows:				
On demand or no later than one year	426.7	427.3	335.4	385.6
Later than one year and no later than two years	–	299.8	–	299.8
Later than two years and no later than five years	1,283.1	1,283.9	1,283.1	1,283.9
Later than five years	3,695.0	2,281.9	3,695.0	2,281.9
Total	5,404.8	4,292.9	5,313.5	4,251.2

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

Bank borrowings

All bank borrowings as at 30 September 2019 and 2018 are at floating rates.

As at 30 September 2019 the Group has the following principal bank loans:

- a five-year term loan of £0.4bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018; and
- a five-year revolving credit facility of £1.5bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018 of which £nil was drawn as at 30 September 2019 (2018: £nil). The facility repayment date is 28 September 2023.

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

25. Financial liabilities continued

Debt issued under the Euro Medium Term Note Programme

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

	30 September 2019 £m	30 September 2018 £m
3.250% Eurobond due 2018 (I) (V)	–	347.3
6.625% Sterling bond due 2019 (VI)	300.0	299.8
5.375% Sterling bond due 2022	398.9	398.4
1.625% Eurobond due 2023 (II)	485.2	486.7
0.875% Eurobond due 2025 (III)	443.1	445.0
0.375% Eurobond due 2026 (IV)	531.4	–
3.750% Sterling bond due 2026	298.0	297.7
4.375% Sterling bond due 2027	297.1	296.7
1.750% Sterling bond due 2029	393.5	–
5.625% Sterling bond due 2030	298.6	298.6
2.375% Sterling bond due 2032	344.9	344.4
3.625% Sterling bond due 2036	590.1	589.5
2.375% Sterling bond due 2039	488.3	–
	4,869.1	3,804.1

(I) The repayment obligation in respect of the Eurobonds of €389.9m was settled on the 30th November 2018 for £325.9m.
(II) The repayment obligation in respect of the Eurobonds of €550m (£487.8m) is hedged by cross-currency swap contracts (note 25) for the purchase of €550m and for the sale of £402.5m is carried in the balance sheet net of the unamortised balance of the issuance costs.
(III) The repayment obligation in respect of the Eurobonds of €500m (£443.5m) 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.
(IV) The repayment obligation in respect of the Eurobonds of €600m (£532.2m) 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.
(V) On 14 March 2017 the Company redeemed €160.1m (£133.8m) of the 3.250% €550m Eurobond due 2018.
(VI) On 14 March 2017 the Company redeemed £150m of the 6.625% £450m Sterling bond due 2019.

The Company has a £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 £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;
- a £500m Sterling bond with a rate of 2.375% issued on 3 July 2019 and expiring on 3 July 2039;
- a £350m Sterling bond with a rate of 2.375% issued on 14 March 2017 and expiring on 14 March 2032; and
- a €500m Eurobond with a rate of 0.875% issued on 14 March 2017 and expiring on 14 March 2025.

Other comprehensive income and hedging reserve

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

Under the 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 2019, the Eurobond debt liability was increased by £89.0m (30 Sep 2018: was increased by £120.6m). This movement of £31.6m is a result of a Eurobond being settled during the year, releasing £20.0m, and Sterling strengthening against the Euro by £11.6m. The associated assets and liabilities relating to derivatives at 30 September 2019 were £90.7m (30 Sep 2018: assets of £128.4m). This movement of £37.7m is a result of derivatives taken out against a Eurobond maturing during the year, releasing £20.0m, and a decrease in valuation of £17.7m. The net valuation difference at 30 September 2019 is therefore an liability of £1.7m which, after tax at 18%, leads to a hedging reserve of £1.4m.

25. Financial liabilities continued

Preference shares

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

The weighted average interest rates on borrowings as at 30 September 2019 and 30 September 2018 were as follows:

	2019 Group %	2018 Group %	2019 Company %	2018 Company %
Current bank loans and overdrafts	1.7	–	–	–
Non-current bank loans	1.5	1.5	1.5	1.5
Non-current debt issued under the Euro Medium Term Note Programme	3.4	3.9	3.4	3.9
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2019 and 30 September 2018, the Group had the following undrawn committed borrowing facilities:

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
Working capital facility	99.0	100.0	90.0*	90.0*
Revolving credit facility	1,500.0	1,500.0	1,500.0	1,500.0
Total	1,599.0	1,600.0	1,590.0	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:

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
No later than one year	9.0	10.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,590.0	1,590.0	1,590.0	1,590.0
Total	1,599.0	1,600.0	1,590.0	1,590.0

26. Derivative financial instruments

	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

26. Derivative financial instruments continued

	Group 2018		Company 2018	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	127.9	1,162.2	127.9	1,162.2
Interest rate swaps	0.5	400.0	0.5	400.0
Total	128.4	1,562.2	128.4	1,562.2
Included in non-current liabilities	–	–	–	–
Included in current liabilities	–	–	–	–
Derivative financial instrument liabilities	–	–	–	–
Included in non-current assets	106.4	1,036.2	106.4	1,036.2
Included in current assets	22.0	526.0	22.0	526.0
Derivative financial instrument assets	128.4	1,562.2	128.4	1,562.2

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 2019, the fixed interest rates varied from 0.7463% to 1.006% (2018: the fixed interest rates varied from 0.409% to 0.7463%) 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 2019 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.

	2019 Group £m	2018 Group £m	2019 Company £m	2018 Company £m
No later than one year	(20.1)	(5.8)	(20.1)	(5.8)
Later than one year and no later than three years	(36.7)	(21.2)	(36.7)	(21.2)
Later than three years and no later than five years	(30.9)	(21.3)	(30.9)	(21.3)
Later than five years	(10.8)	(5.8)	(10.8)	(5.8)
Total	(98.5)	(54.1)	(98.5)	(54.1)

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 liabilities

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Net at 1 October 2017	350.1	(0.8)	0.5	–	349.8
Charge to income	24.9	0.3	–	–	25.2
Credit to income due to change in UK tax rate	(10.4)	–	–	–	(10.4)
Charge to equity	–	–	0.9	–	0.9
Adjustment in respect of prior years	–	–	–	–	–
Net at 1 October 2018	364.6	(0.5)	1.4	–	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 30 September 2019	268.8	(0.2)	0.3	–	268.9

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:

	2019 £m	2018 £m
Deferred tax assets	–	–
Deferred tax liabilities	268.9	365.5
Net at 30 September	268.9	365.5

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

With both of these enactments falling within the same accounting period, there was a significant release (£30.4m) of deferred tax liabilities during 2016 as a credit to the tax line for the year. Further releases (2019: (£1.0m), 2018: £10.4m, 2017: £5.3m) have occurred since as a result of the re-estimation of liabilities using the latest live fleet value and the tax rates expected to apply when the related deferred tax liabilities fall due.

The temporary differences arise because capital allowances for fleet vehicles are received at a higher rate than accounting depreciation charged under IFRSs. At the balance sheet date these differences amounted to £1.5bn (2018: £2.1bn). If measured to unwind at 19%, this would represent a deferred tax liability of £294m (2018: £391m). Using the best estimate of the timing of the unwinding of the temporary differences the liability has been estimated to be £269m (2018: £366m) – a blended rate of 17.3% (2018: 17.7%).

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

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
At 1 October 2017	–	–	0.5	–	0.5
Charge to equity	–	–	0.9	–	0.9
Controlled foreign company loss carried forward	–	–	–	–	–
At 1 October 2018	–	–	1.4	–	1.4
Credit to equity	–	–	(1.1)	–	(1.1)
Controlled foreign company loss carried forward	–	–	–	–	–
At 30 September 2019	–	–	0.3	–	0.3

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28. Ordinary share capital

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

	2019	2018
Authorised:		
100,000 (2018: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2018: 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:

	2019 Group £m	2018 Group £m Restated*	2019 Company £m	2018 Company £m
(Loss)/profit before tax	(456.4)	133.1	28.2	82.9
Adjustments for:				
Depreciation and amortisation charge on corporate assets	12.2	10.2	–	–
Depreciation charge on operating lease assets	727.7	679.4	–	–
Inventory write-down	(0.1)	0.1	–	–
Finance costs	159.4	164.3	(35.9)	(80.1)
Gains on disposal of operating lease assets – see footnote to note 4	(147.5)	(236.5)	–	–
Losses on operating lease assets written off through insurance	26.2	24.7	–	–
Gains on disposal of corporate assets	(0.2)	(0.2)	–	–
(Decrease)/increase in debt provisions	(0.4)	0.4	–	–
Operating cash flows before movements in working capital	320.9	775.5	(7.7)	2.8
Purchase of assets held for use in operating leases	(3,607.7)	(3,049.0)	–	–
Proceeds from sale of assets held for use in operating leases	2,279.2	2,139.5	–	–
Proceeds from insurance reimbursements of operating lease assets written off	32.0	29.4	–	–
Charitable donations paid	800.3	400.4	–	–
Increase in insurance receivables	(30.2)	(73.7)	–	–
(Increase)/decrease in other receivables	(11.7)	(19.8)	1.0	(0.1)
(Increase)/decrease in loans to and investment in subsidiaries	–	–	(1,112.2)	425.2
Increase in deferred rental income	36.0	11.0	–	–
Increase in provision for customer rebates	35.5	67.9		
Increase in general insurance provisions	36.9	73.4	–	–
(Decrease)/increase in insurance payables	(18.2)	8.8	–	–
Increase/(decrease) in payables	61.6	(52.4)	90.7	(758.1)
Cash (used in)/generated from operations	(65.4)	311.0	(1,028.2)	(330.2)

* See note 37.

30. Analysis of changes in net debt

Group	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)

	At 1 October 2017 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts £m	At 30 September 2018 £m
Cash and bank balances	1,168.3	(840.6)	–	–	–	327.7
Cash in the course of transmission	(10.0)	(31.7)	–	–	–	(41.7)
Cash and cash equivalents	1,158.3	(872.3)	–	–	–	286.0
Borrowings due after one year	(398.7)	–	–	–	(0.1)	(398.8)
Debt issued under the Euro Medium Term Note Programme	(4,228.6)	441.9	(13.9)	–	(3.5)	(3,804.1)
Derivative financial instruments	126.1	(16.7)	–	19.0	–	128.4
Preference shares	(10.0)	–	–	–	–	(10.0)
Financing activities	(4,511.2)	425.2	(13.9)	19.0	(3.6)	(4,084.5)
Total net debt	(3,352.9)	(447.1)	(13.9)	19.0	(3.6)	(3,798.5)

	2019 Group £m	2018 Group £m
Cash and bank balances	450.5	327.7
Derivative financial instruments	90.7	128.4
Current financial liabilities	(426.7)	(427.3)
Non-current financial liabilities	(4,978.1)	(3,865.6)
Total	(4,863.6)	(3,836.8)
Less interest accruals included in financial liabilities	35.4	38.3
Total net debt	(4,828.2)	(3,798.5)

31. Operating lease arrangements

The Group as lessee

	2019 Group £m	2018 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	3.1	3.0

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

	2019 Group £m	2018 Group* £m
No later than one year	3.3	3.0
Later than one year and no later than five years	14.8	12.2
Later than five years	28.5	27.2
Total	46.6	42.4

Operating lease payments represent rentals payable by the Group for use of office properties. Leases are negotiated for an average term of seven years, except for City Gate House where the lease is set for seventeen years with a termination clause after four years and the new lease in Edinburgh which is for ten years.

*The prior year has been restated to reflect a ten-year extension to the lease on City Gate House which was effective last year but not disclosed.

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 2019 amounted to £4,820,131 (2018: £4,882,316). Net contributions due at the balance sheet date were £514,118 (2018: £483,631).

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 57.

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

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

Transactions

During the year the Group made a charitable donation of £800.0m (2018: £400.0m) to Motability's endowment fund, "The Motability Foundation". An additional accrual was made of £52.3m to reflect the Group's pledge to bring restricted reserves down by £370m by 30 September 2019.

During the year the Group paid Motability £4.6m (2018: £9.0m) relating to its administration costs (the 'Motability levy').

In addition, £1.4m (2018: £2.1m) 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 (2018: £0.5m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2018: £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 £10.0m (2018: £65.0m) from MO Reinsurance Limited, a dividend payment of £3.0m from Route2Mobility Ltd and made preference share dividend payments of £0.7m to the shareholder banks (2018: £0.7m).

At 30 September 2019 £201.4m of cash and cash equivalents were held with shareholder banks (30 September 2018: £57.8m). During the year the Group received interest payments on these cash deposits totalling £0.6m (2018: £0.5m).

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 £5.3m in relation to bond issuances (2018: £nil).

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 £0.3m (2018: net payment of £0.2m) in respect of interest rate swaps, and a net payment of £6.1m (2018: net payment of £5.2m) in respect of cross-currency swaps.

During the year the Group entered into reverse sale and repurchase agreements on one-month terms with a shareholder bank (see note 15) and received interest payments of £0.2m (2018: £0.1m). At 30 September there was £nil invested in reverse sale and repurchase agreements (2018: £30m).

Subsidiary, parent and ultimate controlling party

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

Remuneration of key management personnel

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

	2019 £m	2018 £m
Short-term employee benefits	3.8	4.2
Post-employment benefits	–	–
Other long-term benefits	1.2	1.0
Total	5.0	5.2

34. Directors' remuneration

During the year there was one Executive Director (2018: one) accruing benefits under a money purchase pension scheme.

	2019	2018
Highest-paid Director		
Salary	£580,375	£564,223
Performance-related payments	£274,715	£264,120
Payments in lieu of pension*	£145,094	£141,056
Benefits	£25,933	£25,363
Aggregate emoluments in respect of qualifying services	£1,026,117	£994,762
Pension contributions under money purchase pension schemes	£nil	£nil
All Directors		
Salary	£1,418,417	£1,293,072
Performance-related payments	£416,420	£395,955
Payments in lieu of pension*	£179,531	£172,174
Retention payments	£nil	£150,000
Benefits	£59,995	£62,328
Aggregate emoluments in respect of qualifying services	£2,074,363	£2,073,529
Pension contributions under money purchase pension schemes	£10,000	£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

In addition to the above, historical long-term incentive arrangements apply to the Executive Directors. There are two programmes in place:

Long-Term Incentive Plan (LTIP)

Any payments in respect of amounts vesting under the run-off of the previous Long-Term Incentive Plan (LTIP) continue to be linked to the Group's long-term objectives of maintenance of sufficient reserves, high levels of customer satisfaction and renewal levels, lease affordability and excellent business culture. Any payment is also determined by reference to the Company's external credit rating. The final units awarded in this plan were made to the Group Executive Directors in December 2015.

Performance criteria are designed so that units allocated into the Plan can both increase and decrease in value. The main features of the LTIP have been:

- the notional value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years;
- potential payouts are deferred for three years;
- the value of any potential payout is determined by annual assessment against specific performance requirements in respect of the level of customer service, customer retention, lease affordability, reserves adequacy and business culture; and
- potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released. During the year to 30 September 2019 £761,217 was released including £666,065 released to the highest-paid Director. This constituted the total amount released to the Group Executive Directors in the current year. (In the prior year, £726,617 was released to the highest-paid Director only).

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

A five-year Long-Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. During 2015, it was agreed that any potential benefit would be deferred for seven years under a Long-Term Performance Plan (LTPP), during which period no additional payments will be made into the new Scheme and any potential benefit will continue to be linked to stretching financial performance targets.

During the reported year to September 2019, no payments have been made (2018: £nil).

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 2019.

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 2019 the ratio was 1.63:1, 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. The categories of financial instruments have been renamed this year in accordance with IFRS 9 (see note 37).

Categories of financial instruments

	2019 Group carrying value £m	2018 Group carrying value £m	2019 Company carrying value £m	2018 Company carrying value £m
Non-derivative financial assets				
Financial assets at amortised cost	204.7	232.9	–	30.0
Trade receivables	112.5	89.3	–	–
Loans to other Group companies	–	–	5,224.4	4,112.2
Cash and bank balances	450.5	327.7	380.8	243.6
Total non-derivative financial assets	767.7	649.9	5,605.2	4,385.8
Non-derivative financial liabilities				
Trade and other payables	(259.7)	(196.6)	(290.7)	(202.9)
Financial liabilities	(5,404.8)	(4,292.9)	(5,313.5)	(4,251.2)
Total non-derivative financial liabilities	(5,664.5)	(4,489.5)	(5,604.2)	(4,454.1)
Net non-derivative financial instruments	(4,896.8)	(3,839.6)	1.0	(68.3)
Derivative financial instruments				
Interest rate swaps	(1.3)	0.5	(1.3)	0.5
Cross-currency swaps	92.0	127.9	92.0	127.9
Total derivative financial instruments	90.7	128.4	90.7	128.4
Total financial instruments	(4,806.1)	(3,711.2)	91.7	60.1

36. Funding and financial risk management continued

Fair value of financial instruments

		2019 Group carrying value £m	2019 Group fair value £m	2018 Group carrying value £m	2018 Group fair value £m
Cash and bank balances	I	450.5	450.5	327.7	327.7
Trade receivables	II	112.5	112.5	89.3	89.3
Financial assets at amortised cost	III	204.7	206.3	232.9	231.9
Trade and other payables	II	(259.7)	(259.7)	(196.6)	(196.6)
Bank overdrafts	IV	(1.0)	(1.0)		
Cash in the course of transmission and accrued interest and coupon	II	(125.7)	(125.7)	(80.0)	(80.0)
Bank loans – non-current	IV	(399.0)	(399.0)	(398.8)	(398.8)
Debt issued under the Euro Medium Term Note Programme*	III	(4,869.1)	(5,455.8)	(3,804.0)	(4,154.8)
Redeemable preference share liabilities	III	(10.0)	(14.3)	(10.0)	(13.5)
Net non-derivative financial instruments		(4,896.8)	(5,486.2)	(3,839.5)	(4,194.8)
Interest rate swap – cash flow hedge		(1.3)	(1.3)	0.5	0.5
Cross-currency swap – cash flow hedge		92.0	92.0	127.9	127.9
Total		(4,806.1)	(5,395.5)	(3,711.1)	(4,066.4)

* 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.

		2019 Company carrying value £m	2019 Company fair value £m	2018 Company carrying value £m	2018 Company fair value £m
Cash and bank balances	I	380.8	380.8	243.6	243.6
Loans to other Group companies	IV	5,224.4	5,224.4	4,112.2	4,112.2
Financial assets at amortised cost	III	–	–	30.0	30.0
Trade and other payables	II	(290.7)	(290.7)	(202.9)	(202.9)
Cash in the course of transmission and accrued interest and coupon	II	(35.4)	(35.4)	(38.3)	(38.3)
Bank loans – non-current	IV	(399.0)	(399.0)	(398.8)	(398.8)
Debt issued under the Euro Medium Term Note Programme*	III	(4,869.1)	(5,455.8)	(3,804.0)	(4,154.8)
Redeemable preference share liabilities	III	(10.0)	(14.3)	(10.0)	(13.5)
Net non-derivative financial instruments		1.0	(590.0)	(68.2)	(422.5)
Interest rate swap – cash flow hedge		(1.3)	(1.3)	0.5	0.5
Cross-currency swap – cash flow hedge		92.0	92.0	127.9	127.9
Total		91.7	(499.3)	60.2	(294.1)

* 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

	2019			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	206.3	–	–	206.3
	206.3	–	–	206.3
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	206.3	(5,379.4)	–	(5,173.1)

Group

	2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	231.9	–	–	231.9
	231.9	–	–	231.9
Non-derivative financial liabilities				
Financial liabilities	–	(4,168.3)	–	(4,168.3)
	–	(4,168.3)	–	(4,168.3)
Derivative financial instruments				
Interest rate swaps	–	0.5	–	0.5
Cross-currency swaps	–	127.9	–	127.9
	–	128.4	–	128.4
Total	231.9	(4,039.9)	–	(3,808.0)

36. Funding and financial risk management continued

Fair value of financial instruments continued

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)

Company

	2018			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	30.0	–	–	30.0
	30.0	–	–	30.0
Non-derivative financial liabilities				
Financial liabilities	–	(4,168.4)	–	(4,168.4)
	–	(4,168.4)	–	(4,168.4)
Derivative financial instruments				
Interest rate swaps	–	0.5	–	0.5
Cross-currency swaps	–	127.9	–	127.9
	–	128.4	–	128.4
Total	30.0	(4,040.0)	–	(4,010.0)

Assets and liabilities carried at amortised cost

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. This also applies to the loan to the subsidiary company.

As these valuation exercises are not wholly market based they are considered to be level 2 measurements.

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 2019 of £399m (2018: £399m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2019 of £5,278m (2018: £3,804m).

The Group and the Company have interest rate swaps of £200m maturing on 28 December 2018 and £200m maturing on 28 December 2019 (2018: £200m maturing on 29 December 2018 and £200m maturing on 28 December 2019). Under these swaps the Group and the Company pay an average fixed rate of 0.88% (2018: 0.58%).

Foreign exchange risk

The Group is exposed to foreign exchange risk due to the issue of Euro-denominated fixed-rate bonds. This risk has been managed by the use of cross-currency swaps to fix the exchange rate on all coupon and principal cash flows from the outset of the bonds. In the event of any change in foreign exchange rates, there would be no material effect on the reserves of the Group and the Company.

Interest rate sensitivity analysis

The sensitivity analysis stated below is based on exposure to interest rates for both derivative and non-derivative instruments at the balance sheet date. For floating rate liabilities, the analysis is prepared assuming the amount of liability outstanding at the balance sheet date was outstanding for the whole year.

In the event of any change in interest rates, there would be no material effect on the reserves of the Group and the Company. Although an increase in interest rates will lead to changes in interest payable on borrowings, this will be offset by a corresponding effect in either interest rate swaps or rental increases on new assets purchased during the year.

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax profit decrease of approximately £1.0m as at 30 September 2019 (2018: £1.0m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

Interest rate swap contracts

Under interest rate swap contracts, the Group and the Company agree to exchange the difference between fixed and floating interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group and the Company to mitigate the risk of changing interest rates on future cash flows on the variable rate debt held. The fair value of interest rate swaps at the reporting date is determined by discounting the future cash flows using a GBP market yield curve; the results are disclosed below. The average interest rate is based on the outstanding balances at the end of the financial year.

All interest rate swap contracts are designated as cash flow hedges in order to reduce the Group and the Company's cash flow exposure resulting from variable interest rates on borrowings. Interest rate swaps and floating rate borrowings re-fix and settle on the same day each month thereby minimising interest rate exposure further. Interest rate swaps settle net on a monthly basis.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date: all swap balances are shown in "derivative financial instruments" on the face of the balance sheet.

	2019 Average contract fixed interest rate %	2018 Average contract fixed interest rate %	2019 Nominal principal amount £m	2018 Nominal principal amount £m	2019 Fair value £m	2018 Fair value £m
No later than one year	0.7	0.4	200.0	200.0	–	0.2
Later than one year and no later than two years	1.0	0.7	200.0	200.0	(1.2)	0.4
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	400.0	(1.2)	0.6

36. Funding and financial risk management continued

Cross-currency swap contracts

Under the cross-currency swap contracts, the Group and the Company agree to exchange Euro and Sterling amounts of the principals and fixed interest amounts calculated on the principals. These contracts enable the Group and the Company to eliminate the risk of changing exchange rates on future cash flows on the foreign currency debt issued. The fair value of the cross-currency swaps at the reporting date is determined by discounting the future cash flows using foreign currency spot rates; the results are disclosed below.

The cross-currency swap contracts are designated as cash flow hedges and reduce the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swaps eliminate all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date: all swap balances are shown in "derivative financial instruments" on the face of the balance sheet.

	2019 Contract fixed GBP interest rate %	2018 Contract fixed GBP interest rate %	2019 Nominal principal amount £m	2018 Nominal principal amount £m	2019 Fair value £m	2018 Fair value £m
No later than one year	–	3.7	–	326.0	–	21.9
Later than one year and no later than two years	–	–	–	–	–	–
Later than two years and no later than five years	3.0	3.0	402.5	402.5	91.4	92.7
Later than five years	1.9	2.1	972.0	433.8	0.6	13.3
Total			1,374.5	1,162.3	92.0	127.9

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.

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.

36. Funding and financial risk management continued

For the year under review the following figures represent the Group's total counterparty credit limit and the balance as at 30 September 2019 and 2018, and the highest limit and utilisation during the year attributable to banks/financial institutions.

	2019		2018	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Counterparty credit limit as at 30 September	1,160.0	449.5	1,140.0	397.4

	2019		2018	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Maximum counterparty credit limit for calendar year	1,860.0	1,492.1	1,380.0	1,193.4

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.

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.

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 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

	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.

Group

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial liabilities – bank loans – variable interest rate	1.5	(6.4)	(15.6)	(417.5)	–	(439.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.9	(465.7)	(537.7)	(1,008.6)	(2,845.9)	(4,857.9)
Cash in the course of transmission	0.0	(41.7)	–	–	–	(41.7)
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	(196.6)	–	–	–	(196.6)
Total		(711.1)	(554.7)	(1,427.5)	(2,857.2)	(5,550.5)

* 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

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.

Company

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial liabilities – bank loans – variable interest rate	1.5	(6.4)	(15.6)	(417.5)	–	(439.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.9	(465.7)	(537.7)	(1,008.6)	(2,845.9)	(4,857.9)
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	(202.9)	–	–	–	(202.9)
Total		(657.7)	(554.7)	(1,427.5)	(2,857.2)	(5,515.1)

* The preference shares of the Company are classified as a financial liability in accordance with the contractual obligation to deliver cash (both dividends and repayment of principal) to the shareholders on winding up as stated in the Memorandum and Articles of Association of the Company.

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

The tables have been drawn up based on the undiscounted amounts of the financial liabilities based on the earliest dates on which the Group and the Company can be required to discharge those liabilities.

Group

	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)	(36.4)	(30.9)	(10.9)	(97.4)
Total		(20.1)	(36.8)	(30.9)	(10.9)	(98.7)

Group

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Interest rate swaps	0.6	0.3	0.2	–	–	0.5
Cross-currency swaps	2.8	(6.1)	(21.3)	(21.3)	(5.9)	(54.6)
Total		(5.8)	(21.1)	(21.3)	(5.9)	(54.1)

36. Funding and financial risk management continued

Liquidity risk management continued

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)	(36.4)	(30.9)	(10.9)	(97.4)
Total		(20.1)	(36.8)	(30.9)	(10.9)	(98.7)

Company

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Interest rate swaps	0.6	0.3	0.2	–	–	0.5
Cross-currency swaps	2.8	(6.1)	(21.3)	(21.3)	(5.9)	(54.6)
Total		(5.8)	(21.1)	(21.3)	(5.9)	(54.1)

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

	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	–	112.5	–	–	–	112.5
Cash and bank balances – non-interest bearing	–	450.5	–	–	–	450.5
Total		631.0	106.1	19.7	15.8	772.6

Group

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial assets at amortised cost – fixed interest rate	2.1	94.8	92.9	31.6	13.6	232.9
Trade receivables – non-interest bearing	–	89.3	–	–	–	89.3
Cash and bank balances – non-interest bearing	–	327.7	–	–	–	327.7
Total		511.8	92.9	31.6	–	649.9

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

36. Funding and financial risk management continued

Liquidity risk management continued

Company

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial assets at amortised cost						
– fixed interest rate	0.7	30.0	–	–	–	30.0
Loans to other Group companies	3.2	171.0	323.3	308.3	4,413.0	5,215.6
Total		201.0	323.3	308.3	4,413.0	5,245.6

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9

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 15 *Revenue from Contracts with Customers* with a date of initial application of 1 October 2018. As a result, the Group has changed its accounting policy for revenue recognition as detailed below.

IFRS 15

The Group applied IFRS 15 fully retrospectively using the practical expedient in paragraph C5(c) of IFRS 15, under which the Group does not disclose the amount of consideration allocated to the remaining performance obligations or an explanation of when the Group expects to recognise that amount as revenue for all reporting periods presented before the date of initial application – i.e. 1 October 2018. The details and quantitative impact of the changes in accounting policies are disclosed below.

Rentals receivable for operating lease assets

As noted on pages 2 and 3, MO offer a “worry-free mobility” proposition through all-inclusive contract hire agreements with its customers. These agreements are classified as operating leases in the books of the Group under IFRSs.

Before IFRS 15, under IAS 17 *Leases* and IAS 18 *Revenue*, the Group recognised its leasing revenue on a straight-line basis in general, but used other systematic bases for elements of the rental relating to:

- in-life service costs (ILSC) covering maintenance, servicing, tyre and windscreen replacements and breakdown cover
- insurance cover
- end-of-contract bonuses

For ILSC, revenue was assigned in line with the expected vehicle maintenance spend curve (as such services are back-loaded for a three-year lease of a new vehicle, such that approximately 15% occur in the first year, 36% in the second year and 49% in the final year). For insurance, revenue was assigned in line with premium payments due to the Group’s fronting insurer, and for end-of-contract bonuses revenue was recognised only when the expected payouts materialised. For insurance, the fleet premiums in general rise every six months, so the obligation to pay premiums in the latter stages of a lease is typically higher than the early stages, requiring a deferral of rentals received in the early stages.

Under IFRS 15, the Group has disaggregated the ILSC and insurance revenue streams and assigned each with an element of the priced safety margin, and will now show these as separate lines of revenue and disclose information about the performance obligations expected under the contracts. By assigning elements of the profit margin to these revenue streams, this means that although revenue continues to be booked in line with the expected pattern of spending, the same applies to the margins, so that there is a small increase to the deferred income balance at the date of initial application of the standard (1 October 2018).

In terms of end-of-contract bonuses, under IFRS 15 these should be presented as rebates by netting them off revenue, so these are no longer shown “grossed up” within both revenue and costs when they fall due.

IFRS 15 has had no effect on other revenue streams, such as the revenue for the car lease element of rentals or disposals of vehicles at the end of the lease period, as leases are outside the scope of the standard.

The tables below show the effect of IFRS 15 on the comparative periods, and also the effect on the current period.

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9 continued

Disaggregation and judgements

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) the maintenance, servicing, tyres, windscreens and breakdown cover all being similar in nature in terms of keeping the vehicles on the road in good condition and have a well-established history of timing effects in terms of the historic spend curve, and b) the insurance element being a separate obligation with different timing characteristics.

In terms of the transition method selected, a fully retrospective approach was judged to be appropriate due to the short-term nature of the leased assets and the good historical data available to support the calculations, providing improved comparability.

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

Note 20 has been expanded to show a) the movement in deferred income during the period and b) the expected future revenue to be recognised in line with future performance obligations. In addition, note 13 now disaggregates the car leasing element of future rentals receivable for the first time.

IFRS 9

IFRS 9 sets out requirements for recognising and measuring financial assets and financial liabilities and replaces IAS 39 *Financial Instruments: Recognition and Measurement.*

There are three principal classification categories for financial assets: measured at amortised cost, FVOCI and FVTPL. This classification is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. IFRS 9 eliminates the previous IAS 39 categories of “held to maturity”, “loans and receivables” and “available for sale”. The Group previously carried “held to maturity” investments within its insurance captive, MORL. These are now classified as “financial assets at amortised cost”.

IFRS 9 largely retains the existing requirements from IAS 39 for financial liabilities.

There has been no material impact net of tax on opening reserves arising from transition to this standard.

Transition

The Group has used an exemption not to restate comparative information for prior periods with respect to classification and measurement requirements. The following assessments were made on the basis of the facts and circumstances that existed at the date of initial application (1 October 2018).

a) The determination of the business model within which a financial asset was held; and

b) All hedging relationships designated under IAS 39 at 30 September 2018 met the criteria for hedge accounting under IFRS 9 at 1 October 2018 and are therefore regarded as continuing hedging relationships.

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9 continued

Key policies

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 costs, 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.

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, 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.

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9 continued

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

Financial liabilities are classified as measured at amortised cost, and subsequently measured using the effective interest method. Interest expense is recognised in profit or loss, as is any gain or loss on derecognition.

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.

Derivative financial instruments and hedge accounting: Cash flow hedges

When a derivative is designated as a cash flow hedging instrument (on the Group's Eurobonds), 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: credit-impaired financial assets

At each reporting date, the Group assesses whether financial assets carried at amortised cost are credit-impaired, primarily by reviewing credit ratings. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired includes the following observable data:

- Significant financial difficulty of the counterparty
- A breach of contract such as default, or being long past due
- It is probable that a creditor will default, enter bankruptcy or undergo a detrimental financial reorganisation.

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 a strong external rating (see "The business model" above). This means that only twelve-month expected credit losses will be recorded for these financial instruments, and these are not material for the Group.

In terms of expected credit losses 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.

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. No material impact has resulted from the adoption of IFRS 9.

Modifications

No financial assets have been modified or renegotiated in the period.

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9 continued

Impacts on financial statements

The following tables summarise the impacts of adopting IFRS 9 and IFRS 15 on the Group's consolidated financial statements.

Income statement

For the year ended 30 September 2018

	As previously reported £m	Adjustments £m	As restated £m
Revenue	4,146.7	(39.8)	4,106.9
Net operating costs excluding charitable donations	(3,450.6)	41.5	(3,409.1)
Charitable donations	(400.4)	–	(400.4)
Net operating costs	(3,851.0)	41.5	(3,809.5)
Profit from operations	295.7	1.7	297.4
Finance costs	(164.3)	–	(164.3)
Profit before tax	131.4	1.7	133.1
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	(25.2)	–	(25.2)
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	10.4	–	10.4
Profit for the financial year	116.6	1.7	118.3

Statement of comprehensive income

For the year ended 30 September 2018

	As previously reported £m	Adjustments £m	As restated £m
Profit for the financial year	116.6	1.7	118.3
Other comprehensive income/(expense) – items that may be reclassified subsequently to profit or loss			
Gains on movements in fair value of cash flow hedging derivatives	19.0	–	19.0
Losses on foreign currency translation	(14.0)	–	(14.0)
Tax relating to components of other comprehensive expense	(0.9)	–	(0.9)
Other comprehensive income for the year, net of tax	4.1	–	4.1
Total comprehensive income for the year	120.7	1.7	122.4

37. Changes in accounting policies – impact of IFRS 15 and IFRS 9 continued

Impacts on financial statements

Consolidated balance sheet

30 September 2018

	As previously reported* £m	Adjustments £m	As restated £m
Assets			
Non-current assets			
Intangible assets	49.6	–	49.6
Property, plant and equipment	18.6	–	18.6
Assets held for use in operating leases	6,829.2	–	6,829.2
Financial assets at amortised cost	138.1	(0.2)	137.9
Trade and other receivables	21.2	–	21.2
Derivative financial instruments	106.4	–	106.4
	7,163.1	(0.2)	7,162.9
Current assets			
Corporation tax receivable	29.5	–	29.5
Inventories	82.5	–	82.5
Financial assets at amortised cost	94.8	–	94.8
Cash and bank balances	327.7	–	327.7
Insurance receivables	44.4	–	44.4
Trade and other receivables	290.2	–	290.2
General insurance provisions	272.8	–	272.8
Derivative financial instruments	22.0	–	22.0
	1,163.9	–	1,163.9
Total assets	8,327.0	(0.2)	8,326.8
Liabilities			
Current liabilities			
Deferred rental income	(234.6)	81.4	(153.2)
Provision for customer rebates	–	(83.1)	(83.1)
Insurance payables	(74.7)	–	(74.7)
Trade and other payables	(198.0)	–	(198.0)
General insurance provisions	(363.8)	–	(363.8)
Financial liabilities	(427.3)	–	(427.3)
Derivative financial instruments	–	–	–
	(1,298.4)	(1.7)	(1,300.1)
Net current liabilities	(134.5)	(1.7)	(136.2)
Non-current liabilities			
Deferred rental income	(243.6)	52.8	(190.8)
Provision for customer rebates	–	(56.7)	(56.7)
Financial liabilities	(3,865.6)	–	(3,865.6)
Derivative financial instruments	–	–	–
Deferred tax liabilities	(365.5)	–	(365.5)
	(4,474.7)	(3.9)	(4,478.6)
Total liabilities	(5,773.1)	(5.6)	(5,778.7)
Net assets	2,553.9	(5.8)	2,548.1
Equity			
Ordinary share capital	0.1	–	0.1
Hedging reserve	6.3	–	6.3
Restricted reserves	2,547.5	(5.8)	2,541.7
Total equity	2,553.9	(5.8)	2,548.1

* General insurance provisions and insurance receivables have been reclassified for the prior year – see note 2.

Motability Operations Group plc

City Gate House
22 Southwark Bridge Road
London SE1 9HB
Registered in England & Wales
Company Number 6541091

www.motabilityoperations.co.uk

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