Motability Operations | Group plc

Annual Report and Accounts 2016

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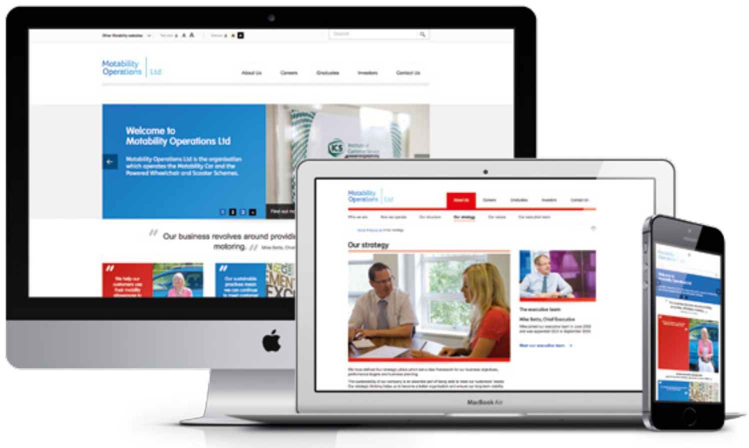

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www.motabilityoperations.co.uk

2016 Highlights

98%
overall customer satisfaction (independently measured)

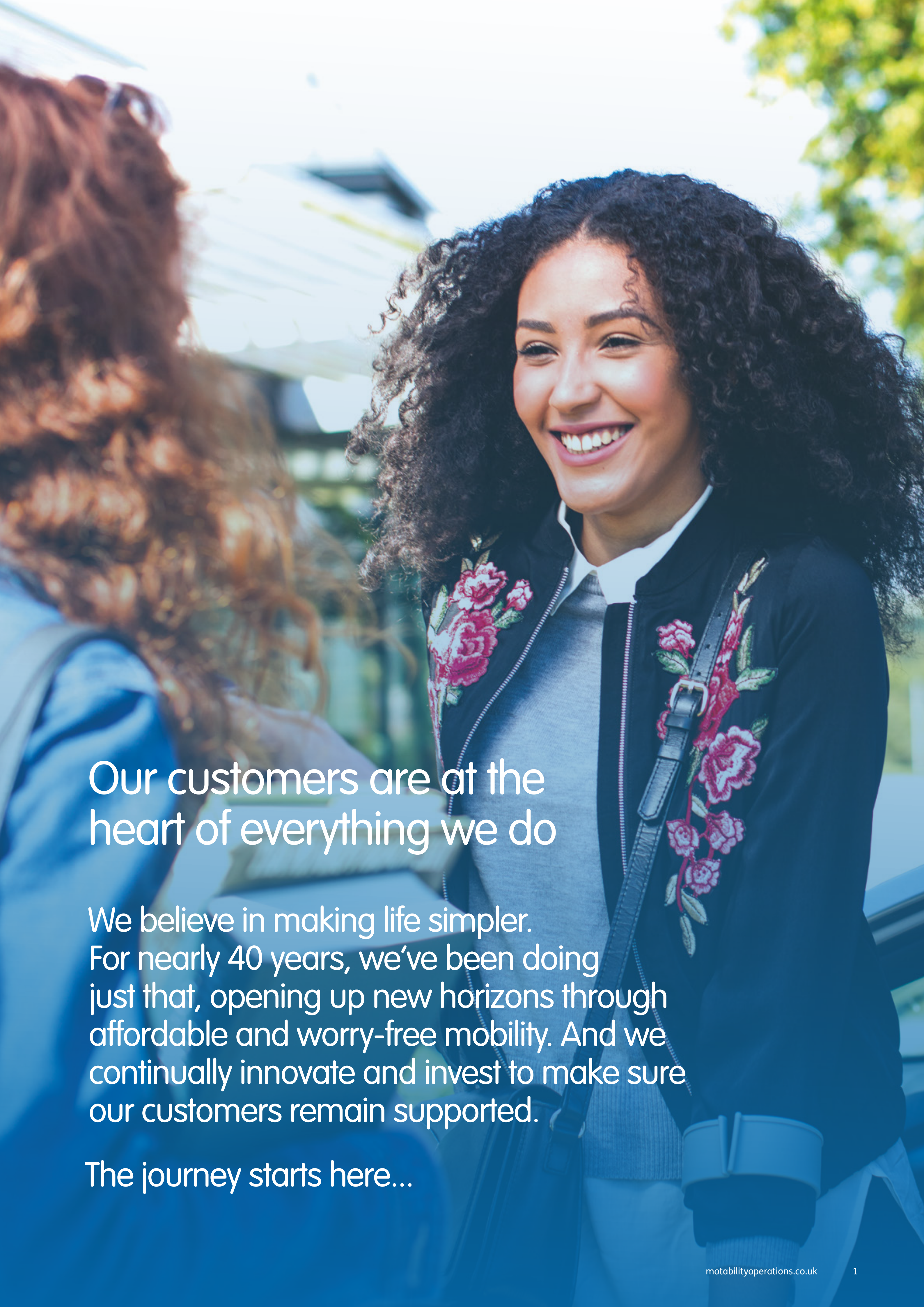
93%
employee engagement: 10pts higher than 'High-Performing Organisations' benchmark (independently measured)

81%
of customer calls answered within 20 seconds (achieved >80% for the last nine years) notwithstanding a 16% increase in call volumes year-on-year (1.1 million calls)

A+/A1
ratings maintained with stable outlooks from Standard & Poor's and Moody's respectively

92%
customer renewal rate at the end of lease

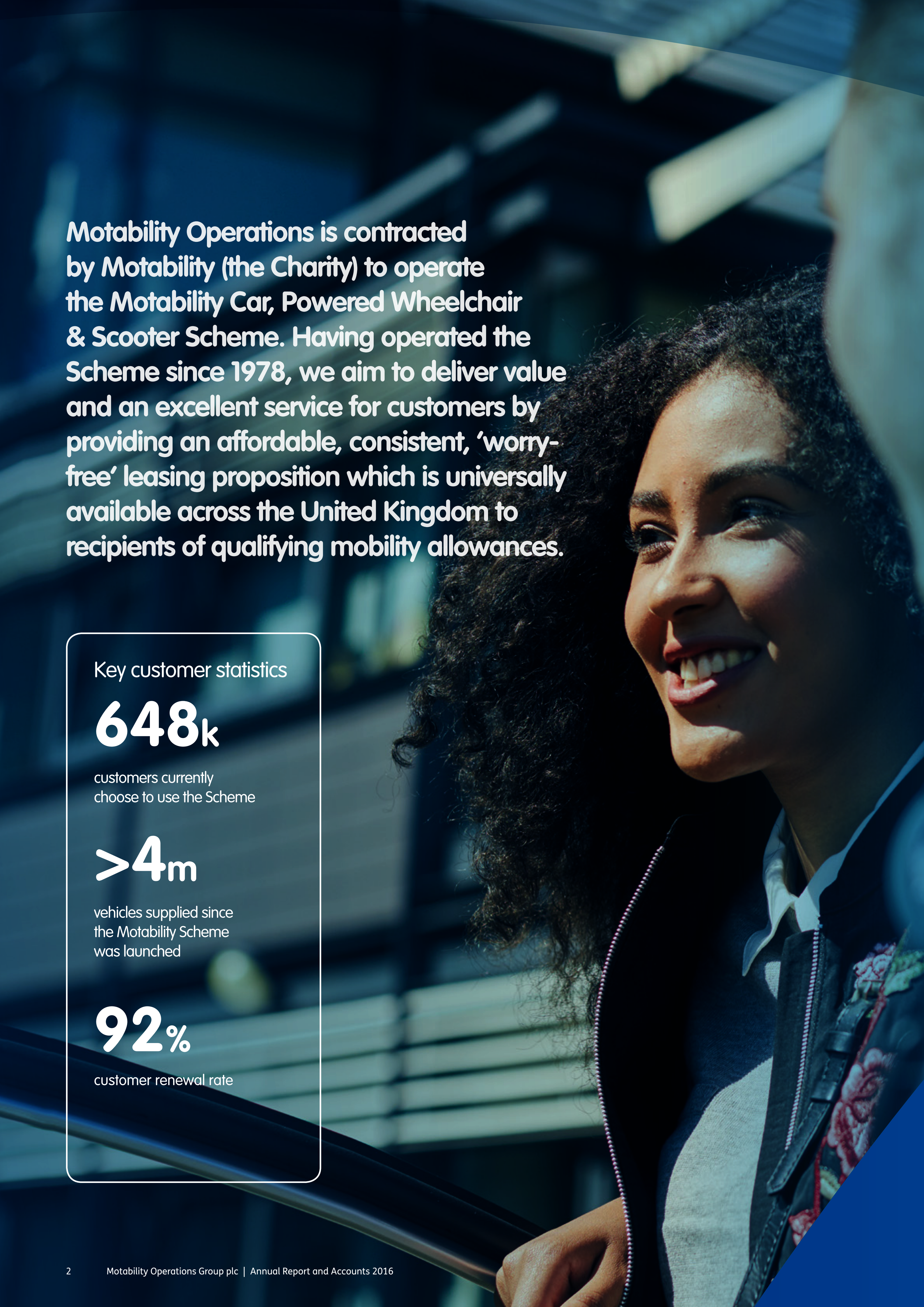
78%
of vehicles sold online via mfldirect at the end of lease during the year to September 2016



Our customers are at the heart of everything we do

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

The journey starts here...



Motability Operations is contracted by Motability (the Charity) to operate the Motability Car, Powered Wheelchair & Scooter Scheme. Having operated the Scheme since 1978, we aim to deliver value and an excellent service for customers by providing an affordable, consistent, 'worry-free' leasing proposition which is universally available across the United Kingdom to recipients of qualifying mobility allowances.

Key customer statistics

648k

customers currently choose to use the Scheme

>4m

vehicles supplied since the Motability Scheme was launched

92%

customer renewal rate

Delivering the Scheme

1.8m

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

Overall customer satisfaction independently measured at

98%

for six consecutive years

UK-wide

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

We work with

18,000

Motability Dealer Specialists across a national network of over 4,800 approved Motability dealers

We buy over 220,000 new cars each year, and sell over 650 per day, seven days a week, into the used-car market as vehicles are returned to us at the end of lease

What we do

Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme. Under a service contract with Motability, we are responsible for the effective and efficient delivery of the Scheme

Motability was established in 1977 to enable disabled people to use their mobility allowance to access affordable motoring through a leasing package. The Motability Scheme was formed as a pioneering partnership, bringing together Government; banks; manufacturers; the Charity, Motability, which directs policy and oversees the Scheme; and Motability Operations, the operating company. Motability Operations is owned by the four major UK banks.

Under the service contract with Motability, Motability Operations is required to meet specific performance targets across a range of measures including customer service, choice & affordability, value for money and efficiency. As operators of the Scheme, we seek to leverage economies of scale and tightly manage our cost base. It is by running an efficient operation that we are able to deliver a consistent, highly affordable and competitive proposition for our customers which would not otherwise be available through the retail market.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme a disabled person must receive one of the qualifying mobility allowances (see below). Neither Motability Operations nor Motability plays any role in deciding who is eligible for this allowance. The 1.8 million people who are currently in receipt of this allowance can choose to lease one of these products from Motability Operations. At present, just over one third of allowance recipients choose to use their allowance to participate in the Scheme.

For those who decide to join the Scheme, we provide a unique and universally available mobility proposition, designed to meet the specific needs of our disabled customers. In choosing to take a vehicle, powered wheelchair or scooter on the Scheme, customers assign their mobility allowance to Motability Operations.

In return, we provide worry-free, affordable mobility including full insurance, maintenance and servicing, tyre and windscreen replacement, breakdown cover and a mileage allowance of 60,000 miles over three years.

Mobility allowance

To access the Scheme, an individual must receive the Higher Rate Mobility Component of the Disability Living Allowance (DLA), the Enhanced Rate of the Mobility Component of the newly introduced Personal Independence Payment (PIP) (both administered by the DWP; in Northern Ireland this is administered by the Social Security Agency and in the Isle of Man by the Department of Health and Social Security) or either the War Pensioners' Mobility Supplement or the Armed Forces Independence Payment (AFIP) (both of which are administered by Veterans-UK). Receipt of a qualifying allowance is the sole eligibility criterion for people wishing to access the Scheme.

How we do it

Individuals may choose to use their mobility allowance to lease a car, powered wheelchair or scooter on the Motability Scheme. Motability Operations, as operator of the Scheme, aims to provide these customers with a 'worry-free' proposition

Mobility allowance

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

Customers

Our customers are at the heart of what we do. We provide affordable and 'worry-free' mobility through a wide choice of vehicle solutions that meet their specific needs

Motability Operations

Motability Operations is the operator of the Motability Car, Powered Wheelchair & Scooter Scheme.

As the UK's largest car leasing company, we have 39 years' experience in the industry and have supplied over four million vehicles since the Motability Scheme was launched.

Today 648,000 customers currently choose to access the Scheme (consisting of 632,800 Car Scheme customers and 15,200 Powered Wheelchair & Scooter Scheme customers). We aim to offer customers a comprehensive and affordable solution. Currently, 34 vehicle manufacturers (representing 94% UK brand availability) and 12 powered wheelchair and scooter manufacturers are represented on the Scheme.

We aim to provide sustained value and choice, combined with first-class customer service. To this end, we continually review and develop our business model to ensure that we optimise the value that we provide to customers. The key elements of this business model are set out on pages 6 and 7.

This business model is underpinned by a robust balance sheet which is designed to ensure that our operation is stable and sustainable in the long term. This enables us to provide Motability Scheme customers with continued affordability throughout the economic cycle. All profit is retained in the Scheme for the benefit of customers.

Motability

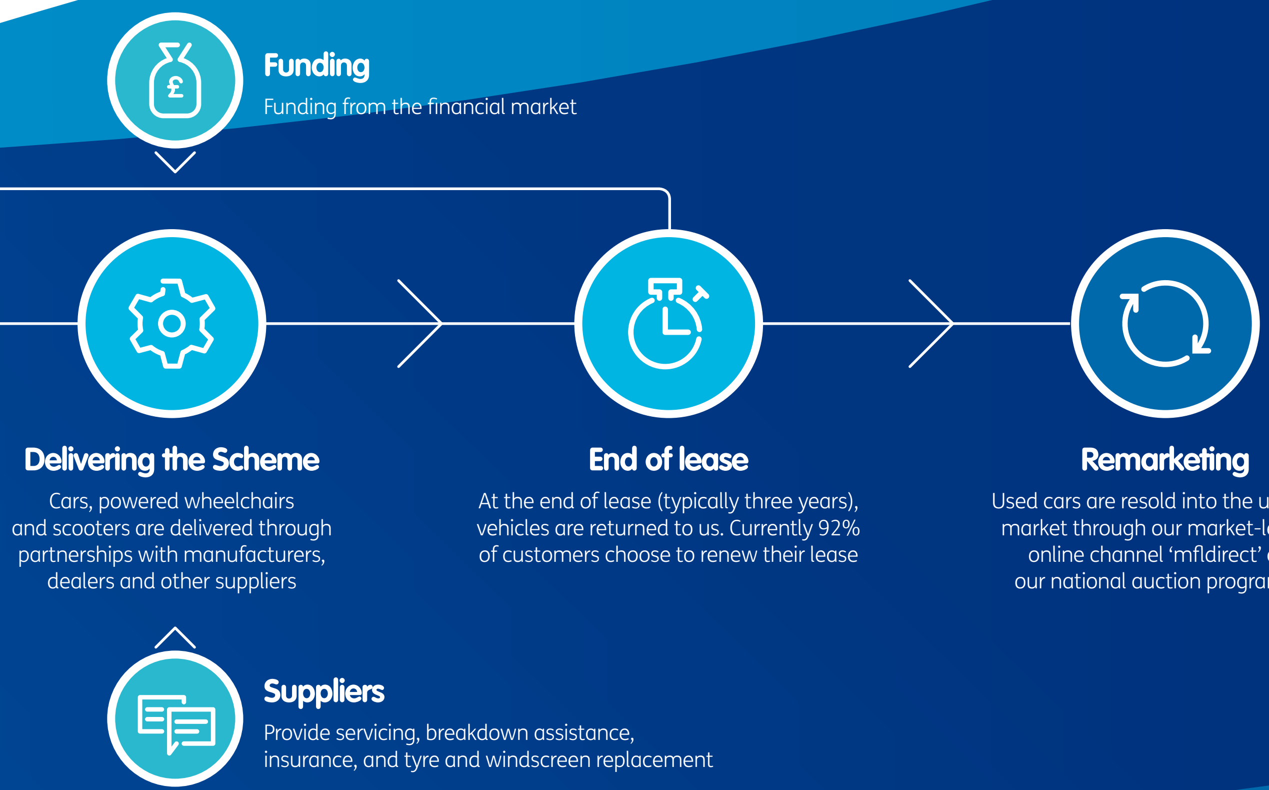
Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. Motability directs and oversees the Motability Scheme – with its prime purpose being to ensure that those disabled people who want to use their mobility allowance to obtain a vehicle, scooter or powered wheelchair on the Motability Scheme always receive the best possible service and value for money.

Motability contracts with Motability Operations to operate the Scheme. Motability and Motability Operations are constitutionally and operationally separate entities.

The Motability Scheme

The Motability Scheme provides customers with 'worry-free' mobility, with a lease price which includes:

- Use of a leased vehicle
- Comprehensive insurance
- Maintenance and servicing
- Tyre and windscreen replacement
- Breakdown cover
- 60,000 miles' mileage allowance



Delivering value for our customers

The way in which we deliver the Scheme is designed to maximise the value we provide to customers. We are commercial in our approach and ensure that we benchmark well to market best practice

Our revenues

Motability Operations' revenue comprises rental income from customers' mobility allowances and proceeds from the resale of vehicles at the end of lease

In choosing to join the Scheme, customers assign their mobility allowance to Motability Operations. Customers can choose from a wide range of models with 'nil advance payment' – where the assignment of their allowance alone is sufficient to cover the cost of leasing the vehicle. However, some customers may elect to top this up with an 'advance payment' depending on their choice of vehicle. Our aim is to ensure that we use customers' money – our rental income – to deliver the best possible products and services for them.

We do not receive any grant or funding from Government.

Over half of our revenue is derived from the resale of the vehicles that are returned to Motability Operations at the end of lease each year – we sold over 237,500 vehicles in the year to September 2016, generating over £2.1 billion in revenue. The effective management and deployment of our vehicle remarketing activities, and the subsequent realisation of asset values, is critical in underpinning ongoing affordability and providing stable lease prices to customers.

Our financing

We finance the Scheme by issuing bonds in the Sterling and European Debt Capital Markets, through securing term finance and credit facilities from the major UK banks and through the liquidity provided by our capital base

As a standalone company, Motability Operations is financed through commercial market-based funding and by reinvesting profits back into the business.

Our current financing comprises a blend of borrowing from the Sterling and European Debt Capital Markets (bonds), combined with facilities negotiated with the major UK banks to provide liquidity headroom. We currently have £3.6 billion of bonds in issue and a £2 billion bank facility. In order to access these markets on competitive terms it is necessary to maintain an investment-grade credit rating. Our A+/A1 credit rating from Standard & Poor's and Moody's respectively underpins our ability to fund the Scheme in a sustainable and cost-effective manner.

The balance of our financing is provided by our capital base, comprising accumulated reserves, which not only supports the Scheme's liquidity requirements, but also underpins our financial sustainability.

We ensure that we maintain an appropriate diversity of funds and a well-laddered maturity profile to minimise refinancing and liquidity risk. Our existing financing facilities provide sufficient liquidity headroom to meet our financing needs in the medium term.

Our suppliers

We manage a range of key suppliers to ensure that we provide customers with a consistent UK-wide proposition, representing excellent value for money and delivering first-class customer service

We aim to provide a UK-wide and universally available proposition to a consistently high standard. In order to deliver this, we engage with and manage a range of suppliers. We aim to not only deliver value through every aspect of our supply chain, but also ensure that suppliers deliver the highest standards of customer service.

We source vehicles from 34 vehicle manufacturers and use a variety of adaptation and conversion specialists.

Through our national network of over 4,800 approved Motability Dealers, we oversee the delivery of the full 'end-to-end' customer process – from application for and delivery of the vehicle, through servicing, maintenance and repair, to the return of the vehicle at the end of contract. This involves the training of 18,000 Motability Dealer Specialists and results in over one million transactions between Motability Operations and the dealer network each year.

We manage a number of other key suppliers who deliver other elements of the 'worry-free' package, including prioritised roadside assistance, and tyre and windscreen replacement.

£4.2 billion
in revenue generated during 2016

A+/A1
credit rating

18,000
trained Motability Dealer Specialists

Our insurance

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

Since October 2013 our fleet has migrated onto reconfigured insurance arrangements. This revised structure was implemented to ensure that the offering continues to provide value for money and is sustainable in the long term. Whilst customers continue to benefit from fully comprehensive insurance provided by RSA Insurance Group plc (RSA), since 1 October 2013 Motability Operations has retained a proportion of premium exposure through its A+ rated reinsurance captive MO Reinsurance Ltd (MORL).

MORL's net exposure is contained through the placement of a conservatively structured reinsurance programme, which spreads insurance supply amongst a number of highly rated reinsurers and, in so doing, diversifies risk and ensures stability of insurance provision in the future.

RSA continues to provide policy and claims administration activities through its dedicated RSA Motability unit in Liverpool.

The efficient financial model that underpins the new arrangements brings with it additional financial benefits, all of which are passed on to customers.

Our vehicle remarketing

Our ability to optimise the market value of the used vehicles as they are returned to us at the end of lease is a core competency for Motability Operations, and fundamental to delivering affordability and stability in lease prices for customers

Unexpected volatility in the used-car market may impact our ability to realise the predicted value of our vehicles. This is our single largest risk. This year we sold 237,500 cars into the used-car market each year (over 650 per day, seven days a week), as these are returned to us at the end of lease.

The effective deployment of this activity, and therefore the realisation of the optimal value for these assets, is fundamental to protecting the affordability and sustainability of the Scheme. To achieve this we operate a market-leading online trade sales channel 'mfldirect', through which we sell to an actively managed buying base of over 3,200 dealers. During the year ended September 2016 we sold over 185,000 vehicles (over 78%) through this online channel. Vehicles that are not sold online are routed through our national auction programme, with 562 branded events held across 16 auction centres last year.

Our people

Our business culture is customer focused and performance driven. We set challenging targets and we encourage our people to think and act commercially whilst remaining aligned to our values

We believe that our people are our greatest asset. By retaining a motivated and engaged workforce we are able to deliver consistently strong business performance within a business culture aligned to our values and principles.

Through our workforce of over 800 employees we operate the Motability Scheme. We challenge our people to be customer focused and to think and act commercially. This supports our dual goals of delivering excellent customer service and ensuring that we provide value to our customers.

As a responsible employer we are committed to paying our people at least the level of the current minimum 'Living Wage', as calculated by the Living Wage Foundation, for their base location.

Through our customer call centre we handled over 1.1 million calls this year, meeting our target of answering at least 80% of calls answered within 20 seconds for the ninth consecutive year.

Each year we participate in an independently measured employee culture survey which measures employee views across a range of topics such as engagement, customer focus and leadership. The 2016 survey results once again showed that Motability Operations continues to significantly outperform the UK 'High-Performing Organisations' benchmark across all categories.

598,600
vehicles now on cover under the revised insurance arrangements

>650
used cars sold every day, seven days a week

93%
employee engagement

Another successful year for Motability Operations

Neil Johnson OBE
Chairman

"Our financial performance has enabled us to make further investments into the customer proposition."

Overview

This has been a busy and challenging year for Motability Operations. In the light of this, I am very happy to report that we have ended the year with outstanding levels of customer satisfaction, and our strong financial position maintained.

As part of the year's diverse agenda, the business was required to address the complexities of welfare reform and a major systems upgrade, alongside day-to-day operational requirements.

Welfare reform

A specific challenge was the acceleration in the pace of reassessments for Personal Independence Payment (PIP), under the Government's Welfare Reform programme. Volumes gathered pace during the year, leading to more than 700 cases a week where customers failed to qualify for PIP, meaning they had to return their cars.

Care has been taken to manage each case sensitively and sympathetically, and this has been extremely positively received, despite the difficult and often distressing circumstances.

Customers leaving the Scheme also appreciated the support package provided, which includes a transitional support payment of up to £2,000 from Motability. This financial cushion can help with ongoing mobility needs, and in 15% of cases has assisted the customer in purchasing their existing vehicle.

The level of enquiries generated by these changes led to the number of calls coming into the call centre over the year exceeding one million for the first time. This was despite a slight fall in fleet size this year, directly as a result of the number of customers losing eligibility and returning their cars.

At the same time, we saw 68,000 new customers join the Scheme, over half of them comprising newly qualifying recipients of PIP.

Customer service levels maintained

Customer satisfaction retained its excellent level of 9.8 out of 10. We measure satisfaction through independent twice-yearly surveys, but now add to this assessment by the Institute of Customer Service. We are proud to say that the ICS rated Motability Operations once again as the highest performing organisation in the UK across all sectors, with a satisfaction level of 94.7%.

We also scored highly on our ease of doing business – an outcome which reflects the fact that customers contacting our call centre get straight through to a person, not an automated recording. In most cases, we can also resolve the query at the first point of contact.

Financial performance and long-term sustainability

A strong financial performance enabled us to sustain affordable pricing levels across a range of vehicles, with more than 500 cars available at no more than the allowance, including many automatics and larger vehicles. More than 150 are available at less than the full allowance, enabling customers to keep some of their allowance.

We maintain sufficient reserves to mitigate any fall in the value of the cars we own, protecting customers from economic shock. Our reinsurance captive, MO Reinsurance Ltd (MORL), is also appropriately capitalised to cope with any volatility in claims. This arrangement, whereby a proportion of insurance risk is underwritten by MORL, now covers over 94% of the car fleet.

During the year, we issued a £600m sterling bond and renewed our banking facilities. These two steps have significantly improved our liquidity, protecting us against any funding market fluctuations over the next few years. Together these developments have helped us maintain our investment grade ratings, critical to the long-term sustainability of the Motability Scheme.

The year also saw strong performance in vehicle remarketing. This was despite the challenge of selling over 650 used cars every day to the trade, including many returned early as a result of PIP reassessments.

The effective delivery of our vehicle remarketing operation is fundamental to our financial sustainability, and its success enables us to make further investments into the customer proposition. During the year we invested £107m into areas such as adaptations and wheelchair accessible vehicles.

Work to update our IT infrastructure continues successfully, and when complete in 2017 will extend the platform from powered wheelchairs and scooters to support the entire car fleet. Following implementation, we will turn our attention to the next steps in our digital roadmap, including activity to determine requirements for broadening our services across customer and dealer digital platforms.

Looking ahead

Looking ahead, we do face significant challenges. These include the further increases in PIP reassessment volumes, and an increase in the number of used cars we need to sell. As the UK Government navigates a path to exit the European Union, this will potentially lead to a period of economic uncertainty as we go through this transition. I believe however that the business is in great shape to meet whatever the future brings us.

Our work is strengthened through our close working relationship with Motability, the Charity, and I'd also particularly like to thank Lord Sterling and the Governors of Motability for their support and guidance during the year.

Finally, I would like to thank all our employees, whose dedication is reflected in these excellent results across the business, and Mike Betts and his Executive team for their continued drive and determination to deliver such outstanding outcomes. This robust performance means we can look ahead with confidence.

Neil Johnson OBE
Chairman

"ICS rated Motability Operations once again as the highest performing organisation in the UK across all sectors, with a satisfaction level of 94.7%."

Chief Executive's review

Delivering a consistently excellent customer proposition

Mike Betts
Chie

This has been a challenging but highly successful year for Motability Operations. The business delivered another outstanding set of results against key measures of customer satisfaction and financial strength, in the face of significant challenges set by welfare reform, economic volatility, and an extensive systems upgrade.

A clear strategy, realised through continuous improvement and dedicated efforts of employees, shaped the year's progress and kept us focused on maintaining the highest standards. Underpinning this remained the strength of our business culture, the critical platform to delivering a consistently excellent customer proposition.

Customer focus

Customer satisfaction is our key driver, and it was another year of excellent performance. Our independently commissioned, six-monthly customer satisfaction survey recorded sustained levels of 9.8 out of ten, with 98% of customers also saying they would recommend the Scheme to others, and 92% choosing to renew.

We now supplement these surveys with benchmarking evaluation from professional body, the Institute of Customer Service (ICS). We were delighted that this year the ICS recognised our customer service as one of the best they measured, with an exceptional score of 94.7% in their UK Customer Satisfaction Index.

The business also scored highly for ease of doing business, reflecting an open culture which looks for continuous improvement. Customers remain pleasantly surprised to find that their call takes them straight through to a person, as opposed to a recorded message. We also aim to resolve customer queries in one contact, which we successfully achieved in 88% of cases.

We also understand that customers like to get their call answered swiftly, so we are pleased that for the ninth year running, 80% of customer calls were answered in less than 20 seconds.

These excellent results were achieved in the context of increased pressure, as rising numbers of customers lost eligibility for the Scheme under the Government's welfare reform programme. During the year, nearly 25,000 Disability Living Allowance recipients who failed to qualify for Personal Independence Payment had to leave the Scheme, and return their vehicle.

These volumes of lost eligibility cases picked up throughout the year. By the summer, we were handling up to 700 cases a week where customers were returning their cars. For the first time, we received more than one million calls across the year, with the extra call volumes driven by PIP reassessments.

As result of these returned vehicles, we saw the fleet size decline slightly this year, although the Scheme also attracted around 68,000 brand new customers, who chose to use their disability allowance to lease a Motability car. An increasing proportion of new customers are in receipt of the new Personal Independence Payment.

Supporting customers leaving the Scheme has been a key priority this year. We appreciate that it is a very difficult time for those customers involved, and we aim to handle each case carefully and sensitively.

Departing customers tell us that this approach is greatly appreciated, alongside the transitional support package from Motability, which provides customers who first joined the Scheme before 2014 with up to £2,000 towards their ongoing mobility needs. Customers also receive advice and general information on their next steps, as well as a purchase price for their Scheme car. Around 15% of departing customers currently choose to buy their Motability Scheme vehicle.

Our day-to-day customer service is delivered in close co-ordination with our partner organisations, including a network of more than 4,800 dealers. Our dealer training programmes help make sure that customers experience consistent quality of service across the UK, and that dealers are more confident in meeting the needs of customers with a range of disabilities.

Over the year we provided training to more than 9,000 Motability sales and after sales specialists, and 5,000 dealership managers attended briefing workshops. We continue to work closely with our partner organisations, including RSA, RAC and KwikFit, to deliver these high standards through every touchpoint during the lease.

We are also seeing rising satisfaction among our 15,000 powered wheelchair and scooter customers. All customer touchpoints rated above 85% in our bi-annual survey. 95% of these customers now intend to renew, and 95% would also recommend the Scheme to others. Work continues to ensure these customers experience consistent supply and servicing support.

Adapted vehicles now make up almost 10% of our fleet, reflecting an increase in choice and value. In addition, we now have 23,000 wheelchair accessible vehicles on the fleet, and 334 drive from wheelchair vehicles were also handed over to customers this year.

We are aware that in-life events such as accidents or breakdowns can be harder to manage for customers in more specialised vehicles. This year we also initiated a programme to develop greater integration between our service providers, to deliver a more seamless experience for customers experiencing such events.

Customers and potential customers and their families can find out more about the Motability Scheme at our series of summer roadshows, known as One Big Days. The five shows, which included our second visit to Northern Ireland, attracted more than 20,000 visitors, and a record 1,754 adapted test drives. Visitors tell us they find the events a great opportunity to experience the range of cars, adaptations, scooters and wheelchairs the Scheme provides, and meet our advisers.

We also seek to maintain strong relations with disability organisations, and this year jointly hosted with Motability our fifth successful disability organisations Forum, attended by more than 30 representatives. The Forum provides an opportunity to share updates on the latest Scheme developments and address questions the organisations and charities may have on their members' behalf. More than 60 organisations receive our regular update newsletter.

Sound financial platform

Our key sources of revenue are customers' mobility allowances, assigned to us when they choose to join the Motability Scheme, and proceeds from the sale of used vehicles. This income is used to fund the best possible service to customers. All profits we make are reinvested for the benefit of customers. Efficient delivery of the Scheme also enables us to provide an affordable proposition and stable lease prices for customers.

I am therefore delighted to report on a year of excellent financial performance, generating a post-tax profit of £129.6m. This financial strength allows us to maintain target capital levels and also supports continued investment in enhancing customer service, including subsidised adaptations, wheelchair accessible vehicles (WAVs), and support for customers in hospital. We were also able to donate £45m to Motability to support grant funding of passenger WAVs.

We offered over 500 cars on the price list at no more than the allowance, while more than 150 cars were available at less than the full allowance, enabling customers to keep some money back. During the year, the concentration of our top 10 vehicles was reduced to 35.7%. We deliver these outcomes through maintaining excellent relationships with the major car manufacturers.

With over 94% of the fleet now covered under our new insurance arrangements, I am pleased to report that our reinsurance structure, managed through our wholly owned subsidiary MO Reinsurance Ltd (MORL), is operating effectively, and continuing to deliver a stable, sustainable and cost effective insurance solution. MORL is fully reserved to cope with any volatility in claims.

Our vehicle remarketing operation performed strongly during the year, despite the often turbulent economic backdrop. We sold over 237,000 cars into a highly competitive market-place, including a record 17,462 sold online in one month. Online conversion rates stayed stable with 78% of vehicles sold through our web-based sales channel, mfldirect.

During the year we issued a £600m sterling bond and renewed our banking facilities. As a result, structural liquidity remains strong, putting us in an excellent position to handle any funding market volatility in the next few years. Our corporate credit rating remains key to our access to financing from the debt capital markets, and our reserves and liquidity helped us to maintain our Moody's credit rating of A1, and Standard & Poor's A+ rating – both having stable outlooks.

Sustainability into the long term

The bedrock of these achievements across the business is our culture, and we aim for the strongest levels of employee engagement. Our annual employee survey carried out for us by Willis Towers Watson 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. Our employees are dedicated and focused, and passionate about the difference they can make to customers' lives.

We set out to recruit and retain the talented individuals required to sustain this strong performance over the long term. We invest in training and development, and structure carefully for succession. This helps ensure we have the right people and skills to underpin our long-term success and sustainability.

This year saw some changes in the Executive team, as David Gilman stood down as Group Finance Director in September 2016. During his tenure David was instrumental in MO's financial transformation and the delivery of the financially robust and sustainable platform in place today.

Following this change, Matthew Hamilton-James has been confirmed as David's successor from October 2016. Matthew joined MO in 2001, before becoming Head of Financial Control in 2008. He joined the Executive Committee in May 2014 and most recently was appointed Finance Director of Motability Operations Ltd in June 2015.

I am also pleased to announce the appointment of Tim Newbery to the position of Manufacturer and Dealer Services Director of Motability Operations Ltd on 1 February this year. Tim is responsible for all manufacturer and dealer engagement, as well as specialised mobility operations. Having joined Motability Operations in 2007, Tim was formerly Head of Function responsible for Vehicle Remarketing.

Our long-term sustainability also requires a robust infrastructure. We recognise that both service and efficiency will benefit from greater use of technology, and therefore, we continue to invest in the development of our IT systems. We are currently three years into a major upgrade, which will provide a stable platform for all our core systems. Following the transfer of our powered wheelchair and scooter fleet onto a new platform in 2015, we are working to complete the transfer of the full car fleet in the summer of 2017.

The longer term digital roadmap is the focus of a new strategic workstream, covering various areas including vehicle technology. These workstreams will take a longer, five-year-plus view, to complement our annual strategic review which creates initiatives in a two-year time frame.

Financial and operational risks were carefully managed throughout the year through structured governance and control processes. In recognition of our audit processes, the Chartered Institute of Internal Auditors rated our internal audit function in the top 10% in the UK. A best-practice Risk Appetite Framework is now embedded in our risk management processes.

During the year we received Financial Conduct Authority authorisation, and aligned to this, took steps to further clarify our company's role and positioning. Employee workshops were held to identify key messages and further evolve the business's corporate narrative, which includes putting the customer at the heart of everything we do.

Looking ahead

As the UK Government negotiates the terms of the UK's exit from the European Union, there remains an uncertain economic backdrop, potentially affecting exchange rates and the price of new cars. The used car market also remains challenging. In 2017 we expect further increases in PIP assessment volumes, and delivery of our new systems.

This year's achievements show that we are in a good position to address these challenges, and underline that we can face the next year with confidence. I'd like to thank everyone who has worked hard to deliver this outstanding set of results.

Mike Betts
Chief Executive

> "Over the past ten years or so, we have worked hard to build a financially secure and robust business that can withstand the full range of risks which may affect us."

Q&A

Mike Betts, Chief Executive

With a lot of economic uncertainty at the present, how certain are you that Motability Operations can maintain its strong performance going forward?

We have a strong and resilient business model designed to contend with economic pressures across a wide spectrum. The level of capital we hold, built up over a number of years, exists to protect customers from any sudden shock, such as a drop in used car values. Our assets are worth £6bn, so that's clearly high on our radar. Our new insurance structure, managed through our wholly owned subsidiary MO Reinsurance Ltd (MORL) also operates efficiently, and is fully reserved to cope with volatility of claims. We also stress-test a number of other scenarios, including the impact of welfare changes, and remain confident that in any of these cases, we will continue to perform as a large-scale, efficient business – and maintain our customer offering. Risk is something we manage and plan for, and the recent introduction of our Risk Appetite Framework has increased further the governance and transparency of this process.

How would you describe the culture of the business?

We always consider culture as the bedrock on which all our activities are set. Our people show real passion for what we do as a business, and our values are well understood and demonstrated. We also set out to recruit and retain talented individuals to underpin our long-term success – people with specific qualities of leadership, drive, acumen, flexibility, and customer focus. Employee engagement is a key measure for us, and we were pleased that once again this year, Willis Towers Watson rated Motability Operations ahead of their high performing organisations benchmark in every category. Employees are particularly supportive of our company goal of providing affordable, worry-free motoring for people with disabilities. During the year, we spent some time with employees further exploring this mission, and developing a clearer corporate narrative.

How is the Government's welfare reform programme continuing to affect you?

We are now three years into the switch from Disability Living Allowance (DLA) to Personal Independence Payment, and the number of customers affected is beginning to increase significantly. Our focus has always been how to assist customers going through this process, and how we may work with Motability, the Charity, to support those who may have to leave the Scheme, if they lose eligibility. We aim to do this by offering financial, and practical, support. Financially, if a customer returns their car in good order within 21 days of their last benefit payment, Motability pays them up to £2,000. We are also being as flexible as we can with the car return, giving customers up to seven weeks from the PIP award decision. However, it is not possible to leave people in their car for longer than this; that's because we don't have a mandate to provide vehicles to people who are not in receipt of one of the qualifying allowances.

These processes are now well established and are running smoothly. Departing customers have let us know that despite the often distressing circumstances, they appreciate the empathy and sensitivity of our advisers. However the volumes of customers having to hand back their cars has grown from around 300 to 400 a week, to over 700, increasing pressure on the call centre. As a result, for the first time this year we received more than a million calls. If, as seems likely, this level of escalation continues into 2016/17, we will continue to consider how we can ensure that we have the appropriate resource to handle these volumes, while of course maintaining the quality of service we provide to all our customers.

What else would you identify as a major challenge, going forward?

Maintaining our strong financial track record is critical to sustaining the Scheme, and there are a number of challenges in this area, given current economic uncertainties. We are financed through commercial market-based funding, and need to source this through the highly competitive Sterling and European bond markets. We are also the largest supplier of used cars to the motor trade in the UK, selling over 220,000 cars each year. It's therefore critical to the success of the Scheme that we maximise the values obtained for the vehicles; around half our operating income is drawn from this challenging marketplace. It's also important that we maintain our infrastructure, and delivery of our IT upgrade project in 2017 will be an important milestone, delivering robust and sustainable core systems. This is a major investment to replace ageing infrastructure, allowing more efficient customer service and offering a platform for continued development going forward.

We also expect the recent reduction in exchange rates to result in increases in new car prices over the year; however, we are confident that we will be able to maintain a full range of cars requiring no additional customer contribution.

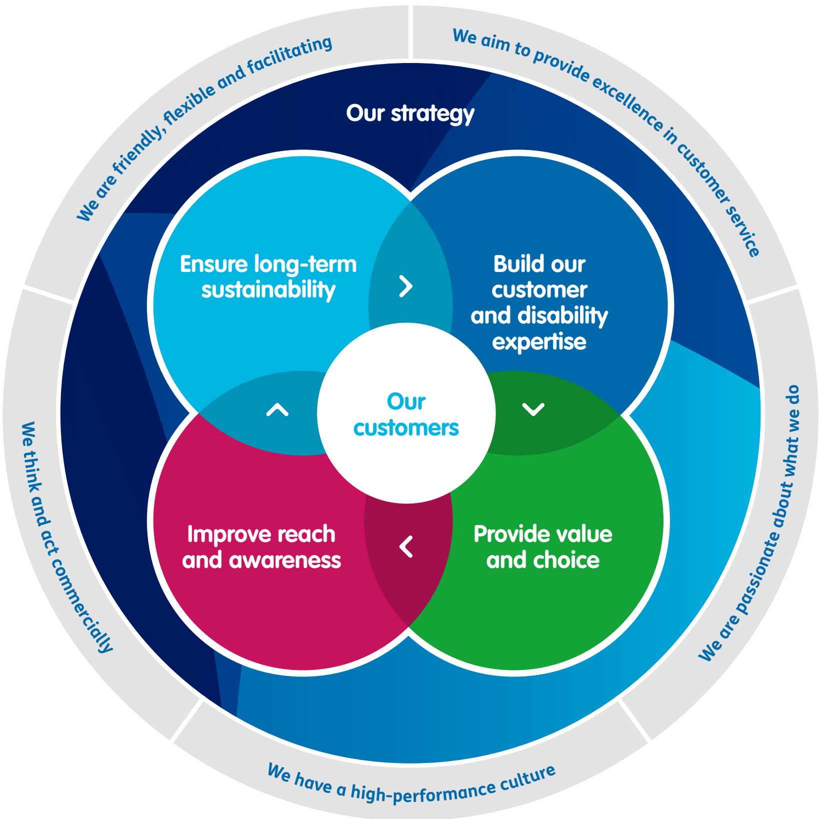
Our strategic framework

Our strategy

In order to ensure that our activity delivers outstanding value to customers, we have defined four strategic 'pillars'. These set out a clear framework within which we align our business objectives, strategic initiatives, performance targets and business planning. Our people, positioning principles, culture and values form the bedrock to deliver these objectives.

Our values

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



People and principles

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

Turn to page 37 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 14-21 for more information on our performance

Risk management

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

Turn to page 31 for more information on our risk management

Build our customer and disability expertise

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

Goals

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

Objectives

- Deliver best-practice customer service through our call centre
- Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets
- Build our adaptation and conversion expertise to ensure that customers have a seamless experience and that we are recognised for the excellence of our 'one-stop-shop' service
- Provide our customers with the information and tools they need to select a suitable car from the wide range available
- Provide information to support decision-making to meet customers' mobility needs
- Work with disability organisations for guidance and support.

Initiatives delivered

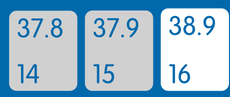
- An enhanced proposition for our Wheelchair Accessible Vehicle (WAV) customers was introduced during the year, including a familiarisation check for new customers and an annual check provided by supplying dealers
- Nearly 25,000 PIP stopped allowance cases were managed during the year
- £45m was donated to Motability to support the provision of financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs)
- We launched an initiative to provide a more connected customer experience in respect of the 'hand-offs' between Scheme service providers.

KPIs

Roadside assistance average response time

38.9min

Target of <42 min

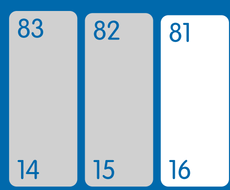


Mobility is a priority to our customers. In the event of a breakdown our customers receive priority assistance, and with an average response time of 38.9 minutes during the year (compared with a KPI target of < 42 minutes), customers are quickly attended to and are mobile again.

Calls answered within 20 seconds

81%

Target of >80%

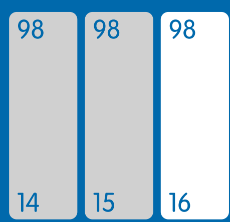


We have successfully met our target of answering 80% of calls within 20 seconds for nine consecutive years. This performance was maintained during the year to September 2016 notwithstanding a 16% increase in call volumes resulting in 1.1 million calls being handled by the call centre

Overall customer satisfaction

98%

Target of >92%



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

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

For Pauline, her lease opened up a world of education. Pauline used her car to commute to Manchester several times a week, which ultimately enabled her to achieve a PhD in German. She now uses the car to present lectures and conferences across the UK.

"Because of my Motability Scheme car, I managed to get a PhD in German. Without the Scheme I couldn't have done it. It's given me a new lease of life. Being able to get out of the house means my car continues to open doors for me. It makes a huge difference."

Dr Pauline Eyre

We believe in making life simpler – that's why our award-winning customer service focuses on meeting individuals' needs

Net Promoter Score

90.4%

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

Received a

92%

satisfaction rating for our complaints handling

Provide value and choice

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

Goals

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

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

Objectives

- Maintain a range of at least 200 cars at 'nil advance payment'
- Provide a wide selection of vehicle models and brands
- Ensure that our residual value-setting and forecasting is the best in the industry
- Provide stability in pricing and choice throughout the economic cycle
- Retain our market leadership for vehicle remarketing.

Initiatives delivered

- During the year our online vehicle remarketing platform – mfldirect – was upgraded to improve its stability and functionality. The upgrade included optimisation for mobile devices including tablets and mobile phones to provide dealers with greater accessibility and improved search functionality
- We extended our investment in vehicle adaptations, making a greater range of adaptations accessible to customers when they choose their vehicles.

KPIs

Relative affordability – % cheaper than alternative

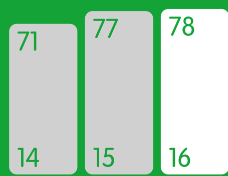
>44% cheaper

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

% of vehicles sold online at the end of lease

78%

Target of >70%

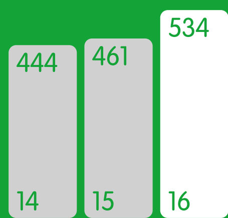


Selling via our online sales channel, 'mfldirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return. During the year to September 2016, 78% of vehicles were sold online.

Affordable vehicle choice at 'nil advance payment'

>534

Target of >200



We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the year to September 2016 we exceeded this target with at least 534 models at any one time.

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

Customer Terry's passion is fishing. His Motability Scheme car means his hobby has developed from strength to strength, and he now designs special access at fisheries for other disabled people.

"My vehicle gives me independence, and that has led to me being able to help others. I now design wheelchair access for fisheries which allows other disabled people to get out and about. Without the car, I wouldn't be able to do any of the things that I've achieved."

Terry Moseley

We drive efficiency to make mobility affordable and worry free

We work with

34

manufacturers representing 94% UK brand availability

Improve reach and awareness

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

Goals

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

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

Objectives

- Raise understanding of Scheme elements and confidence and trust in the Scheme
- Maximise effectiveness of multimedia channels to increase understanding within the eligible customer base
- Identify and, where appropriate, remove any barriers for potential customers
- Continue to encourage dealers to promote the Scheme in line with our brand.

Initiatives delivered

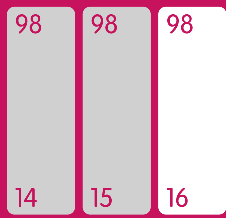
- We relaunched the Scheme websites during the year providing improved accessibility and navigation, alongside enhanced information about the Scheme
- The popularity of our 'One Big Day' events continues, and this year we increased the availability of adapted test-drives, to provide customers with access to explore a wide range of product options.

KPIs

Trust in Motability

98%

Trust in the Scheme

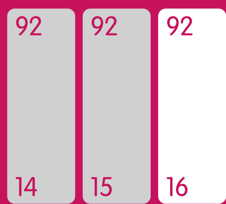


Since 2012 we have measured customers' trust in the Motability 'brand'. Trust is considered to be key in enabling current and potential customers to make an informed and confident choice of a mobility solution that meets their disability needs and, in turn, strengthens customer advocacy of the Scheme.

Customer renewal rate at the end of lease

92%

Target of >85%

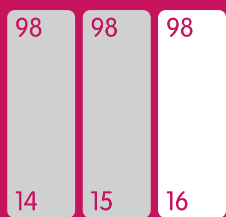


Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year to September 2016 this was maintained at 92%, compared with a KPI target of 85%.

Customer advocacy

98%

Target of 85%



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

Our One Big Days and Big Events help us reach people who are new to the Scheme and increase their understanding.

The events bring a huge range of cars, scooters and powered wheelchairs together in accessible locations, so visitors can find out everything they need to know about the Scheme. Test drives are also available for both standard and adapted cars.

This year we welcomed over 20,000 visitors, as well as arranging a record number of test drives. One of those visitors was green-fingered customer Sandra, who shared what the Scheme means to her.

For Sandra, the Motability Scheme is the difference between staying at home on her own, or having the freedom and choice to go out every day. Sandra's Wheelchair Accessible Vehicle means she can drive herself to her allotment, where she grows her own vegetables.

"Without my car, I'd never get to places, now I'm constantly out, I'm very rarely home! Having the allotment is my pride and joy. The vehicle I've got just opens up my world for me. The car gives me independence and self-worth… it gives me back my life really."

Sandra Jackson

We reach and inspire new audiences, helping them make an informed decision about joining the Scheme.

We work with

18,000

Motability Dealer Specialists

Across a national network of

4,800

approved Motability Dealers

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 regard the enhancement of our reputation and the continuation of the support we enjoy across our stakeholder groups as pivotal to our sustained success.

Objectives

- Maintain a prudent reserves policy that provides financial strength adequate for us to withstand the impact of potential shock events
- Create opportunities to access wider sources of competitive funding. We aim to maintain our credit rating, enabling us to secure the most appropriate funding at competitive rates
- Continue to nurture effective partnerships with key stakeholders
- Maintain a forward-looking environmental policy, ensuring availability of a range of low-emission vehicles, but balancing our customers' needs with CO_2 considerations
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people.

Initiatives delivered

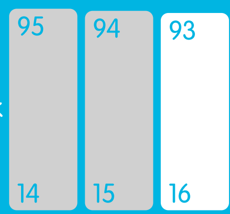
- 2016 saw the final third of our vehicle fleet migrate onto our revised insurance arrangements, marking a milestone for the business, with all processes firmly embedded into 'business as usual'
- Following the implementation of the first stage of our systems replacement project in the summer of 2015, during the year the PWS fleet was successfully bedded in on this new sustainable systems infrastructure.

KPIs

Employee engagement

93%

Target to exceed HPO benchmark (83%)



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

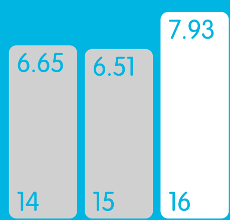
Credit rating

A+/A1

We seek to preserve our credit rating with our robust approach to financial and risk management and through the flexibility of our pricing process. Our ratings are A+/A1 with stable outlooks (from Standard & Poor's and Moody's respectively).

Debt maturity profile

7.93yrs



The Group aims to retain a well-laddered debt maturity profile in order to effectively manage refinancing risk. Following bank and bond refinancing activities during the year, the average debt maturity profile increased to 7.93 years

One area for investment is conversions, where our subsidy for Wheelchair Accessible Vehicles (WAVs) enables customers to access these expensive vehicles at a more affordable price.

In 2016 we also donated £45m to Motability to help support WAV customers meet their mobility requirements.

The Thorpe family lease a seven-seater WAV which means 9-year-old Bethany can travel in her wheelchair alongside her parents and siblings, and participate fully in family life.

We aim to provide a stable proposition for customers– all profits are reinvested for the benefit of our customers...

Over

171k

customers renewed their lease with us this year

“The Motability Scheme has just made it easy. It gives us the peace of mind of knowing that if something does go wrong, somebody’s there to help. Having a WAV has been amazing. Being able to get to the places Bethany needs to go and join in is just paramount. The Scheme has changed our life.”

Jamie and Catherine Thorpe

Delivering a stable and affordable proposition for customers

David Gilman
Finance Director

Against a backdrop of economic uncertainty it is pleasing to report that the business delivered a robust financial result whilst continuing to meet targets in terms of affordability and choice for customers and maintaining excellent levels of customer service.

Performance overview

Our success in delivering a high-quality, consistent customer proposition is underpinned by our sustainable financial platform. In order to protect this financial stability we deploy a comprehensive risk management approach. This in turn guides our financial management strategy which includes a refinancing programme designed to retain our well-laddered structural liquidity profile, and the use of best-practice economic capital methodology to ensure that we retain adequate levels of capital to shield the Scheme from potential economic shock events.

Financial performance

In line with expectations we saw a 1.5% reduction in customer numbers during the year, with a closing fleet of 648,000 (comprising 632,800 Car Scheme customers and 15,200 Powered Wheelchair & Scooter Scheme customers). Whilst customer renewal rates remained at 92%, and 68k brand new customers chose to join the Scheme, during the year nearly 25k existing customers lost their eligibility to access the Scheme as a result of the PIP reassessment process.

Notwithstanding this marginal reduction in year-end customer numbers, revenue increased to £4,152m – up 5.9% year on year. This reflects a 2.7% increase in rental income (with the average number of customers on the Scheme during the year being up on 2015 and also reflecting the 0.6% uplift in the mobility allowances in April 2016) and an 8.6% increase in vehicle resale proceeds, reflecting the volume and value of disposals, with over 237,500 cars sold during the year (2015: 225,000).

The Group delivered a robust financial performance for the year to September 2016, with a solid performance across both our vehicle resale and insurance activities as described later in this report. Post-tax profitability reduced year-on-year from £210m in 2015 to £129.6m in 2016. This reflects the return to a more normalised pattern of used car demand (with previous years having benefitted from exceptional buoyancy in the used car market). We have also adopted a cautious approach to the latest fleet revaluation, which leads to additional depreciation being booked in this year's results. Notwithstanding these effects, aggregate performance before the charitable donations described below, was ahead of plan.

As reported in the 2016 Half Year Report, we continue to invest in the customer proposition, and in January 2016 made a £15m charitable donation to enable Motability to continue providing customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations. In light of the continuation of the Group's strong financial performance, in September 2016 the Board authorised the payment of an additional £30m charitable donation to Motability in support of this activity.

After this donation, post-tax profit, which is retained in the business for the benefit of customers, was £129.6m (representing a gross return on assets of 1.7%). This result takes restricted reserves on the Balance Sheet to £2,218.2m. 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.

As regards financing activity, the Group issued a £600m 20-year Sterling bond in March 2016, providing funds to settle the September 2016 bond maturity, with the balance providing additional liquidity headroom. The Group's bank facilities were also renewed and extended during the year (see Cash & Funding section for more detail).

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

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

Taxation

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

For the year ending September 2016, the Group's underlying tax charge was £26.7m (at an underlying rate of 20.3%), reflecting the prevailing corporation tax rates. The net position for the year, after the release of deferred tax (see below), was an overall tax credit of £3.7m. This is a result of the 19% and 17% future rates of corporation tax for 2017 and 2020 respectively being enacted by Parliament during the financial year. The enactment of these future rates mean that taxation which the Group has previously charged through the accounts (but the payment of which has been deferred under the HMRC capital allowance rules), has been over-provided. The release of this previous over-provision results in a £30.4m deferred tax release, and consequently the net tax credit in the year to September 2016.

Cost management

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

Our administration cost accounts for less than 5% of our total cost base, and as noted in EY's independent review in 2014 a 28% reduction in real terms overhead cost per lease has been delivered since 2002.

Through the effective management of the Scheme we are able to provide a wide range of affordable vehicles for customers.
The efficient delivery of the Scheme has also afforded the opportunity to invest in a number of discretionary initiatives to directly and indirectly enhance the customer proposition. These investments are outlined in the section on 'Use of earnings' below.

Use of earnings

Our underlying pre-tax earnings (defined as pre-tax profitability before direct and indirect customer investments) of £345.9m were utilised as follows during the year:

- Investment in the customer proposition: 63.6% of 2016 underlying earnings were reinvested in initiatives targeted on directly and indirectly improving the customer experience, such as pricing support for adaptations & heavily adapted vehicles, ensuring continuous mobility for customers, a good condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and investment to ensure that our dealer network provides customers with a first-class customer experience. In 2016 this total investment was £220m, including £107m of direct customer investment, £68m of indirect investments and the £45m charitable donation to enable Motability to continue providing customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations.
- Tax charge: After allowing for the investments outlined above, we delivered a pre-tax profit of £125.9m in 2016, incurring an underlying tax charge of £26.7m at an underlying tax rate of 20.3%. As outlined above, this was offset by a deferred tax release of £30.4m.
- Capital requirements and to finance fleet growth: Our post-tax profit, representing 37.5% of underlying earnings, was retained to ensure that the Group maintains an adequate capital base to provide resilience given the risks that it faces (see Risk Management, pages 31-35). The retained earnings contribute to financing the purchase of new vehicles, thereby also reducing future borrowing requirements.

Insurance performance

Our revised insurance arrangements, which commenced on 1 October 2013, are now firmly embedded. Under this 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. The introduction of the new arrangements not only secures the long-term supply of insurance, but brings greater efficiency and financial benefits which will be passed to customers.

During the year to September 2016, the final third of our fleet migrated on to the new arrangements as new and renewing business falls under this cover. At the end of September 2016, nearly 600,000 vehicles were 'on-cover' under the new arrangements (see page 29 for further detail, and also page 33 in the Risk Management section), with the remaining tail being made up of lease extensions and five-year lease incepted under the previous insurance arrangements, and PWS leases.

As in previous years, the Group financial statements include the consolidated results of MORL, however we have now adopted segmental reporting for the 2016 financial statements to reflect the way we manage and report on this business activity. The segmental analysis can be found on pages 69-71. It is reassuring to report that from a Group perspective the insurance results are ahead of expectations, with actual inflation in claims costs tracking below priced expectations. MORL delivered a profit of £31m in the year to September 2016. This result is underpinned by the latest review of the underwriting position, which has been validated through an independent actuarial review of claims exposures.

Assets and residual values

Operating Lease Assets were £6,323m at September 2016. Within this, the unguaranteed residual value across the fleet was £4,818m. Exposure to unexpected movements in this residual value represents the Group's single largest financial risk.

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

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

The September 2016 revaluation reflects a cautious macro-economic outlook given the market volatility following the outcome of the UK's 23 June EU referendum, and also in light of uncertainty around the potential effect of the UK triggering Article 50 during 2017.

The revaluation also continues to reflect considerations in respect of the potential impact of the obsolescence of Euro 5 Diesel technology on residual values.

At September 2016, the projected gross revaluation of the fleet versus the priced position reflected an anticipated gross exposure of £273.5m, which after adjusting for selling costs and early terminating lease results in a net exposure of £449.7m. As at September 2016, £259.4m of this exposure had been recognised through the Income Statement, including £151.5m in the 12 months to September 2016.

As regards vehicle resale activities, the Group continued to perform well during the year ended September 2016, recognising an aggregate gain of £64.5m (or 3.6%) against the adjusted residual value. This result demonstrates the continuing effectiveness of our remarketing operation – with over 185,600 (78%) of vehicles sold via our online channel (mfldirect).

Financing

Capital management

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

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

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

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

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

Cash and funding

The Group continues to pursue a strategy aimed at diversified sources of funding, protection of structural liquidity and maintaining a well-laddered debt maturity profile. With these principles in mind the Group issued a £600m 20-year Sterling bond in March 2016. Consistent with our financing policy, this transaction supports the de-risking of our future refinancing requirements, including providing us with liquidity to settle the £300m bond that matured in September 2016.

We also renegotiated our existing bank funding in September 2016, with the existing £400m term loan and £1.5 billion Revolving Credit Facility, extended on a five-year '+1,+1' arrangement, meaning that these facilities mature no earlier than September 2021.

Existing bank facilities, in combination with the nine bonds in issuance under our EMTN programme, provide the Group with liquidity in line with targets. The Group's average debt maturity was 7.93 years at the Balance Sheet date.

Treasury policy

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

We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value being shown on the face of the Balance Sheet. The fair value of the hedging reserve at 30 September 2016 was £6.1m post-tax.

Succession

As signalled in the 2015 Annual Report & Accounts, I stepped down as Group Finance Director on 30 September 2016 and Matthew Hamilton-James was appointed as my successor from 1 October 2016. It is reassuring to know that I pass on the Scheme's finances into a very safe pair of hands under Matthew's stewardship. I would also like to take this opportunity to thank Neil Johnson, Mike Betts and the wider management team at Motability Operations, as well as colleagues at Motability, for their support over the past 13 years. It has been a pleasure to serve as Group Finance Director for such a successful, customer focused organisation. I am confident that the Scheme will continue to go from strength to strength.

David Gilman
Finance Director

Introducing

Matthew Hamilton-James joined MO in 2001, becoming Head of Financial Control in 2008. He joined the Executive Committee in May 2014 and was appointed Finance Director of Motability Operations Ltd in June 2015 prior to his appointment as Group Finance Director on 1 October 2016.

"David hands over the Group's finances to me in good health and I am very much looking forward to taking on these responsibilities. My priority is to ensure that the Group's solid financial underpinning remains intact and continues to provide a platform from which to deliver a stable, affordable and efficient proposition for customers.

Whilst there will undoubtedly be challenges ahead, through the deployment of an effective financial management approach, including the safeguarding of capital levels and ensuring access to liquidity through a diversified and well-laddered refinancing profile, I am confident that we will remain well placed to withstand potential economic instability without compromising our key customer deliverables."

Matthew Hamilton-James
Finance Director

Excellent service levels and a consistent proposition

Overview

As outlined in the 'Strategy in action and performance' section (pages 13-21), the year ended September 2016 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 continued to track at 92%.

Customer awareness and advocacy of the Scheme

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

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

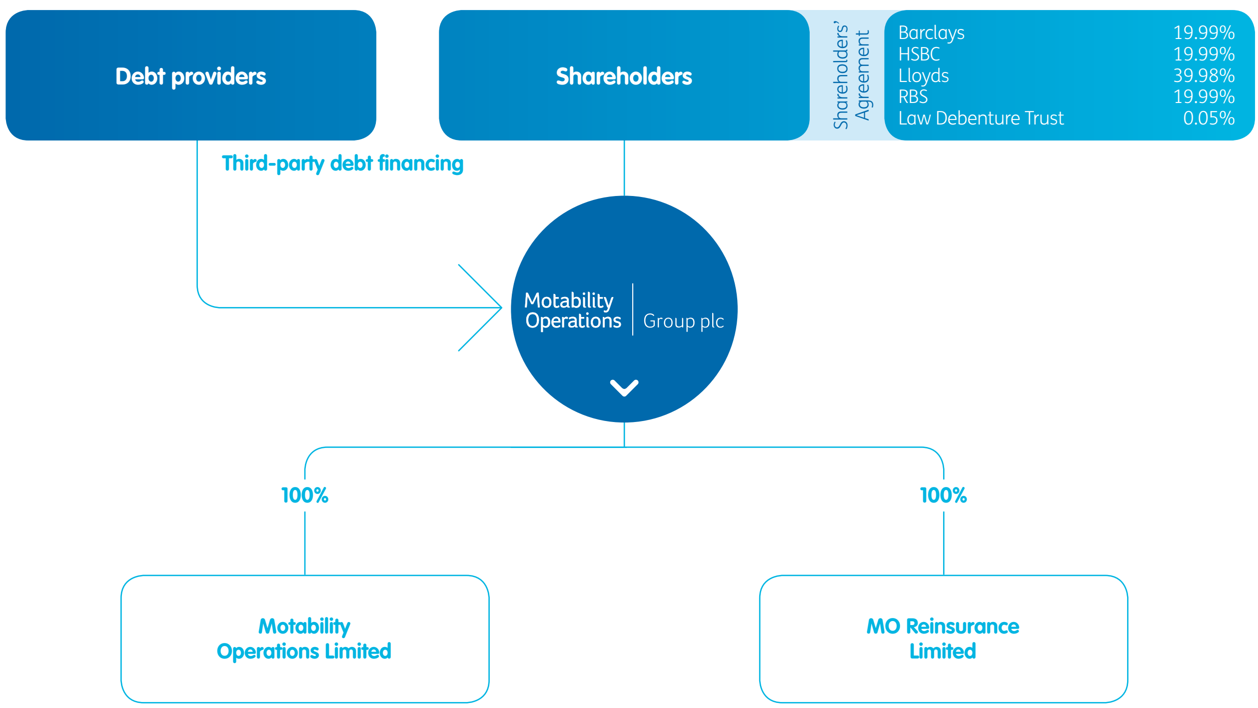
One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 98% would recommend the Scheme.

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 prove to be very popular, with over 20,000 people taking the opportunity to visit and find out more.

During the year nearly 68,000 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme and 92% 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 will gradually replace Disability Living Allowance (DLA) for disabled people aged between 16 and 64.

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

Transitional support

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

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

In September 2013 Motability announced the following support as available to customers when they leave the Car Scheme as a result of PIP reassessment:

Customers will be able to retain their cars for up to three 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 the customer up to seven weeks to find alternative solutions.

Customers who return their car to the dealership in good condition and within this time frame 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. For many customers, this enables them to continue to have mobility by purchasing a 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
- Customers who have made an ‘advance payment’ (an additional upfront payment to lease a larger or more complex vehicle on the Scheme) are having their ‘advance payment’ refunded on a pro-rata basis. No further costs are being applied to customers whose leases end early as a result of a PIP reassessment
- To help departing customers plan their next step, we are providing general information on motoring, insurance and other services outside the Scheme. This includes information, for example, on buying a new or used car, and arranging insurance. We are working with a leading UK insurance broker who offers insurance quotations to former Scheme customers that recognise their no-claims history on the Scheme.

The Scheme is 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.

Over the last three years Motability Operations has made donations to Motability totalling £175m in support of these transitional arrangements.

During the year there was a notable increase in the volume of PIP reassessments. As of September 2016, 32,732 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 (including 24,478 during the year to September 2016).

To date Motability has made 18,474 transitional support payments totalling £34.1m to customers who have returned their vehicles and have met the criteria set out above, with a further 5,164 potential payments in the pipeline pending vehicle hand-backs by the customers.

Product offering

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

For the Car Scheme, we monitor our performance by referring to external benchmarks and to the number of cars we offer at 'nil advance payment'. This is where the allowance alone is sufficient to fund all leasing costs, with no additional contribution required from the customer. Where a customer selects a car that does require a supplement, we receive this as a single payment from the customer at the start of the lease (the 'advance payment'). We set out to ensure that at least 200 cars are available at 'nil advance payment', including a wide choice of automatics and green options. We have consistently met this target throughout the year. We also supply a range of affordable Wheelchair-Accessible Vehicles (WAVs). Our prices are over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations.

Product range and choice are important to both our existing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail market. During the financial year, we offered vehicles from 34 manufacturers with over 2,500 vehicle derivatives on the price list. Our approach to the PWS Scheme 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 has taken 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 tightened guidelines are designed to ensure that Motability cars are used for the benefit of the disabled customer.

Like any organisation with more than 648,000 customers, there is a small minority of customers who may try to abuse the Scheme. We work with all stakeholders, including Motability, the DVLA, as well as the police, to ensure that effective procedures are in place to protect the Scheme, and to respond appropriately to allegations of Scheme misuse.

As a result of our Scheme compliance activity 2,233 applications were declined during the year, and a further 753 were withdrawn by customers once the Scheme rules were explained.

During the past year, we dealt with more than 14,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, many of which led to prosecution.

Around 5,464 cases resulted in enforcement action, including 2,976 customers who had their agreements terminated and their cars withdrawn. We now invest close to £1.5 million a year in Scheme protection activities both to safeguard the reputation of the Scheme and to protect the proposition for our customers.

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

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

Customer experience

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

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

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

Our customer call centre plays a pivotal role in supporting our customers. The strong customer satisfaction results are in no small part attributable to the consistent service levels delivered by the call centre, which has now achieved more than nine years of answering 80% of calls within 20 seconds, with 88% of customer queries resolved during their first call.

Initiatives designed to support and enhance the customer experience include:

- Improvements made to customer communications and the website, creating a more welcoming impact, and more than doubling the information available
- Removal of Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly
- 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 helps drive up renewal rates at the end of lease, and increases the likelihood of customers recommending the Scheme to someone else. 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 Powered Wheelchair & Scooter Scheme proposition
- Displaying vehicle accessibility information on our website
- The availability of targeted specialist publications including the Wheelchair-Accessible Vehicle (WAV) Guide
- The Car Price Guide includes images of cars with accessibility considerations, an 'automatics' column and images to help customers visualise the types of cars available.

Fleet insurance arrangements

As reported in previous annual reports, the Group implemented revised insurance arrangements which commenced on 1 October 2013. Under the revised arrangements RSA continue as insurer, but premium exposure is shared with Motability Operations via its reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme (see the Risk Management report on page 33 for more detail).

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

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

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

MO Reinsurance Ltd (MORL) – Overview

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

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

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

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

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

After three years of operation, the vast majority of the fleet has migrated to the revised arrangements (as new and renewing leases come on cover). The structure continues to operate effectively, with expertise, processes and data flows now all successfully embedded into the business. MORL's reinsurance programme was successfully renewed during the year, thereby continuing to limit the Group's potential financial exposure.

Detail of the reinsurance structure is elaborated within the Risk Management section on page 33. From a Group perspective financial performance is ahead of expectations, as outlined in the Finance Director's review on page 24.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 94% brand availability based on market share, with 34 manufacturers currently on the Scheme. This now provides our customers with access to 2,500 vehicle derivatives, delivered through a network of over 4,800 car dealerships. During the year we accounted for 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, 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.

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

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

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

Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2016, we sold over 237,500 cars to the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online process which is augmented by a proactive auction programme. Our online sales channel, '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 it allows a more targeted approach. This system platform was upgraded during the year to ensure its future capability and scalability, including a number of steps to optimise accessibility via mobile devices.

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 over 78% of all disposals during 2016. 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 increasing 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 2016, contributing to significant gains.

Environment

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

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 dynamic and robust approach

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

At Motability Operations, we recognise that sound risk management is fundamental to the successful and sustainable operation of the business. It is a core commitment that our approach protects the interests of customers and seeks to ensure that risks are managed sufficiently to avoid pricing shocks through the extremes of the economic cycle.

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

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

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

Risk identification and monitoring

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

This holistic approach encompasses all material risks, with clearly identified accountabilities and responsibilities for risk management, control and assurance. As such, risk management is incorporated as a core part of effective business planning and capital management.

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

Risk management framework

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

1st line of defence

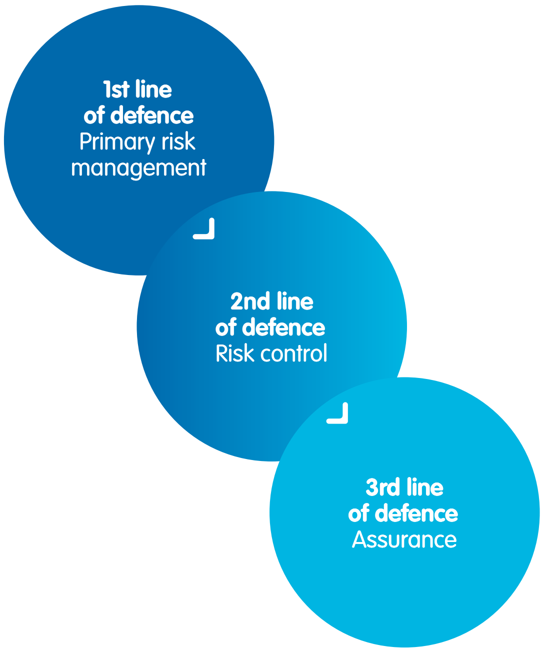
Primary risk management
- Controls designed into processes and procedures
- Control Risk Self Assessments and control action plans
- Project risk identification and management processes
- Directors' Risk Assessments

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



Key risks and mitigations

1 Residual values

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

Through our team of experts, we have developed and implemented an in-house residual value forecasting model to help manage this risk. This combines the latest econometric modelling techniques with subjective feedback gathered from used-car buyers and market experts. We developed the model in consultation with Oxford Economic Forecasting, which has validated and endorsed our approach. The model is periodically recalibrated and validated, the most recent independent review being completed during the year ended September 2012. Since it was first implemented in October 2004, our in-house model has outperformed the alternative market benchmarks. We also undertake a quarterly re-forecasting exercise to review and monitor the actual position and assess the associated financial impacts of any movement in residual values.

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

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

2 Supplier failure

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

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

3 Credit risk

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

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

4 Treasury risk

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

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

5 Operational

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

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

The Risk function operates with a business partnering approach which ensures consistency and co-ordination across the business.
We actively monitor our key controls through the Control Risk Self-Assessment process. Assurance over the effectiveness of our controls is given via our Internal Audit function that uses a risk based approach to determine areas of focus. Information security and cyber risk is a key priority for the business. We have a sophisticated layered approach to IT security. During the year, we have put in place further initiatives in response to the ever changing nature of the threat of an attack and have an ongoing programme of development in this area.

6 Insurance risk

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

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

This reinsurance cover was successfully renewed ahead of 1 October 2016, and continues to be placed with a panel of 16 highly-rated (at least A rated and predominantly AA rated) reinsurers, thereby diversifying the Group's exposure to any single supplier.

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

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

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

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

Capital adequacy and economic capital

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

The Group uses Economic Capital (EC) principles to determine the appropriate level of capital. The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. The key risks are outlined in the table on page 34.

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

In order to ensure that our capital planning adequately reflects the current risk profile of the business, we undertake an annual review of our Economic Capital methodology and the key underlying assumptions. Focus is also given to new or emerging Company-specific or wider environmental factors which are considered to have a bearing on the Group's capital requirements. Our review during 2016 included analysis of a range of scenarios assessing the potential impact of economic uncertainty as the UK Government navigates a path to exit the EU.

An independent review of the Group's Economic Capital methodology was commissioned in 2014, with feedback confirming our approach to be proportionate and appropriately conservative given the Group's overarching objective to ensure long-term sustainability. A further review is planned in 2017 to reaffirm these findings.

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

Summary of our key risks and mitigations

1 Residual values

Unexpected movements in used-car values, failure to achieve market value on disposal

Potential impact

- Volatility in profitability, reserves and pricing. Potential impact on affordability and choice

Mitigation

- Sophisticated in-house residual value setting and forecasting process
- Risk Capital management for asset risk using Economic Capital principles
- Market-leading remarketing approach

Link to strategy

- The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology)

2 Supplier failure

Failure of key manufacturer or other key Scheme supplier

Potential impact

- Compromised customer service provision and potential financial impact of securing alternative supplier
- In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties

Mitigation

- Active monitoring of credit ratings and market announcements
- Strong supplier relationships and communication
- Diversification of supply
- Diversified portfolio

Link to strategy

- Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs

3 Credit

Risk of default of key income streams and exposure to bad debt

Potential impact

- Potential impact on cash inflows and consequent write-off to income statement

Mitigation

- 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

Link to strategy

- The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme

4 Treasury

Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk

Potential impact

- Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding

Mitigation

- 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

Link to strategy

- The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk averse

5 Operational

Risk of failure of key systems, controls or processes

Potential impact

- Potential financial and reputational risk
- Risk of business disruption

Mitigation

- Robust control environment
- Active monitoring of Business Continuity and Disaster Recovery plans
- Information Security framework aligned to best practice and industry standards

Link to strategy

- We ensure that we make appropriate strategic investments in our infrastructure, systems and processes

6 Insurance

Exposure to insurance claims that exceed expectations or supplier failure

Potential impact

- Financial impact of claims exceeding priced expectations
- Failure of a reinsurer could transfer risk back to Motability Operations

Mitigation

- Conservatively placed reinsurance programme effectively limits the Group's net risk
- Risk Capital in place to cover net risk
- Access to extensive expertise
- Diversification of supply across highly-rated reinsurers

Link to strategy

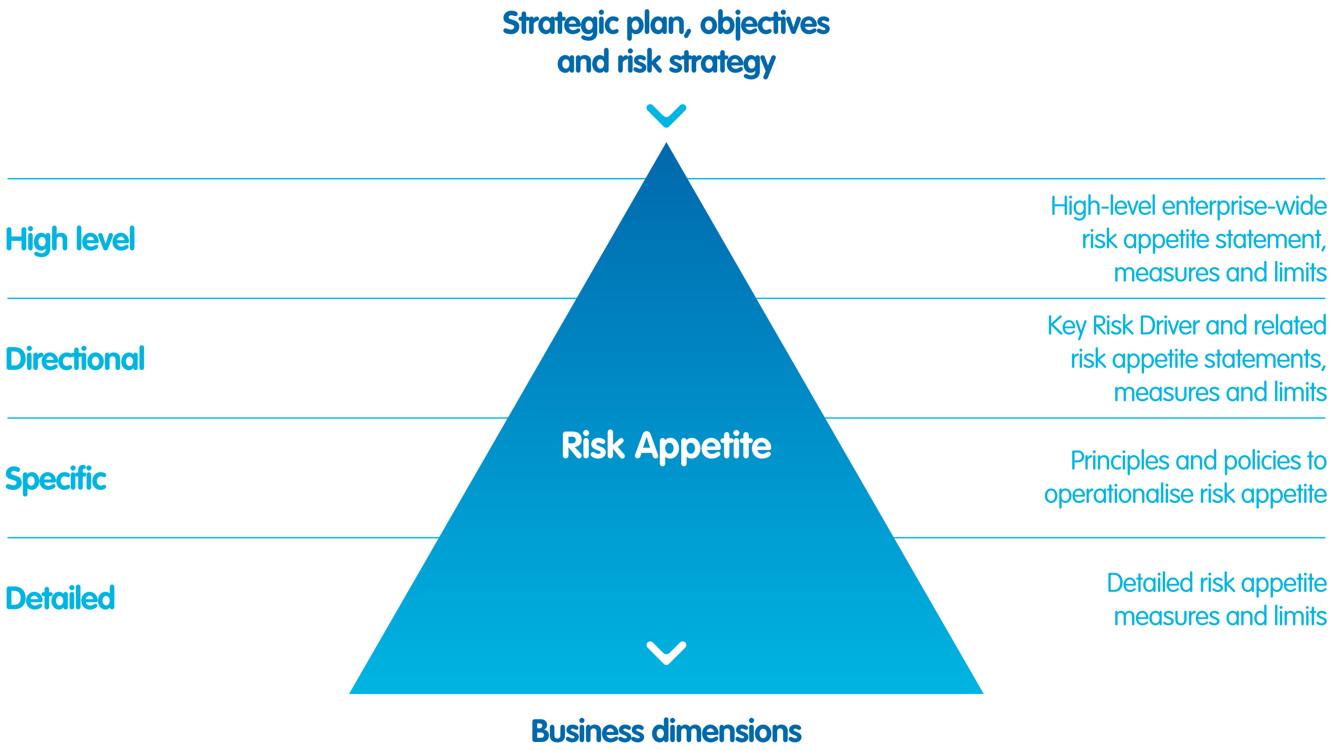
- Our revised insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term

Risk Appetite Framework

During the course of the year we have enhanced our risk management approach through the implementation of a Risk Appetite Framework (RAF). Developing more formalised risk reporting, the framework builds on our strong risk management culture and aligns our strategic planning and risk management activities. The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which includes over 140 risk metrics.

The development of this framework drew on best practice and has been independently assessed. The responsibility for monitoring and review of the RAF has been included within our governance framework. Our risk appetite is reviewed and set by Directors on at least an annual basis, utilising information from strategic planning, risk management activity and business objectives.

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



- ✓ Based upon a top-down hierarchy derived from the strategic plan and objectives and risk strategy
- ✓ 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

In accordance with provision C.2.2 of the 2014 revision of the UK Corporate Governance Code, the Directors have assessed the prospects of the Company over a longer period than the 12 months required by the 'Going Concern' provision. The Directors have assessed Motability Operations Group plc's viability over a three-year period to September 2019.

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

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

This assessment has been made taking account of the current position of the Group, its core three-year lease product, corporate planning process and the Group's key risks and risk appetite as detailed in the Strategic Report on pages 31 to 35.

In making their assessment, the Directors took account of the Group's current financial and operational positions.

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.

Directors also assessed the Group's ability to meet its outstanding bond and bank debt liabilities. Whilst it is noted that the longer-term nature of these obligations can extend significantly beyond the three-year period adopted for this viability review, 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.

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.

Our people are fundamental to our success

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

Business culture

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

Employee engagement was 93%, measured using the culture survey. In addition, in a separate survey undertaken by the Institute of Customer Service (ICS), the employee engagement score of 91.6% was the highest ever recorded by the ICS in the UK.

The Company won a number of awards during the year, including the best Support Team and Team Leader of the Year at the South West Contact Centre Awards event. Motability Operations is an equal opportunities employer. It embraces diversity, which it believes is fundamental to attracting and retaining the most talented people and making the organisation more effective in providing an exceptional service to its customers. The Company has a diversity policy where diversity is defined as including disability, race, sexual orientation, gender, ethnicity, culture, religion, age, nationality, education and experience.

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

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

Principles

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

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

Our values

We strive for excellence in customer service

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

We are passionate about what we do

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

We have a high-performance culture

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

We think and act commercially

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

We are friendly, flexible and facilitating

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

Recruitment and induction

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

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

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

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

Employment of disabled people

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

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

Performance management and assessment

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

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

Reward

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

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

Performance-related pay is discretionary and is dependent on Company and individual performance. Further details of our approach can be found on pages 47 to 51.

Towards the end of the financial year, the Company started the work for the automatic 're-enrolment' of employees into its pension scheme following the initial automatic enrolment exercise in October 2013.

Training, development and succession planning

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

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

Employee communication

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

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

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

Working environment

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

Committed to high standards of governance

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

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

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

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

This year’s extensive strategy overview gave particular emphasis to market impacts, including insights into levels of understanding of the Scheme among eligible non-customers; options for addressing our longer term vehicle remarketing challenges; and the effects of developments in the wider insurance market. As a result, departments have a clear line of sight towards ensuring that our high performance is maintained and fully sustainable.

Risk continues to be an important focus, with our Risk Appetite Framework becoming fully embedded within our governance, performance management and planning processes during the year.

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

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

Further to acquiring interim permissions during 2015, our application to the FCA for Limited Permissions was submitted in January 2016, with Limited Permissions being granted in June 2016.

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.

There have been a number of changes to Board membership during the year. I would like to welcome our new Directors and to thank those who have departed for their advice and support during their tenure.

Neil Johnson OBE
Chairman

Motability Operations Group plc Board

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

The Board's responsibilities

Matters reserved for the Board include:

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

Roles of the Chairman and Chief Executive

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

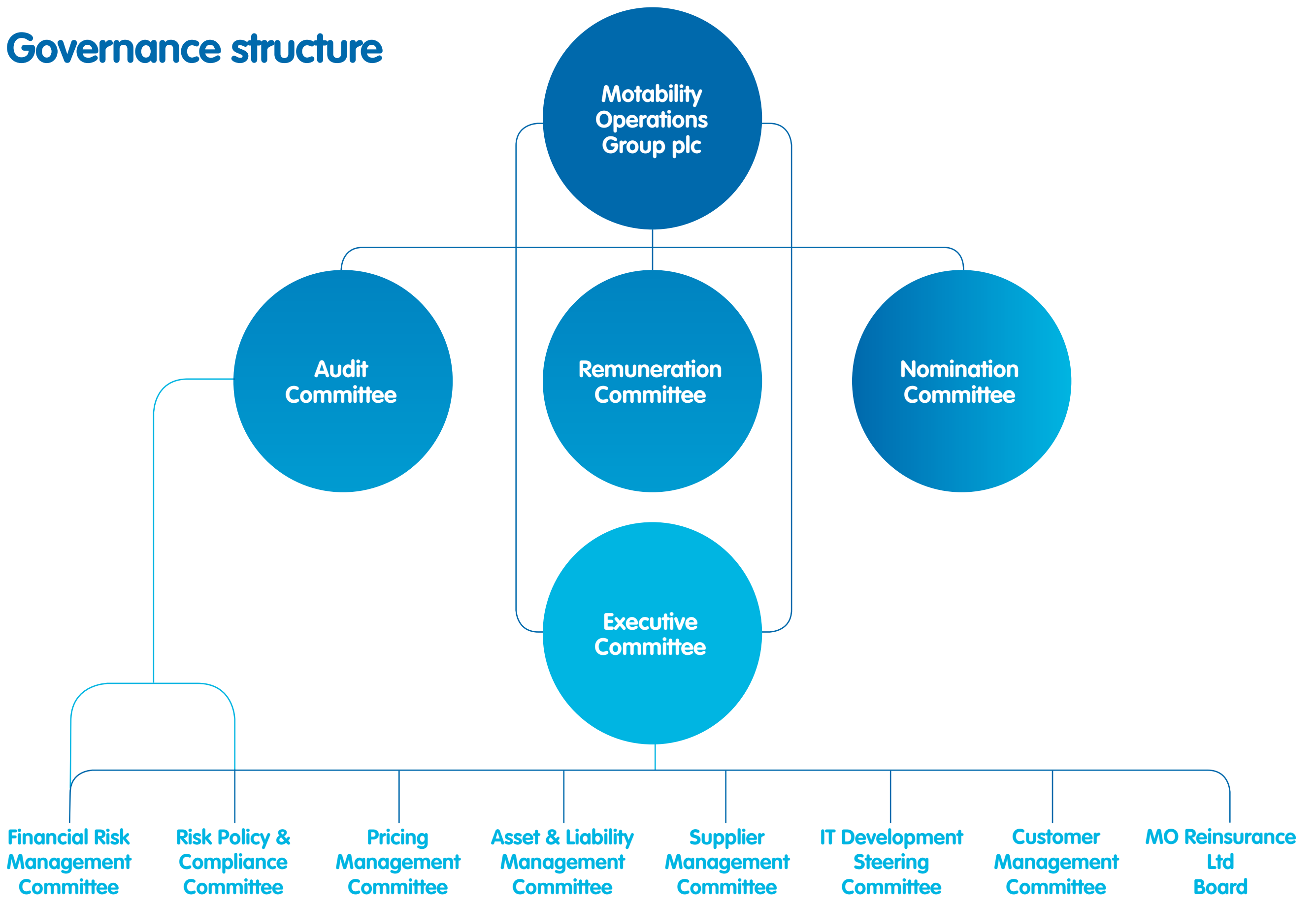
The Chief Executive is responsible for leading and managing the business on a day-to-day basis with authorities delegated by the Board, and is accountable to the Board for the financial and operational performance of the Group. This day-to-day management is effected through the Executive Committee, with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

Non-Executive Directors

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

In recognition of the importance of evaluating its own effectiveness, the Board undertook a review of its performance, the results of which were both reassuring and useful in preparing for future challenges.

Governance structure



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:

Neil Johnson OBE
Non-Executive Chairman

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

Executive Directors

Mike Betts
Chief Executive

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

Matthew Hamilton-James
Finance Director

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

Non-Executive Directors

Christopher Lendrum CBE
Senior Independent Director

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

John Callender
Independent Non-Executive Director

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

Robert Carver
Non-Executive Director

Robert was appointed as a Non-Executive Director of Motability Operations Group plc on 1 January 2015 (alternate – Nivedita Subramanian, appointed 3 February 2016).

Anna Cross
Non-Executive Director

Anna was appointed as a Non-Executive Director of Motability Operations Group plc on 31 May 2014.

Frank Gardner OBE
Independent Non-Executive Director

Frank was appointed as a Non-Executive Director of Motability Operations Group plc on 10 December 2008.

Joe Hennessy OBE
Independent Non-Executive Director

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

Daniel Meredith Jones
Non-Executive Director

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

David Smith
Independent Non-Executive Director

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

Neill Thomas
Independent Non-Executive Director

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

Paul Thwaite
Non-Executive Director

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

Jo Pentland
Company Secretary

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

Executive Committee

"Over the past ten years or so, 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 – Anne Downey, HR Director; Ian Goswell, Commercial Director; Tim Newbery, Manufacturer & Dealer Services Director; Jo Pentland, Corporate Services Director; Ashley Sylvester, Risk & Business Systems Director; and Julie McManus, Company Secretary, together with David Gilman, the Group Project Director.

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

- Manage the day-to-day business operation of the Group and its subsidiaries
- Develop and set strategic objectives
- Agree policy guidelines
- Agree the Group's budgets and plans and, once these are adopted by the Board, be responsible for achieving them
- Ensure appropriate levels of authority are delegated to senior management
- Ensure the co-ordination and monitoring of the Group's internal controls and ensure that activities undertaken are conducted within the Group's risk appetite
- Safeguard the integrity of management information and financial reporting systems
- Approve key supplier agreements
- Ensure the provision of adequate management development and succession, and recommendation and implementation of appropriate remuneration structures
- Develop and implement Group policies through the Governance Committees (Asset & Liability Management; Financial Risk Management; Risk Policy & Compliance; Supplier Management; Apollo Implementation; 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, 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 Audit Committee comprises four Independent Non-Executive Directors and four Non-Executive Directors. In my capacity as Senior Independent Director, I chair the Audit Committee, with other members during the year being John Callender, Robert Carver, Ian Cowie, Anna Cross, David Oldfield, David Smith and Neill Thomas. Executive Directors, members of senior management, the Head of Internal Audit and the external auditors (PricewaterhouseCoopers (PwC)) are in attendance where appropriate.

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

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

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

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

Audit Committee continued

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

- Regulatory and legal compliance obligations, with particular focus this year on the Group's preparation for its application to the Financial Conduct Authority for Consumer Credit Limited Permissions. The application for this licence was approved in line with the intended timetable, with FCA Limited Permissions granted in June 2016
- Review of implementation of the Group Risk Appetite Framework and in particular how this has become embedded into "business as usual" as part of the Group's wider risk and planning processes
- Reports from management and Internal Audit on the progress and status of the IT Apollo change project together with assurance reports from Deloitte. To date all significant milestones have been successfully achieved in line with the project objectives
- Review of an independent external assessment of the effectiveness of the Internal Audit function which was conducted by the Chartered Institute of Internal Auditors (CIIA). The findings concluded that the Internal Audit function's methodology and approach was commensurate with best practice, with the results benchmarking the function within the top 10% of the Internal Audit functions assessed by the CIIA
- The potential impact on residual values in the light of the recent emissions, diesel and EU referendum events, making any appropriate adjustments
- Presentations from the respective chairs of MO Reinsurance Limited's (MORL) Underwriting, Investment and Audit & Risk Committees. These updates provided reassurance around the continuing transition of MO's vehicle fleet onto the revised insurance arrangements, with this structure now approaching maturity with the majority of the fleet now successfully 'on cover' under MORL
- Review of MORL's underwriting position following an actuarial assessment of reserves which underpins the half year and full year financial statements of the subsidiary
- The requirement to adopt Segmental Reporting in respect of the Group's reinsurance activities as MORL moves towards maturity
- Oversight of the process underpinning the formulation of the Group's Viability Statement, which now supplements the Going Concern statement in the 2016 Annual Report & Accounts
- The financial statements for the half year and full year which are considered in depth at the Committee's May and December meetings respectively, with the benefit of a detailed report on the findings of the external auditors, PwC, who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2016 the auditors provided appropriate assurance and identified no matters of material concern 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 45.

The Committee is satisfied that PwC complies with UK regulatory and professional requirements and that its objectivity is not compromised. PwC has held the audit contract for the Company since 2008, and consequently, in conformance with EU Mandatory Audit Firm legislation, the last year of the existing audit tenure will be for the 12 months ending September 2018. With this in mind, it is planned to put the external audit to tender in during 2017, with a view to having made an appointment by September 2017 (at least 12 months before the commencement of the new assignment). This process will be overseen by a selection committee with membership including representation from the Non-Executive members of the Audit Committee, the Group Finance Director and the Head of Internal Audit. As Senior Independent Director and Audit Committee Chairman, I will chair this process.

In recognition of the importance of evaluating its own effectiveness, the Committee undertook a review in 2016 covering members' experience and knowledge in the context of the key aspects of its work. I am pleased to report that the results of this evaluation confirmed the Committee's effectiveness, an outcome which is both reassuring and useful in preparing for future challenges.

Christopher Lendrum CBE
Audit Committee Chairman

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

Key judgements in financial reporting	Audit Committee review and conclusions
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 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 estimations 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. This view was also ratified by the external auditors.
Other accounting estimates	
Other areas of accounting estimate include maintenance accrual and end-of-contract payments. Changes in estimates of future expenditure or payout rates may affect the reported financial result.	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 Committee was satisfied that estimates of other accounting estimates were appropriate and processes well controlled.
IT systems replacement	
During the year the Group continued to progress its systems upgrade programme. Having successfully deployed the new processing and accounting system for the Powered Wheelchair & Scooter fleet during 2015, effort is now focused on the implementation of the functionality for the car fleet during 2017. The effectiveness of data migration processes and the ability to reconcile balances in the new system are essential to the integrity of the Group's financial statements.	The Committee received quarterly progress reports from management on the progress of the systems implementation, with particular focus on scope, data migration, testing and reconciliation processes. The Committee received an independent progress & assurance report from Deloitte. The Committee also reviewed the plan and results of the work of the external auditors for a number of key elements of the implementation including controls, general ledger mapping & reconciliation, automated processes and system functionality. The Committee continues to be satisfied with the on-going financial control and risk management approach for this programme.

Nomination Committee

Neil Johnson OBE
Chairman

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

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

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

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

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

- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and continue to meet business needs
- Succession plans for Non-Executive Directors were reviewed and agreed during the year
- David Gilman stepped down from the Group Board on 30 September 2016 and was succeeded by Matthew Hamilton-James
- The appointment of Tim Newbery as a Director of Motability Operations Limited, with effect from 1 February 2016 and the appointment of Julie McManus as its Secretary, with effect from 3 November 2015
- David Gilman stepped down as a Director of MO Reinsurance Limited, effective 3 August 2016, and was succeeded by Matthew Hamilton-James
- The Non-Executive Directors of MO Reinsurance Limited were reappointed for a further three-year term, effective 1 February 2016.

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

- Ian Cowie, Shareholder Non-Executive Director from RBS, resigned from the Board and was succeeded by Paul Thwaite
- David Oldfield, Shareholder Non-Executive Director from Lloyds, and his alternate, Jakob Pfaudler, resigned from the Board and were succeeded by Daniel Meredith Jones and Martin Dodd respectively
- Martin Lord, alternate Director to Rob Carver, HSBC, resigned, and was succeeded by Nivedita Subramanian.

An exercise to evaluate the effectiveness of the Committee will be carried out again in December 2016.

Neil Johnson OBE
Chairman

Remuneration Committee

Neill Thomas
Remuneration
Committee Chairman

Letter from the Committee Chairman

I am pleased to present the Directors' remuneration report for the year ending September 2016.

Changes in 2016

Following the review of remuneration structures undertaken in 2015, the recommendations arising therefrom are as set out in the 2015 Annual Report & Accounts and were agreed by the Remuneration Committee in October 2015 and approved by the Board. The recommendations were reflected in a revised Remuneration Policy and applied from 1 October 2015. All remuneration decisions taken during the year were subject to the review and scrutiny of the Remuneration Committee and made in accordance with the revised policy.

Given the extensive review undertaken during 2015, the Committee's focus during 2016 was to monitor any changes in benchmark data which was used to inform the recommendations from the review. In October 2016, the Committee received and reviewed a report from our independent advisers, New Bridge Street, which set out remuneration data from a range of companies including private entities, mutual organisations and FTSE250 companies. Whilst Motability Operations is a unique business, the Committee has used the market data and any emerging policy trends to inform its decisions on the level and components of Directors' remuneration.

2016 Performance

The 12 months to September 2016 saw a year of strong performance across customer, cultural and financial targets, as well as strong governance, risk management and strategic development. This result was delivered against a backdrop of the continuing challenges presented by the rollout of the programme of PIP reassessments and a more uncertain economic outlook for the Group's main markets following the 23 June EU referendum.

Details are set out in the remuneration report below and in the Strategic Review section of this report (pages 14-21); however, headlines in terms of performance against customer, cultural and financial targets include:

- A score of 94.7% overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 77% and a sector average (Bank & Building Societies) of 78%
- Business culture scores, as independently measured through Willis Towers Watson's High Performing Organisations culture survey, statistically significantly outperformed the UK High Performing Organisations Norm groups across all 11 categories (including a Customer Focus score of 95% and Employee Engagement at 93%)
- Financial metrics in relation to capital adequacy and liquidity remain in line with target, whilst the Company's credit ratings were unchanged at A+/A1 with stable outlooks from S&P and Moody's respectively.

In addition to the delivery of a consistently high level of performance across the key annual performance metrics, a number of strategic initiatives were successfully delivered and are detailed in the 'Strategy in action and performance' section of this report (pages 14-21).

Implementation in 2016

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

The Committee also considered the performance criteria applying to long-term incentive arrangements. Whilst the Group no longer operates a Long Term Incentive Plan, awards made in respect of previous years will continue to vest subject to satisfaction of certain conditions. In 2016 the Committee assessed the performance against these conditions and concluded that the conditions had been met in full.

Under the new Remuneration Policy, 50% of an individual's bonus in any one year is deferred for three years and only released subject to certain conditions. As, however, there are currently no such deferred bonus amounts outstanding and due for release, this was not a matter that required the Remuneration Committee's consideration in 2016.

Finally, as stated in last year's report, during 2016 a review of remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors was undertaken with advice from New Bridge Street. Details of the outcome of this review are outlined in the remuneration report below.

Neill Thomas
Chairman of the Remuneration Committee

Remuneration Committee continued

Remuneration Report

Total remuneration under new policy

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

	Salary		Benefits *		Pension**		Bonus***		Vesting of deferred bonuses****		TOTAL	
£'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Executive Directors												
Mike Betts	536	528	25	25	134	132	253	265	–	–	948	950
David Gilman	311	306	19	19	77	76	141	154	–	–	548	555
Independent Non-Executive Directors												
Neil Johnson (Chairman)	164	176	20	20	–	–	–	–	–	–	184	196
Christopher Lendrum	53	53	–	–	–	–	–	–	–	–	53	53
John Callender	48	48	–	–	–	–	–	–	–	–	48	48
Neill Thomas	48	44	–	–	–	–	–	–	–	–	48	44
Frank Gardner	37	37	–	–	–	–	–	–	–	–	37	37
Joe Hennessy	40	40	–	–	–	–	–	–	–	–	40	40
David Smith	43	43	–	–	–	–	–	–	–	–	43	43

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

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

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

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

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

In addition to the above, the previous long-term incentive plan (described below) for Executive Directors will run-off over the next three years. Details of amounts vesting under this plan are summarised in Note 34.

Executive Directors' remuneration

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

Base salary

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

Annual performance-related pay

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

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

Annual performance-related payments are subject to malus and claw-back.

Long-Term Incentive Arrangements

The Long Term Incentive Plan (LTIP) introduced in 2008 for the Group Executive Directors ceased with effect from December 2015. The LTIP was a three-year rolling plan so, whilst the plan is closed, the awards in the Plan will continue to vest for the years ending 30 September 2016-2018, with annual performance adjustments, up and down, being applied. Payments will be made in December following the end of the financial years mentioned above, subject to the annual performance criteria being met and the Company's credit rating.

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

Future payments under these long-term incentive arrangements are subject to malus and claw-back.

Core benefits

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

Pension

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

Performance metrics

The award of discretionary bonuses is directly linked to the delivery of stretching corporate objectives and individual performance targets.

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

Customer service is assessed against independently measured benchmarks, including both an independent customer satisfaction survey and the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI) benchmark report (January 2016), the latter comparing the Group's performance with that of the highest performing customer service providers in the UK. Similarly, business culture (including employee engagement) is measured via an independent survey (conducted by Willis Towers Watson) which benchmarks the Company's culture with high performing UK organisations.

Financial performance is measured by assessing the Group's capital adequacy, structural liquidity and credit rating, in addition to wider financial management objectives, taking into account the prevailing macro-economic and industry-specific conditions.

Risk management and governance related metrics are evaluated at both Company and individual level. This evaluation includes financial, operational and reputational risk measures, compliance with legislation and Company policies and also individual performance and contribution through either chairing or membership of the Company's governance committees.

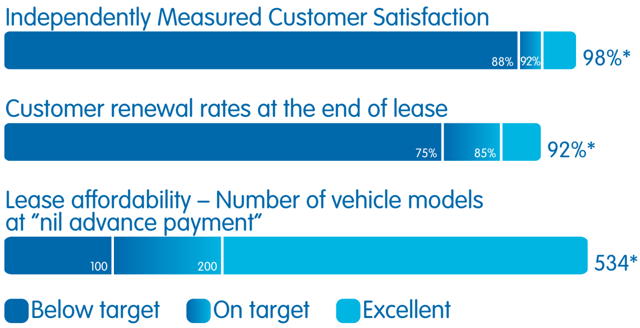
The development and delivery of strategic initiatives also forms an important part of both Company and individual performance evaluation.

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

The following charts show performance in respect of the corporate targets for the year to September 2016.

Customer service

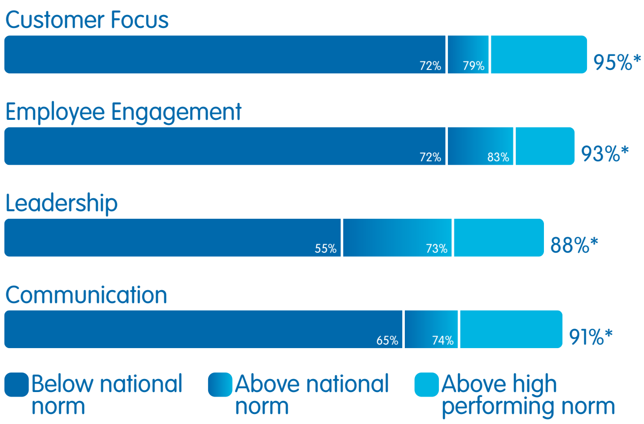
The Group is targeted to deliver first-class levels of customer service and excellent value for money. Customer service is measured via an independent customer satisfaction survey and also through customer renewal rates at the end of lease, which reflects the ultimate validation of the level of service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



* 2016 performance

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).



* 2016 performance

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 2016:

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

Remuneration Committee continued

Non-Executive Directors' remuneration

A review of the remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors was undertaken during the year, supported by advice from New Bridge Street.

Process

The review of the remuneration for the Non-Executive Chairman was led by the Senior Independent Director in consultation with relevant internal and external parties including the Independent Non-Executive Directors, the Chief Executive and the Human Resources Director. A recommendation was made to and approved by the Board.

The review of the remuneration of the Senior Independent Director and the Independent Non-Executive Directors was led by the Non-Executive Chairman in consultation with relevant internal and external parties including the Chief Executive and the Human Resources Director. A recommendation was made to and approved by the Board.

Use of benchmark data

A similar approach to the review of remuneration for the roles of the Executive Directors was adopted with respect to the use of benchmark data to inform both remuneration methodology and amounts. Remuneration data from the same range of companies including private entities, mutual organisations and FTSE250 companies was considered whilst continuing to recognise that Motability Operations is a unique business.

Recommendations

The recommendations made to and approved by the Board were as follows:

The Non-Executive Chairman's remuneration will continue to comprise an annual fee plus benefits comprising private medical insurance, travel insurance and a company car (or cash allowance in lieu). The Chairman's annual fee should be revised to reflect latest benchmark data and a number of other factors, including the time commitment required from the role by the business. Any required amendments were made with effect from 1 April 2016.

The remuneration methodology for the Senior Independent Director and the Independent Non-Executive Directors should be amended. Currently there is a base annual fee with additional fees paid to committee members and to committee chairs. In common with the majority of prevailing market practice, separate fees for committee membership will no longer apply. The base annual fee will reflect time commitment and fees for chairing the Audit Committee and the Remuneration Committee will be revised to reflect latest benchmark data. In addition, a fee will be introduced for the role of Senior Independent Director to reflect the role's responsibilities in line with market practice. Any required amendments will be made with effect from 1 October 2016.

Membership of the Remuneration Committee

Members of the Remuneration Committee are appointed by the Group Board, on the recommendation of the Nomination Committee and in consultation with the Chairman of the Remuneration Committee. The majority are Independent Non-Executive Directors.

During 2016 the Committee members were Neill Thomas, who chaired the Committee, Anna Cross, Joe Hennessy, Neil Johnson, Chris Lendrum and David Smith.

The Chief Executive attends the Committee (but is absent for any discussion about his own remuneration). The Human Resources Director acts as secretary to the Committee (but is absent for any discussion about her own remuneration) and provides subject matter expertise to the Committee as required in its consideration and application of the Company's Remuneration Policy.

Individuals are not involved in any Committee discussions or decisions which directly relate to their own performance or remuneration.

Responsibilities of the Remuneration Committee

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

- The overall positioning of competitive remuneration with reference to market data
- Base salaries and increases for the Executive Directors
- The design, terms and eligibility of performance-related pay schemes including annual awards and long-term incentive arrangements
- Whether any circumstances exist which would result in the need to withhold or claw-back any element of variable pay
- The policy for pension arrangements and other benefits for the Executive Directors
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee.

The Committee reports bi-annually (or more frequently, as relevant) 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 and was last undertaken during the financial year ending September 2014.

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

Activities of the Remuneration Committee during the year
The Committee met three times in the financial year ending 30 September 2016 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
- Propose and agree salaries for new appointments made during the year
- Review and agree annual performance-related payments
- Assess performance criteria in relation to vesting units under the previous LTIP (now in run-off) and the LTIS and the application of any decrease or increase in value

Directors' Remuneration Policy

Executive Director Remuneration Policy
The Group's policy is to establish and maintain levels of pay and benefits which facilitate the achievement of its objectives. The Group regularly reviews its remuneration against the market to ensure that it is competitive over the long term, is able to attract talent, and incentivises and encourages retention, whilst at the same time ensuring it does not encourage inappropriate behaviours and actions.

Remuneration is very clearly linked to overall business strategy, with Group targets set in the context of both annual and longer-term objectives and milestones. Individual objectives are aligned to the achievement of the Group's annual objectives (both financial and non-financial), the delivery of the strategic agenda and the demonstration of core values.

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

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

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

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

Leaving and joining arrangements for Executive Directors
The Chief Executive and the Human Resources Director work with the Remuneration Committee to ensure that contractual terms on termination, and payments made, are fair to the individual and the Group and that failure is not rewarded.

The remuneration for a new Executive Director (whether recruited externally or promoted from within the business) will be based on the experience of the individual and market comparatives for the role and its responsibilities and will be consistent with the Remuneration Policy when determining each element of remuneration.

Other matters
- Equal & fair pay – The Group's Remuneration Policy recognises Equal Pay. The Group is also committed to paying at least at the level of the current Living Wage (as calculated by the Living Wage Foundation) for an individual's base location.
- Employees – One of the key underlying principles is that, as far as practicable and appropriate, decisions in relation to pay and reward for the Executive Directors should be applied consistently with the way in which these are applied to other employees.
- Non-Executive appointments at other companies – The Group considers that the release of Executive Directors to serve as Non-Executive Directors elsewhere can be beneficial as part of their on-going 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
Chairman of the Remuneration Committee

Other statutory information

Corporate Social Responsibility

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

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

Other environmental, social and governance policies & statements

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

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

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

Customer service & complaints handling

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

- In 2016, the UK Institute of Customer Services (UK ICS) rated Motability Operations as the highest performing organisation in the UK with regard to customer service, achieving a score of 94.7%
- Our Customer Services team is UK based and can be reached via a low cost 0300 number
- 80% of calls made to our Customer Services team are answered within 20 seconds
- 94% 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 are ready to assist.

Customer interactions

- Our Customer Services team handled in excess of one million telephone calls in the year ending 30 September 2016
- Motability Operations has a customer base of circa 650,000
- Motability Operations processed 253,760 applications to join the Scheme in the year ending 30 September 2016.

Our approach to complaints

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

Unfortunately, sometimes things can go wrong and we encourage our customers to tell us if they feel our service has fallen below the standard they expect, 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 firms' financial reporting period. Motability Operations financial reporting period is 1 October to 30 September.

Motability Operations was authorised by the FCA on 28 June 2016 and the figure below therefore represents the number of FCA reportable customer complaints received for the period 28 June 2016 to 30 September 2016.

Period covered	Volume of complaints
28 June to 30 September 2016	791

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 2016 we contacted a representative sample of customers who had complained to us between January and March 2016. They rated us with an overall score of 9.3 out of 10 for our complaint handling.

13 customers asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2016. Of the 13 requests for review by customers, the FOS has found in favour of Motability Operations in relation to 12 of these. We are awaiting the FOS's decision of the remaining referral submitted on 20 September 2016.

Charitable and political donations

During the year the Company made charitable donations of £26,365 (2015: £66,211) to support and sponsor local initiatives through our 'mycommunity' programme. In addition, the Group made a £45m charitable donation to Motability (2015: £25m donation).

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

Proposed dividend

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

Directors' indemnity

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

Statement of Directors' responsibilities

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

In preparing these financial statements the Directors are required to:

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 41, confirm that, to the best of their knowledge:

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

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis. In addition to the going concern statement, the 2016 Annual Report & Accounts includes a Viability Statement. This can be found on page 36 of this report.

Independent auditors

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

Directors

Neil Johnson, Mike Betts, John Callender, Rob Carver, Ian Cowie, Anna Cross, Frank Gardner, David Gilman, Joe Hennessy, Christopher Lendrum, Neill Thomas and David Smith served as Directors throughout the year.

Peter Lord served as an alternate Director throughout the year.

Ian Cowie resigned as a Non-Executive Director on 30 September 2016.

David Oldfield resigned as a Non-Executive Director on 7 September 2016.

Daniel Meredith Jones was appointed as a Non-Executive Director on 7 September 2016.

Paul Thwaite was appointed as a Non-Executive Director on 30 September 2016.

Matthew Hamilton-James was appointed as an Executive Director on 1 October 2016.

Jakob Pfaudler resigned as an alternate Director on 31 August 2016.

Martin Lord resigned as an alternate Director on 3 February 2016.

Nivedita Subramanian was appointed as an alternate Director on 3 February 2016.

Martin Dodd was appointed as an alternate Director on 7 September 2016.

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

J Pentland

Jo Pentland
Group Company Secretary

16 December 2016

Report on the financial statements

Our opinion

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

- give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2016 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and, as regards to the Company's financial statements, in accordance with the provisions of the Companies Act 2006; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

Motability Operations Group plc's financial statements comprise:

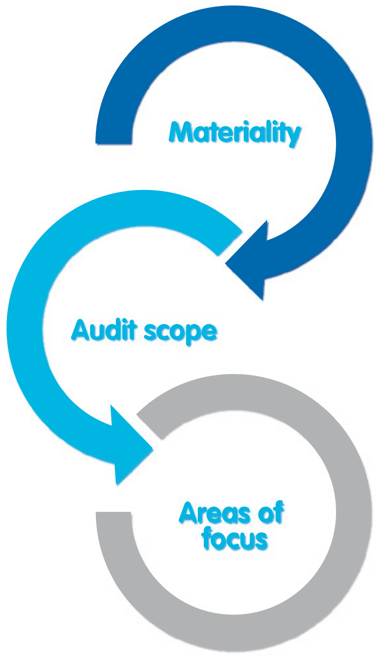
- the Group and Company balance sheets as at 30 September 2016;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the Group and Company statements of cash flows for the year then ended;
- the Group and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and applicable law.

In applying the financial reporting framework, the Directors have made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, they have made assumptions and considered future events.

Our audit approach

Overview



Materiality

Overall Group materiality: £20.6 million, which represents 1% of adjusted revenue (2015: £20.4 million).

Audit scope

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

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

Areas of focus

Our areas of focus comprised:

- Residual values of used cars
- Maintenance deferred income
- Valuation and completeness of the total general insurance provisions.

The scope of our audit and our areas of focus

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)').

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

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below together with an explanation of how we tailored our audit to address these specific areas. This is not a complete list of all risks identified by our audit.

Area of focus	How our audit addressed the area of focus
Residual values of used cars The Group has a large fleet of cars that it leases to customers under operating leases. The cars are depreciated over the life of the operating lease down to their forecast residual values. Management initially estimates the residual values for the cars at the start of the lease using a forecasting model and updates these forecasts on a quarterly basis. Estimating residual values is highly judgemental and dependent on a number of factors including: projected supply and demand for used cars; the economic outlook; the estimated mileage; and condition of the vehicles at the end of their contracts. As such, this was an area of focus for our audit. If the forecasted residual values are inaccurate it will impact the depreciation charge and profits recorded in the period as follows: • If residual value estimates are too high, depreciation charges are likely to be too low, resulting in losses when vehicles are sold at the end of operating leases • If residual value estimates are too low, depreciation charges are likely to be too high, resulting in gains when vehicles are sold.	We understood and evaluated management's controls over the residual value model outputs, including the review and challenge by senior management at the Residual Value and Fleet Valuation forum meetings. As part of the Residual Value and Fleet Valuation forum meetings, management also benchmark forecast residual values to Group vehicle sales data and estimates from third-party data sources widely used in the automotive industry. We attended a number of these meetings throughout the year to observe the level of challenge offered by management and tested that final residual values determined through these forum meetings are accurately updated in the general ledger. We concluded that the controls had been operating effectively during the year and therefore we could place reliance for the purposes of our audit. In understanding the residual value model and assumptions, we also considered whether all relevant factors were reflected, and where not, whether overlays to modelled calculations appropriately reflected those factors. An example is the actual performance of vehicle remarketing and consequential impact to residual values. We tested a sample of inputs used to estimate residual values, including the economic outlook projections, by comparing to external data that is publicly available. Given the recent issues related to certain vehicle manufacturers and types, we understood and evaluated the adjustments to residual values for the related cars. The recent EU referendum vote has also caused management to assess the implications for future residual values. We assessed the basis and reasonableness of the estimates made to adjust future residual values. We compared estimates of residual values to recent Group sales data and third-party data sources to test that residual values calculated by management were reasonable. Depreciation charges are automatically posted to the general ledger based on residual values set at the inception of leases. The residual values are updated on a quarterly basis and depreciation charges are adjusted accordingly. We tested a sample of depreciation calculations and postings for accuracy of recording in the general ledger. Based on the audit evidence obtained through the combination of controls and substantive testing outlined above, we determined that the assumptions used by management in the estimation of residual values were reasonable and supportable.

Area of focus	How our audit addressed the area of focus
Maintenance deferred income Vehicle lease prices incorporate an estimate of the future costs of maintenance over the lease period. The Group defers a portion of revenues and releases amounts in the period in which maintenance activity takes place. In order to calculate the amount of revenue to be deferred and released, management estimates projected maintenance expenditure prior to the commencement of leases and monitors actual expenditure. Actual costs are used to update forecasts of maintenance expenditure for each vehicle tranche. Inaccurate estimates of forecast total maintenance expense could result in revenues being over or under reported in a given reporting period. Errors in the computation would also lead to inaccurate deferred revenue balances being recorded at the period end. Estimating the maintenance expenditure and related deferral of revenue is highly judgemental and dependent on a number of factors including vehicle mileage and usage, part costs, servicing costs and servicing schedules.	We reviewed the maintenance budgeting and maintenance cost evaluation processes to understand how revenue is deferred and subsequently released in the period in which maintenance activity takes place. We assessed estimated maintenance costs and the review and challenge by senior management on a quarterly basis at the Service, Maintenance and Repair forum. We attended some of these forum meetings to observe the level of challenge offered by senior management and check that maintenance budgets, actual expenditure and forecast remaining cost are accurately updated in the calculation of deferred revenue. We tested the key inputs into the computation of deferred maintenance revenue balances, namely actual costs to date, forecast maintenance costs and the length of leases by testing data inputs, assumptions and calculations, including agreeing part costs and servicing costs to invoices received. Based on the audit evidence obtained through the combination of controls and substantive testing outlined above, we concluded that the assumptions used by management in the calculation of deferred income were reasonable and supportable.
Valuation and completeness of the total general insurance provisions Total general insurance provisions are set aside for insurance claims where an accident involving the Group's cars has occurred but the claim has not yet been settled. These provisions estimate both the value of claims where accidents have been reported but the claims not settled, and also those where accidents have occurred but not yet been reported. Management uses an independent actuary to undertake a study using a combination of actuarial methods to determine the projected liability at the period end. Given the level of judgement and uncertainty involved, there is a risk that the methodology adopted for claims reserving may not be appropriate, resulting in an under or over provided amount. As such, this is an area of focus for our audit.	We evaluated the methods of reserving and the appropriateness of the methodology used by management's actuary to calculate the claims reserves. We performed a detailed review of the actuarial report, reviewing underlying assumptions and agreeing the source data to the year-end audited claims information. Based on the audit evidence we concluded that the assumptions used by management's actuary in the calculations of the insurance provisions were reasonable and supportable.

How we tailored the audit scope

We tailored the scope of our audit to perform enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group, the accounting processes and controls, and the industry in which the Group operates.

The Group's operations and supporting accounting functions are based in London, Bristol and the Isle of Man. Further details of how the Motability Car and Powered Wheelchair & Scooter Scheme operate are detailed on pages 2 to 7.

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

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

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

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

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

Materiality

The scope of our audit is influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures; and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

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

Overall Group materiality	£20.6 million (2015: £20.4 million).
How we determined it	This represents 1% of adjusted revenue. Adjusted revenue is current year revenues, excluding proceeds from the disposal of operating lease assets of £2,060 million.
Rationale for benchmark applied	We believe that revenue, adjusted to exclude proceeds from the disposal of operating lease assets, provides a consistent year-on-year basis for determining materiality as proceeds from disposal of operating lease assets are likely to fluctuate and management assesses core business revenue performance excluding these proceeds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (2015: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Responsibilities Statement for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 39 to 53 with respect to internal control and risk management systems and about share capital structure is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of Directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement

Under the Companies Act 2006 we are required to report to you if, in our opinion, a corporate governance statement has not been prepared by the Company. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 53, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) ('ISAs (UK & Ireland)'). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's and the Company's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the Directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

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

16 December 2016

(a) The maintenance and integrity of the Motability Operations Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Income statement
For the year ended 30 September 2016

	Note	2016 Group £m	2015 Group £m
Revenue	4	4,151.8	3,920.0
Net operating costs excluding charitable donations		(3,793.7)	(3,450.1)
Charitable donations		(45.0)	(25.0)
Net operating costs	6	(3,838.7)	(3,475.1)
Profit from operations		313.1	444.9
Finance costs	9	(187.2)	(183.3)
Profit before tax		125.9	261.6
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	10	(26.7)	(53.5)
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	10	30.4	1.9
Profit for the financial year		129.6	210.0

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 £37.2m (2015: £12.3m).

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

Statement of comprehensive income
For the year ended 30 September 2016

	Note	2016 Group £m	2015 Group £m
Profit for the financial year		129.6	210.0
Other comprehensive income/(expense) – items that may be reclassified subsequently to profit or loss			
Gains/(losses) on movements in fair value of cash flow hedging derivatives	25	204.9	(62.1)
(Losses)/gains on foreign currency translation	25	(204.0)	38.5
Tax relating to components of other comprehensive income		(0.1)	4.9
Other comprehensive income/(expense) for the year, net of tax		0.8	(18.7)
Total comprehensive income for the year		130.4	191.3

The notes on pages 63 to 104 form an integral part of these financial statements

Balance sheets

As at 30 September 2016

	Note	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Assets					
Non-current assets					
Intangible assets	11	29.6	17.2	–	–
Property, plant and equipment	12	18.2	19.6	–	–
Assets held for use in operating leases	13	6,323.4	6,254.9	–	–
Held to maturity investments	15	74.1	23.5	–	–
Investment in subsidiaries	16	–	–	113.5	113.8
Loans to Group companies	16	–	–	4,037.5	3,737.5
Trade and other receivables	20	18.6	25.9	3.8	9.9
Derivative financial instruments	26	107.2	1.8	107.2	1.8
		6,571.1	6,342.9	4,262.0	3,863.0
Current assets					
Inventories	14	114.9	109.9	–	–
Held to maturity investments	15	27.5	1.4	–	–
Cash and bank balances	17	493.3	267.2	356.9	114.4
Hire purchase receivables	18	–	0.9	–	–
Insurance receivables	19	137.1	75.7	–	–
Trade and other receivables	20	288.7	237.2	14.6	2.0
		1,061.5	692.3	371.5	116.4
Total assets		7,632.6	7,035.2	4,633.5	3,979.4
Liabilities					
Current liabilities					
Corporation tax payable		(26.3)	(13.0)	(5.7)	–
Deferred rental income	21	(177.9)	(170.9)	–	–
Insurance payables	22	(43.9)	(30.8)	–	–
Trade and other payables	23	(200.0)	(163.4)	(356.9)	(148.6)
General insurance provisions	24	(186.5)	(106.8)	–	–
Financial liabilities	25	(108.3)	(419.3)	(55.7)	(350.2)
Derivative financial instruments	26	(0.3)	(0.1)	(0.3)	(0.1)
		(743.2)	(904.3)	(418.6)	(498.9)
Net current assets/(liabilities)		318.3	(212.0)	(47.1)	(382.5)
Non-current liabilities					
Deferred rental income	21	(205.0)	(211.8)	–	–
Financial liabilities	25	(4,115.1)	(3,319.7)	(4,115.1)	(3,319.7)
Derivative financial instruments	26	(0.8)	(100.5)	(0.8)	(100.5)
Deferred tax liabilities	27	(344.1)	(404.9)	(1.5)	(0.8)
		(4,665.0)	(4,036.9)	(4,117.4)	(3,421.0)
Total liabilities		(5,408.2)	(4,941.2)	(4,536.0)	(3,919.9)
Net assets		2,224.4	2,094.0	97.5	59.5
Equity					
Ordinary share capital	28	0.1	0.1	0.1	0.1
Hedging reserve		6.1	5.3	6.1	5.3
Restricted reserves (*)		2,218.2	2,088.6	91.3	54.1
Total equity		2,224.4	2,094.0	97.5	59.5

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

These financial statements on pages 59 to 104 were approved by the Board of Directors on 16 December 2016 and signed on behalf of the Board.

Mike Betts
Chief Executive

Motability Operations Group plc
Registered number 6541091

The notes on pages 63 to 104 form an integral part of these financial statements

Statements of changes in equity

For the year ended 30 September 2016

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2014	0.1	24.0	1,878.6	1,902.7
Comprehensive income				
Profit for the year	–	–	210.0	210.0
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(62.1)	–	(62.1)
Gains on foreign currency translation	–	38.5	–	38.5
Tax relating to components of other comprehensive income	–	4.9	–	4.9
Total comprehensive (expense)/income	–	(18.7)	210.0	191.3
At 1 October 2015	0.1	5.3	2,088.6	2,094.0
Comprehensive income				
Profit for the year	–	–	129.6	129.6
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	–	204.9	–	204.9
Losses on foreign currency translation	–	(204.0)	–	(204.0)
Tax relating to components of other comprehensive income	–	(0.1)	–	(0.1)
Total comprehensive income	–	0.8	129.6	130.4
At 30 September 2016	0.1	6.1	2,218.2	2,224.4

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2014	0.1	24.0	41.8	65.9
Comprehensive income				
Profit for the year	–	–	12.3	12.3
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(62.1)	–	(62.1)
Gains on foreign currency translation	–	38.5	–	38.5
Tax relating to components of other comprehensive income	–	4.9	–	4.9
Total comprehensive (expense)/income	–	(18.7)	12.3	(6.4)
At 1 October 2015	0.1	5.3	54.1	59.5
Comprehensive income				
Profit for the year	–	–	37.2	37.2
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	–	204.9	–	204.9
Losses on foreign currency translation	–	(204.0)	–	(204.0)
Tax relating to components of other comprehensive income	–	(0.1)	–	(0.1)
Total comprehensive income	–	0.8	37.2	38.0
At 30 September 2016	0.1	6.1	91.3	97.5

The notes on pages 63 to 104 form an integral part of these financial statements

Statements of cash flows

For the year ended 30 September 2016

	Note	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	29	274.4	223.5	(61.2)	(119.7)
Interest (paid)/received		(181.5)	(175.6)	16.6	19.0
Income tax paid		(43.9)	(86.8)	–	–
Net cash generated from/(used in) operating activities		49.0	(38.9)	(44.6)	(100.7)
Cash flows from investing activities					
Investment in subsidiary	16	–	–	–	(45.0)
Disposal of subsidiary	16	–	–	0.3	–
Purchase of intangible assets	11	(14.5)	(10.5)	–	–
Purchase of corporate property, plant and equipment	12	(2.3)	(1.6)	–	–
Proceeds from sale of corporate property, plant and equipment	12	0.3	0.6	–	–
Investment in held to maturity financial assets	15	(76.7)	(24.9)	–	–
Net cash (used in)/generated from investing activities		(93.2)	(36.4)	0.3	(45.0)
Cash flows from financing activities					
Bank loans raised	25	398.8	–	398.8	–
Bank loans repaid		(400.0)	(50.0)	(400.0)	(50.0)
Bonds issued	25	588.0	396.9	588.0	396.9
Bonds redeemed		(300.0)	(200.0)	(300.0)	(200.0)
Net cash generated from financing activities		286.8	146.9	286.8	146.9
Net increase in cash and cash equivalents		242.6	71.6	242.5	1.2
Cash and cash equivalents at beginning of year		198.1	126.5	114.4	113.2
Cash and cash equivalents at end of year	17	440.7	198.1	356.9	114.4

The notes on pages 63 to 104 form an integral part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 4 to 5 and the Group's Shareholders are detailed in the Operational review on page 26.

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

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

Accounting convention

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

2. Significant accounting policies

Basis of preparation

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

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

Except as described below, the accounting policies have been applied consistently to the years 2016 and 2015.

Adoption of new or revised standards

No new or revised standards and interpretations have become effective, or have been adopted in these 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.

Amendments to IFRS 7	*Financial Instruments: Disclosures*
IFRS 9	*Financial Instruments*
Amendments to IFRS 10	*Consolidated Financial Statements*
Amendments to IFRS 11	*Joint Arrangements*
Amendments to IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 14	*Regulatory Deferral Accounts*
IFRS 15	*Revenue from Contracts with Customers*
IFRS 16	*Leases*
Amendments to IAS 1	*Presentation of Financial Statements*
Amendments to IAS 7	*Statement of Cash Flows*
Amendments to IAS 12	*Income Taxes*
Amendments to IAS 16	*Property, Plant and Equipment*
Amendments to IAS 27	*Consolidated and Separate Financial Statements*
Amendments to IAS 28	*Investments in Associates*
Amendments to IAS 34	*Interim Financial Reporting*
Amendments to IAS 38	*Intangible Assets*
Annual improvements to IFRSs	*2012-2014 Cycle*

2. Significant accounting policies continued

Adoption of new or revised standards continued

IFRS 9 – Financial Instruments

IFRS 9 was first issued on 12 November 2009 and following several amendments a complete version was issued on 24 July 2014 with an implementation date for accounting periods commencing on or after 1 January 2018, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2019 (with comparative figures for the previous accounting period also affected). IFRS 9 is a replacement of IAS 39 – Financial Instruments: Recognition and Measurement, and covers the classification, measurement and derecognition of financial assets and financial liabilities, together with a new hedge accounting model and a new expected credit loss model for calculating impairment. The Group is assessing the impact of the adoption of IFRS 9 and initial expectations are that whilst it may require changes to the classification of certain financial assets and financial liabilities and related disclosures, it should have no material impact on the Group's or the Company's reported profits.

IFRS 15 - Revenue from Contracts with Customers

IFRS 15 was issued on 28 May 2014 and has an implementation date for accounting periods commencing on or after 1 January 2018, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2019 (with comparative figures for the previous accounting period also affected). The Group has undertaken initial assessments of the impact of adoption of this standard. IFRS 15 will require the Group to allocate the revenue it receives from customers differently between the provision of vehicles and of other services. This will not have any material impact on reported profits, and will result in an immaterial reduction in the Group's restricted reserves. It will not have any material impact on Motability Operations Group plc's individual company financial statements.

IFRS 16 - Leases

IFRS 16 was issued on 13 January 2016 with an implementation date for accounting periods commencing on or after 1 January 2019, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2020 (with comparative figures for the previous accounting period also affected). In view of the direct link between this standard and the Group's business, the Group has been following the development of this standard and has undertaken initial assessments of the impact of adoption of this standard. The standard expected to be published does not make any significant changes to accounting for lessors compared with the requirements of IAS 17. If IFRS 16 had been applied to the Group's financial statements for the year ended 30 September 2016:

- there would have been no impact on the Group's accounting as a lessor;
- the change in accounting by the Group as lessee would have resulted in an immaterial reduction in the reported profit for the year and in the Group's restricted reserves as at 30 September 2016;
- there would have been an increase in the Group's property, plant and equipment and financial liabilities as at 30 September 2016, with the increase in each of these items being substantially identical;
- there would have been no impact on Motability Operations Group plc's individual company financial statements.

The Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group.

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

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 13 to 21. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 22 to 25. 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.

Basis of consolidation

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

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

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

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

2. Significant accounting policies continued

Investment in subsidiaries

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

Intangible assets

Intangible assets represent computer software costs. In accordance with IAS 38, computer software is capitalised on the basis of the costs incurred to acquire and bring into use the specific software and includes capitalised internal labour where appropriate. These costs are amortised on a straight-line basis over their estimated useful lives, between three and five 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	Four years
Leasehold improvements	Remaining term of lease
Fixtures, fittings and office equipment	Three years

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

Assets held for use in operating leases

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

Inventories

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

Revenue recognition

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

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

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

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

Hire purchase earnings are recognised over the hire purchase agreement term using the net investment method so as to reflect a constant periodic rate of return on the Group's net investment in the contract.

Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities. See note 21.

Deferred income – vehicle condition

Rental income is deferred on a straight-line basis over the life of the lease to the extent that it is expected to be repaid to lessees for returning leased assets in good condition. See note 21.

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.

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

Finance costs

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

2. Significant accounting policies continued

Retirement benefit costs

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

Taxation

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

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

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

Long Term Incentive Arrangements

Payments falling due under Long Term Incentive Arrangements depend upon length of service and performance criteria (see note 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.

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, hire purchase receivables, debt, preference shares and derivative instruments.

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 transform all new issued foreign denominated debt into the Company's functional currency of Sterling.

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

Financial assets

Trade and other receivables

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

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

Insurance receivables

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

Cash and cash equivalents

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

2. Significant accounting policies continued

Financial assets continued

Held to maturity investments

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

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

Financial liabilities including trade and other payables

Trade and other payables

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

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

Financial liabilities

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

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

Insurance payables

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

Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 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 estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The measurement of insurance liabilities and reinsurance recoveries is described in more detail in note 24.

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

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

2. Significant accounting policies continued

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 hedge

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

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical judgements in applying the Group's accounting policies:

Residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 13.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2016, if the future value of the net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used-car market), the effect would be to increase/decrease the depreciation on these vehicles by £48.2m (2015: £47.4m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases, from the start of the current accounting year, so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

Insurance contracts

There are certain factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the claims invariably results in a lengthy legal process where claims quantum can fluctuate, as described in more detail in note 24.

4. Revenue

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

	2016 £m	2015 £m
Rentals receivable from operating leases	2,061.1	2,007.2
Proceeds from disposal of operating lease assets	2,059.9	1,896.2
Insurance reimbursements from disposal of operating lease assets	23.7	12.9
Finance income	3.3	0.9
Other income	2.4	1.2
Hire purchase earnings	0.7	0.9
Contingent rentals	0.7	0.7
Total revenue	4,151.8	3,920.0

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

Reinsurance premiums earned by the Group's insurance captive of £222.1m (2015: £128.1m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

5. Segmental analysis

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

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

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

Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

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

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

Segmental performance

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

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.

Notes to the financial statements continued

5. Segmental analysis continued

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 30 September 2016 and 30 September 2015.

Year ended 30 September 2016	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	2,061.1	–	–	2,061.1
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,083.6	–	–	2,083.6
Inter-segment proceeds	31.4	–	(31.4)	–
Insurance income	–	222.1	(222.1)	–
Other revenue	5.8	1.3	–	7.1
Total revenue	4,181.9	223.4	(253.5)	4,151.8
Net book value of disposed operating lease assets	(2,042.5)	–	–	(2,042.5)
Fleet operating costs	(673.7)	–	222.1	(451.6)
Insurance claims and commission costs	–	(191.9)	31.4	(160.5)
Depreciation on assets used in operating leases	(923.4)	–	–	(923.4)
Other operating costs	(215.2)	(0.5)	–	(215.7)
Charitable donations	(45.0)	–	–	(45.0)
Net operating costs	(3,899.8)	(192.4)	253.5	(3,838.7)
Profit from operations	282.1	31.0	–	313.1
Finance costs	(187.2)	–	–	(187.2)
Profit before tax	94.9	31.0	–	125.9
Taxation	9.9	(6.2)	–	3.7
Profit for the year	104.8	24.8	–	129.6

PPE & intangible assets	47.8	–	–	47.8
Assets held for use in operating leases (including inventories)	6,438.3	–	–	6,438.3
Derivative financial instruments	107.2	–	–	107.2
Insurance receivables	–	102.9	34.2	137.1
Trade and other receivables	307.3	–	–	307.3
Financial assets	472.9	223.3	(101.3)	594.9
Total assets	7,373.5	326.2	(67.1)	7,632.6
Deferred income	(382.9)	–	–	(382.9)
Insurance payables	–	(43.9)	–	(43.9)
Trade and other payables	(199.8)	(0.2)	–	(200.0)
Corporation tax payable	(26.3)	–	–	(26.3)
Financial liabilities	(4,223.4)	–	–	(4,223.4)
Deferred taxation	(344.1)	–	–	(344.1)
General insurance business provisions	–	(152.3)	(34.2)	(186.5)
Derivative financial instruments	(1.1)	–	–	(1.1)
Total liabilities	(5,177.6)	(196.4)	(34.2)	(5,408.2)
Net assets	2,195.9	129.8	(101.3)	2,224.4

Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	6.1	–	–	6.1
Restricted reserves	2,189.7	28.5	–	2,218.2
Total equity	2,195.9	129.8	(101.3)	2,224.4

5. Segmental analysis continued

Year ended 30 September 2015	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	2,007.2	–	–	2,007.2
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,909.1	–	–	1,909.1
Inter-segment proceeds	5.5	–	(5.5)	–
Insurance income	–	128.1	(128.1)	–
Other revenue	3.3	0.4	–	3.7
Total revenue	3,925.1	128.5	(133.6)	3,920.0
Net book value of disposed operating lease assets	(1,790.5)	–	–	(1,790.5)
Fleet operating costs	(640.1)	–	128.1	(512.0)
Insurance claims and commission costs	–	(130.6)	5.5	(125.1)
Depreciation on assets used in operating leases	(831.0)	–	–	(831.0)
Other operating costs	(191.0)	(0.5)	–	(191.5)
Charitable donations	(25.0)	–	–	(25.0)
Net operating costs	(3,477.6)	(131.1)	133.6	(3,475.1)
Profit/(loss) from operations	447.5	(2.6)	–	444.9
Finance costs	(183.3)	–	–	(183.3)
Profit/(loss) before tax	264.2	(2.6)	–	261.6
Taxation	(52.1)	0.5	–	(51.6)
Profit/(loss) for the year	212.1	(2.1)	–	210.0

PPE & intangible assets	36.8	–	–	36.8
Assets held for use in operating leases (including inventories)	6,364.8	–	–	6,364.8
Derivative financial instruments	1.8	–	–	1.8
Insurance receivables	–	55.1	20.6	75.7
Trade and other receivables	263.1	–	–	263.1
Financial assets	233.3	161.0	(101.3)	293.0
Total assets	6,899.8	216.1	(80.7)	7,035.2
Deferred income	(382.7)	–	–	(382.7)
Insurance payables	–	(30.8)	–	(30.8)
Trade and other payables	(163.2)	(0.2)	–	(163.4)
Corporation tax payable	(13.0)	–	–	(13.0)
Financial liabilities	(3,739.0)	–	–	(3,739.0)
Deferred taxation	(404.9)	–	–	(404.9)
General insurance business provisions	–	(86.2)	(20.6)	(106.8)
Derivative financial instruments	(100.6)	–	–	(100.6)
Total liabilities	(4,803.4)	(117.2)	(20.6)	(4,941.2)
Net assets	2,096.4	98.9	(101.3)	2,094.0
Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	5.3	–	–	5.3
Restricted reserves	2,091.0	(2.4)	–	2,088.6
Total equity	2,096.4	98.9	(101.3)	2,094.0

Notes to the financial statements continued

6. Net operating costs

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

	2016 £m	2015 £m
Net book value of disposed operating lease assets	1,995.4	1,775.3
Net book value of operating lease assets derecognised as insurance write-offs	47.1	15.2
Fleet operating costs including insurance, maintenance and roadside assistance costs	451.6	512.0
Insurance claims expense	160.5	125.1
Other product costs including continuous mobility costs, adaptations support, communications	64.2	40.8
Other operating costs	61.8	58.8
Employee costs	50.1	47.1
Charitable donations	45.0	25.0
Legal and professional fees	16.3	16.1
Motability levy and rebates	11.0	10.9
Bad debt charges and movement in bad debt provisions	6.0	10.6
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	2,909.8	2,637.7
Depreciation on assets used in operating leases	923.4	831.0
Depreciation and amortisation of property, plant and equipment and intangible assets	5.5	6.4
Net operating costs	3,838.7	3,475.1

The depreciation charge on assets used in operating leases includes a £151.5m charge (2015: £63.0m charge) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditors' remuneration

		2016	2015
Auditors' remuneration:	Audit fees for Group and Parent Company financial statements	£146,000	£170,000
Total audit fees		£146,000	£170,000
	Audit fees paid on behalf of subsidiaries	£132,700	£139,250
	Audit-related assurance services	£66,900	£64,750
	Tax compliance services	£0	£0
	Tax advisory services	£0	£0
	Internal audit services	£0	£0
	Other assurance services	£42,200	£40,800
	Corporate finance services	£0	£0
Total other fees payable to auditors		£241,800	£244,800

8. Employee costs

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

Group

	2016	2015
Administrative staff	834	830

	2016 £m	2015 £m
The breakdown of staff costs is as follows:		
Wages and salaries	42.0	39.5
Social security costs	4.8	4.4
Other pension costs	3.3	3.2
Total employee costs	50.1	47.1

9. Finance costs

	2016 £m	2015 £m
Interest and charges on bank loans and overdrafts	13.9	11.7
Interest on debt issued under the Euro Medium Term Note Programme	172.6	170.9
Preference dividends	0.7	0.7
Total finance costs	187.2	183.3

10. Taxation

The major components of the Group tax expense are:

	2016 £m	2015 £m
Current tax		
Charge for the year	56.2	72.1
Adjustment in respect of prior years	1.1	(0.2)
Total	57.3	71.9
Deferred tax		
Origination and reversal of temporary differences	(31.2)	(17.6)
Utilisation of pre-trading losses brought forward	0.5	(0.5)
Adjustment in respect of prior years	0.1	(0.3)
Impact of change in UK tax rate	(30.4)	(1.9)
Total	(61.0)	(20.3)
Tax on profit	(3.7)	51.6

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:

	2016 £m	2015 £m
Profit before taxation	125.9	261.6
Tax calculated at appropriate tax rates applicable to profit	25.2	53.6
Expenses not deductible for tax purposes	0.3	0.4
Adjustment relating to prior year’s deferred tax	0.1	(0.3)
Adjustments recognised in the current year in relation to the current tax of prior years	1.1	(0.2)
Taxation excluding the impact of future changes in the UK corporation tax rate	26.7	53.5
Non-recurring items		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	(30.4)	(1.9)
Total tax on profit	(3.7)	51.6

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2015. Accordingly, profits are taxable at 20.0% for this accounting year (2015: 20.5%).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 20.3% (2015: 20.6%). This is marginally higher than the standard rate due to non-deductible expenses consisting predominantly of depreciation on leasehold improvements and preference dividends payable.

The Group's effective tax rate for next year is expected to be 19.9%; a blended rate reflecting the headline rate moving from 20% to 19% halfway through the year plus an element of non-deductible expenses in line with 2015 and 2016.

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 2016, the Group paid £31m towards the current year tax charge of £57m. (2015: £59m towards a tax charge of £72m.) The balance of £26m (2015: £13m) is shown as corporation tax payable at the year end. We also paid the opening corporation tax payable of £13m during the year, giving a total tax payment of £44m for 2016.

Prior year adjustments

In 2015 we estimated the split of capital allowances following an intra-group reorganisation. In the final tax returns for the subsidiaries, more capital allowances fell due in the second half of the year (at a tax rate of 20.5%) and less in the first half (at a tax rate of 21%) and therefore this resulted in an increase of the 2015 current taxation charge from £72.0m to £73.1m.

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

Notes to the financial statements continued

11. Intangible assets

Group

Cost	Total £m
At 1 October 2014	23.3
Additions	10.5
At 1 October 2015	33.8
Additions	14.5
At 30 September 2016	48.3

Accumulated amortisation and impairment	
At 1 October 2014	14.3
Amortisation charge for the year	2.3
At 1 October 2015	16.6
Amortisation charge for the year	2.1
At 30 September 2016	18.7

Carrying amount	
At 1 October 2014	9.0
Additions	10.5
Amortisation	(2.3)
At 1 October 2015	17.2
Additions	14.5
Amortisation	(2.1)
At 30 September 2016	29.6

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

At 30 September 2016, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £3.2m (2015: £nil). These amounts relate to the IT system replacement project.

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2014	2.2	25.7	15.5	43.4
Additions	1.1	–	0.5	1.6
Disposals	(1.0)	–	–	(1.0)
At 1 October 2015	2.3	25.7	16.0	44.0
Additions	1.0	–	1.3	2.3
Disposals	(0.7)	(3.6)	(6.2)	(10.5)
At 30 September 2016	2.6	22.1	11.1	35.8
Accumulated depreciation				
At 1 October 2014	0.8	7.6	12.4	20.8
Charge for the year	0.5	1.6	2.0	4.1
Eliminated on disposals	(0.5)	–	–	(0.5)
At 1 October 2015	0.8	9.2	14.4	24.4
Charge for the year	0.5	1.5	1.4	3.4
Eliminated on disposals	(0.4)	(3.6)	(6.2)	(10.2)
At 30 September 2016	0.9	7.1	9.6	17.6
Carrying amount				
At 1 October 2014	1.4	18.1	3.1	22.6
Additions	1.1	–	0.5	1.6
Disposals	(0.5)	–	–	(0.5)
Depreciation	(0.5)	(1.6)	(2.0)	(4.1)
At 1 October 2015	1.5	16.5	1.6	19.6
Additions	1.0	–	1.3	2.3
Disposals	(0.3)	–	–	(0.3)
Depreciation	(0.5)	(1.5)	(1.4)	(3.4)
At 30 September 2016	1.7	15.0	1.5	18.2

At 30 September 2016, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £nil (2015: £nil).

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2014	7,259.9
Additions	2,971.0
Transfer to inventory	(2,571.1)
At 1 October 2015	7,659.8
Additions	3,039.4
Transfer to inventory	(2,825.9)
At 30 September 2016	7,873.3

Accumulated depreciation	
At 1 October 2014	1,343.6
Charge for the year	831.0
Eliminated on transfer to inventory	(769.7)
At 1 October 2015	1,404.9
Charge for the year	923.4
Eliminated on transfer to inventory	(778.4)
At 30 September 2016	1,549.9

Carrying amount	
At 1 October 2014	5,916.3
Additions	2,971.0
Depreciation	(831.0)
Transfer to inventory (note 14)	(1,801.4)
At 1 October 2015	6,254.9
Additions	3,039.4
Depreciation	(923.4)
Transfer to inventory (note 14)	(2,047.5)
At 30 September 2016	6,323.4

Residual values

Residual values represent the estimated net sale proceeds expected from the sale of assets at the end of the leasing period. A review is undertaken at the balance sheet date using market data to identify net residual values which differ from the sum anticipated at the inception of the lease.

In addition, the assets' resale market value and disposal costs structure are monitored and the process of realising asset values is managed in order to seek to maximise the net sale proceeds.

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

Years in which unguaranteed residual values are recovered

	2016 £m	2015 £m
No later than one year	1,429.9	1,449.8
Later than one year and not later than two years	1,454.8	1,473.1
Later than two years and not later than three years	1,870.9	1,761.0
Later than three years and not later than four years	29.4	27.6
Later than four years and not later than five years	32.7	32.2
Total exposure	4,817.7	4,743.7

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 'Critical accounting judgements' policy in note 3). The amounts resulting from changes in estimates on the live fleet at the balance sheet date are detailed below, together with the timing of the effects on the income statement.

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

	2016 £m	2015 £m
Prior years	(107.9)	(47.4)
Current year	(151.5)	(63.0)
Amounts carried at 30 September	(259.4)	(110.4)
Amounts to be charged in future years	(190.3)	(181.2)
Total decrease in estimated residual value	(449.7)	(291.6)

The Group and Company as lessor

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

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
No later than one year	1,504.6	1,580.4	–	–
Later than one year and not later than two years	841.7	935.8	–	–
Later than two years and not later than three years	292.7	339.0	–	–
Later than three years and not later than four years	16.2	19.4	–	–
Later than four years and not later than five years	5.1	6.0	–	–
Total	2,660.3	2,880.6	–	–

14. Inventories

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Ex-operating lease assets held for sale	114.9	109.9	–	–
Provisions	–	–	–	–
Ex-operating lease assets held for sale (net)	114.9	109.9	–	–

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 (2015: £nil). During the year there was no movement in provision and £nil written off (2015: £0.2m release in provision and £nil written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £2,042.5m (2015: £1,790.5m).

The movements of the inventories in 2016 and 2015 are as follows:

	£m
At 1 October 2014	99.0
Transfer from operating lease assets (note 13)	1,801.4
Disposals (including insurance write-offs)	(1,790.5)
At 1 October 2015	109.9
Transfer from operating lease assets (note 13)	2,047.5
Disposals (including insurance write-offs)	(2,042.5)
At 30 September 2016	114.9

15. Held to maturity investments

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Current	27.5	1.4	–	–
Non-current	74.1	23.5	–	–
Total held to maturity investments	101.6	24.9	–	–

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

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
On demand or no later than one year	27.5	1.4	–	–
Later than one year and no later than two years	56.1	7.6	–	–
Later than two years and no later than five years	18.0	15.9	–	–
Later than five years	–	–	–	–
Total	101.6	24.9	–	–

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

The Group's held to maturity investments comprise investments in quoted debt securities (fixed-income bonds). The average effective interest rate of the quoted debt securities is 2.36% per annum (2015: 1.14%), with coupon rates ranging from 0.72% to 6.25% per annum (2015: 0.00% to 6.25%). The held to maturity investments are denominated in Sterling, which is the functional currency of the Group.

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

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

	2015 Group carrying amount £m	2015 Group fair value £m	2015 Company carrying amount £m	2015 Company fair value £m
Current held to maturity investments	1.4	1.4	–	–
Non-current held to maturity investments	23.5	23.5	–	–
Total	24.9	24.9	–	–

16. Investment in subsidiaries

	2016 £m	2015 £m
Investment in subsidiaries at 30 September	113.5	113.8

The Company's subsidiaries are set out below:

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

All of the above subsidiaries are incorporated in Great Britain, with the exception of MO Reinsurance Limited which is incorporated in the Isle of Man. The Directors consider the value of the investments to be supported by underlying assets.

Following the cessation of the trade of Motability Hire Purchase Limited during the year, the Group structure was further simplified. Motability Operations Group plc sold its 100% holding of Motability Hire Purchase Limited to Motability Operations Limited for net asset value. This had the effect of transferring the closing restricted reserves of Motability Hire Purchase Limited to Motability Operations Group plc. This restructure has not resulted in any gains or losses for the Group.

Loans to Group companies

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Motability Operations Limited	–	–	4,037.5	3,737.5
Total	–	–	4,037.5	3,737.5

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Loans to Group companies – current	–	–	–	–
Loans to Group companies – non-current	–	–	4,037.5	3,737.5
Total	–	–	4,037.5	3,737.5

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 £197.8m (2015: £194.4m) in respect of loans to Group companies.

Notes to the financial statements continued

17. Cash and cash equivalents

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Cleared balances	478.8	251.3	356.9	114.4
Cash in the course of collection	14.5	15.9	–	–
Cash and bank balances	493.3	267.2	356.9	114.4

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Cleared balances	–	–	–	–
Cash in the course of transmission	(52.6)	(69.1)	–	–
Bank overdrafts	(52.6)	(69.1)	–	–

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

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

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Cash and bank balances	493.3	267.2	356.9	114.4
Bank overdrafts	(52.6)	(69.1)	–	–
Cash and cash equivalents	440.7	198.1	356.9	114.4

18. Hire purchase receivables

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Gross repayments receivable				
No later than one year	–	1.0	–	–
Later than one year and not later than five years	–	–	–	–
Total	–	1.0	–	–
Unearned income receivable				
No later than one year	–	(0.1)	–	–
Later than one year and not later than five years	–	–	–	–
Total	–	(0.1)	–	–
Net total due within one year	–	0.9	–	–
Net total due in the second to fifth years inclusive	–	–	–	–
Present value of minimum hire purchase receivables	–	0.9	–	–

The Group's hire purchase scheme was terminated in December 2015.

19. Insurance receivables

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Insurance premium debtor	26.6	16.9	–	–
Claims recoveries and rebates	41.4	25.0	–	–
Reinsurance claims recoveries and commissions receivable	69.1	33.8	–	–
Total insurance receivables	137.1	75.7	–	–

The carrying value of insurance receivables approximates to fair value.

20. Trade and other receivables

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Trade receivables	112.7	87.3	–	–
Other receivables	78.5	72.2	–	–
Prepayments and accrued income	116.1	103.6	18.4	11.9
Total	307.3	263.1	18.4	11.9
Included in current assets	288.7	237.2	14.6	2.0
Included in non-current assets	18.6	25.9	3.8	9.9
Total	307.3	263.1	18.4	11.9

Trade receivables include an allowance for estimated irrecoverable amounts of £8.3m (2015: £6.8m). This allowance has been made by reference to past default experience. During the year there was a £13.3m increase in provision and £11.8m of receivables were written off (2015: £7.3m increase in provision and £4.4m written off). The average receivable days' period is 10 days (2015: eight days).

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

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

Included in the Group's trade receivables balance are receivables with a carrying value of £4.7m (2015: £20.1m) 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 (2015: six days).

Ageing of past due but not impaired receivables:

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Past due by 1-30 days	4.6	19.1	–	–
Past due by 31-60 days	0.1	0.8	–	–
Past due by 61-90 days	–	0.1	–	–
Past due by 91-120 days	–	–	–	–
Past due by more than 120 days	–	0.1	–	–
Total	4.7	20.1	–	–

21. Deferred rental income

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Customers' advance payments (*)	117.0	114.5	–	–
Vehicle maintenance income	13.3	13.6	–	–
Vehicle insurance income	5.4	1.0	–	–
Customers' end of contract bonuses	42.2	41.8	–	–
Total current	177.9	170.9	–	–
Customers' advance payments (*)	118.3	116.9	–	–
Vehicle maintenance income	44.0	46.3	–	–
Vehicle insurance income	13.7	16.7	–	–
Customers' end of contract bonuses	29.0	31.9	–	–
Total non-current	205.0	211.8	–	–
Total	382.9	382.7	–	–

(*) 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.

22. Insurance payables

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Reinsurance premiums payable	7.3	9.6	–	–
Commissions and administration fee payable	13.1	5.9	–	–
Claims reimbursements payable	23.5	15.3	–	–
Total insurance payables	43.9	30.8	–	–

The carrying value of insurance payables approximates to fair value.

23. Trade and other payables

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Trade payables	62.4	40.7	–	–
Social security and other taxes	1.3	1.3	–	–
Accruals	131.5	113.9	–	–
Other payables	0.1	0.2	356.9	148.6
Advance payments received from DWP	4.7	7.3	–	–
Total	200.0	163.4	356.9	148.6

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

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2015: 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 provisions risk. Underwriting risks arise out of day-to-day activities in underwriting contracts of insurance as well as risks associated with outward reinsurance. Insurance provision risk is the possibility that actual claims payments differ from the carrying amount of the insurance reserves. This could occur because the frequency or severity of claims is greater or less than estimated.

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

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

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

Motor insurance risks

The Group is providing 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.

24. General insurance provisions and insurance risk management continued

Sources of uncertainty in the estimation of future claim payments

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

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

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £25,000 (2015: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2015: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 116.2% (2015: 114.9%) of the Group's net earned premium income or £240,742,000 (2015: £146,000,000) in the aggregate, whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 126.4% (2015: 125.9%) of net premium earned or £21,015,000 (2015: £14,000,000) 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.

General insurance provisions

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

Specific claims reserves including IBNR

Specific 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	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Specific claims reserves including IBNR	186.5	106.8	–	–
Third-party recoveries reserve	(34.1)	(20.7)	–	–
Reinsurance recoveries reserve	(67.8)	(32.3)	–	–
Total net retained	84.6	53.8	–	–

The Group has appointed an independent actuary to undertake an actuarial study of the motor quota-share reinsurance claims reserves. The independent 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.

24. General insurance provisions and insurance risk management continued

General insurance provisions continued

Bornhuetter-Fergusson method

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

Average Cost per Claim method

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

The Directors have considered the report of the 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.

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting year 2016 £m	Underwriting year 2015 £m	Underwriting year 2014 £m	Total £m
At end of reporting year	220.5	157.2	52.0	
One year later	–	153.6	51.7	
Two years later	–	–	49.4	
Current estimate of cumulative claims	220.5	153.6	49.4	423.5
Cumulative payments to date	(118.4)	(117.4)	(42.5)	(278.3)
Rebates	20.5	12.9	4.1	37.5
Total liability included in balance sheet	122.6	49.1	11.0	182.7

Estimate of ultimate claims cost net of reinsurance	Underwriting year 2016 £m	Underwriting year 2015 £m	Underwriting year 2014 £m	Total £m
At end of reporting year	163.9	122.9	40.3	
One year later	–	118.2	40.2	
Two years later	–	–	39.1	
Current estimate of cumulative claims	163.9	118.2	39.1	321.2
Cumulative payments to date	(118.0)	(115.5)	(40.6)	(274.1)
Rebates	20.5	12.9	4.1	37.5
Total liability net of reinsurance included in balance sheet	66.4	15.6	2.6	84.6
Comprises:				
Specific claims reserves including IBNR				186.5
Third-party recoveries reserve				(34.1)
Reinsurance recoveries reserve				(67.8)
Total				84.6

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

24. General insurance provisions and insurance risk management continued

Motor quota-share reinsurance continued

Movements in insurance liabilities

	2016 Gross £m	2016 Recoveries £m	2016 Net £m	2015 Gross £m	2015 Recoveries £m	2015 Net £m
Claims						
Notified claims including IBNR	119.3	(44.8)	74.5	35.1	(11.7)	23.4
Notified claims recoveries	(20.7)	–	(20.7)	(5.4)	–	(5.4)
Total at beginning of year	98.6	(44.8)	53.8	29.7	(11.7)	18.0
Cash paid for claims settled						
In the year	(130.4)	3.2	(127.2)	(87.8)	0.8	(87.0)
Movement in liabilities						
Current year claims including IBNR	220.5	(57.5)	163.0	74.3	(17.9)	56.4
Prior year claims including IBNR	(5.9)	0.9	(5.0)	82.4	(16.0)	66.4
Total at end of year	182.8	(98.2)	84.6	98.6	(44.8)	53.8
Notified claims including IBNR	216.9	(98.2)	118.7	119.3	(44.8)	74.5
Notified claims recoveries	(34.1)	–	(34.1)	(20.7)	–	(20.7)
Total at end of year	182.8	(98.2)	84.6	98.6	(44.8)	53.8

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

25. Financial liabilities

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Current				
Accrued interest and coupon	55.7	50.6	55.7	50.6
Bank overdrafts	52.6	69.1	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	–	299.6	–	299.6
Total current	108.3	419.3	55.7	350.2
Non-current				
Bank loans	398.8	398.7	398.8	398.7
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	3,706.3	2,911.0	3,706.3	2,911.0
Preference shares	10.0	10.0	10.0	10.0
Total non-current	4,115.1	3,319.7	4,115.1	3,319.7
Total	4,223.4	3,739.0	4,170.8	3,669.9
The financial liabilities are repayable as follows:				
On demand or no later than one year	108.3	419.3	55.7	350.2
Later than one year and no later than two years	432.5	–	432.5	–
Later than two years and no later than five years	1,323.6	1,621.0	1,323.6	1,621.0
Later than five years	2,359.0	1,698.7	2,359.0	1,698.7
Total	4,223.4	3,739.0	4,170.8	3,669.9

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

25. Financial liabilities continued

Bank borrowings

All bank borrowings as at 30 September 2016 and 2015 are at floating rates.

As at 30 September 2016 the Group has the following principal bank loans:

a) A five-year term loan of £0.4 billion taken out on 28 September 2016 (2015: five-year term loan of £0.4 billion taken out on 30 December 2013). The loan repayment date is 28 September 2021 (2015: 31 December 2018).

b) A five-year revolving credit facility of £1.5 billion taken out on 28 September 2016 (2015: five-year revolving credit facility of £1.5 billion taken out on 30 December 2013) of which £nil was drawn as at 30 September 2016 (2015: £nil). The facility repayment date is 28 September 2021 (2015: 31 December 2018).

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

Debt issued under the Euro Medium Term Note Programme

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

	30 September 2016 £m	30 September 2015 £m
5.250% Sterling bond due 2016 (IV)	–	299.6
3.750% Eurobond due 2017 (I)	432.5	368.3
3.250% Eurobond due 2018 (II)	475.7	405.2
6.625% Sterling bond due 2019	449.0	448.8
5.375% Sterling bond due 2022	397.6	397.2
1.625% Eurobond due 2023 (III)	471.8	400.8
3.750% Sterling bond due 2026	297.2	296.9
4.375% Sterling bond due 2027	296.0	295.6
5.625% Sterling bond due 2030	298.3	298.2
3.625% Sterling bond due 2036	588.3	–
	3,706.4	3,210.6

(I) The repayment obligation in respect of the Eurobonds of €500m (£433.1m) is hedged by cross-currency swap contracts (note 26) for the purchase of €500m and for the sale of £425.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(II) The repayment obligation in respect of the Eurobonds of €550m (£476.4m) is hedged by cross-currency swap contracts (note 26) for the purchase of €550m and for the sale of £459.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(III) The repayment obligation in respect of the Eurobonds of €550m (£476.4m) is hedged by cross-currency swap contracts (note 26) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(IV) On 12 June 2015 the Group redeemed £200m of the 5.520% £500m Sterling bond due 2016.

The Company has a £4 billion Euro Medium Term Note Programme with denominations of GBP 50,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £4 billion Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

During the year ended 30 September and the previous two financial years the Group has issued the following bonds:

- a £600m Sterling bond with a rate of 3.625% issued on 10 March 2016 and expiring on 10 March 2036;
- a €550m Eurobond with a rate of 1.625% issued on 9 June 2015 and expiring on 9 June 2023; and
- a £300m Sterling bond with a rate of 3.75% issued on 16 July 2014 and expiring on 16 July 2026.

25. Financial liabilities continued

Other comprehensive income and hedging reserve

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

Under the hedge accounting rules outlined in IAS 39, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 30 September 2016, the Eurobond debt liability was increased by £98.6m (2015: reduced by £105.4m). This change in valuation of £204.0m is a result of Sterling weakening against the Euro. The associated asset relating to derivatives at 30 September 2016 was £106.1m (2015: liability of £98.8m) – an increase of £204.9m (see note 26). The net valuation difference at 30 September 2016 is therefore an asset of £7.6m which, after tax at 19.5%, leads to a hedging reserve of £6.1m.

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 2016 and 30 September 2015 were as follows:

	2016 Group %	2015 Group %	2016 Company %	2015 Company %
Current bank loans and overdrafts	1.2	1.4	–	–
Non-current bank loans	1.0	1.8	1.0	1.8
Non-current debt issued under the Euro Medium Term Note Programme	4.4	4.7	4.4	4.7
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2016 and 30 September 2015, the Group had the following undrawn committed borrowing facilities:

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Working capital facility	100.0	100.0	95.0(*)	95.0(*)
Revolving credit facility	1,500.0	1,500.0	1,500.0	1,500.0
Total	1,600.0	1,600.0	1,595.0	1,595.0

(*) 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:

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
No later than one year	5.0	5.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,595.0	1,595.0	1,595.0	1,595.0
Total	1,600.0	1,600.0	1,595.0	1,595.0

25. Financial liabilities continued

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

	2016 Group carrying amount £m	2016 Group fair value £m	2016 Company carrying amount £m	2016 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	108.3	108.3	55.7	55.7
Non-current debt issued under the Euro Medium Term Note Programme (*)	3,706.3	4,478.8	3,706.3	4,478.8
Non-current bank loans	398.8	398.8	398.8	398.8
Non-current preference shares	10.0	14.3	10.0	14.3
Total	4,223.4	5,000.2	4,170.8	4,947.6

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

	2015 Group carrying amount £m	2015 Group fair value £m	2015 Company carrying amount £m	2015 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	119.7	119.7	50.6	50.6
Current debt issued under the Euro Medium Term Note Programme (*)	299.6	310.9	299.6	310.9
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,911.0	3,266.9	2,911.0	3,266.9
Non-current bank loans	398.7	398.7	398.7	398.7
Non-current preference shares	10.0	13.7	10.0	13.7
Total	3,739.0	4,109.9	3,669.9	4,040.8

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

As at 30 September 2016, the fair value of current and non-current bank loans approximates to their carrying values, because all the bank loans carry floating interest rates. The fair value of preference shares for disclosure purposes is estimated by discounting the cash flows at a discount rate which is derived from the yield curve at the balance sheet date. The fair value of the debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on the market data at the balance sheet date.

26. Derivative financial instruments

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

26. Derivative financial instruments continued

	Group 2015		Company 2015	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	(98.1)	1,287.5	(98.1)	1,287.5
Interest rate swaps	(0.7)	400.0	(0.7)	400.0
Total	(98.8)	1,687.5	(98.8)	1,687.5
Included in non-current liabilities	(100.5)	1,085.0	(100.5)	1,085.0
Included in current liabilities	(0.1)	200.0	(0.1)	200.0
Derivative financial instrument liabilities	(100.6)	1,285.0	(100.6)	1285.0
Included in non-current assets	1.8	402.5	1.8	402.5
Derivative financial instrument assets	1.8	402.5	1.8	402.5

Cross-currency swaps

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

On 8 February 2012, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €550m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 3.25% is fully swapped into the GBP rate of 3.664%.

On 9 June 2015, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €550m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 1.625% is fully swapped into the GBP rate of 2.998%.

Interest rate swaps

At 30 September 2016, the fixed interest rates varied from 0.8195% to 0.845% (2015: the fixed interest rates varied from 0.789% to 0.845%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 30 September 2016 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.

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
No later than one year	(10.3)	(10.5)	(10.3)	(10.5)
Later than one year and no later than three years	0.2	(10.1)	0.2	(10.1)
Later than three years and no later than five years	(11.1)	(4.6)	(11.1)	(4.6)
Later than five years	(11.1)	(16.6)	(11.1)	(16.6)
Total	(32.3)	(41.8)	(32.3)	(41.8)

Further details of derivative financial instruments are provided in note 36.

Notes to the financial statements continued

27. Deferred tax

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Net at 1 October 2014	424.5	(0.6)	6.2	–	430.1
Credit to income	(17.4)	(0.2)	–	–	(17.6)
Credit to income due to change in UK tax rate	(1.9)	–	–	–	(1.9)
Credit to equity	–	–	(4.9)	–	(4.9)
Controlled foreign company loss carried forward	–	–	–	(0.5)	(0.5)
Adjustment in respect of prior years	(0.3)	–	–	–	(0.3)
Net at 1 October 2015	404.9	(0.8)	1.3	(0.5)	404.9
Credit to income	(31.0)	(0.2)	–	–	(31.2)
(Credit)/charge to income due to change in UK tax rate	(30.5)	0.1	–	–	(30.4)
Charge to equity	–	–	0.2	–	0.2
Controlled foreign company loss carried forward	–	–	–	0.5	0.5
Adjustment in respect of prior years	0.1	–	–	–	0.1
Net at 30 September 2016	343.5	(0.9)	1.5	–	344.1

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:

	2016 £m	2015 £m
Deferred tax assets	–	–
Deferred tax liabilities	344.1	404.9
Net at 30 September	344.1	404.9

On 26 October 2015 Finance Act 2015 was substantively enacted, reducing the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and then 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, the overall impact has been a release of £30.4m from deferred tax liabilities as a credit to the tax line in the year. This release is a result of a re-estimation of the liability at the end of the year using tax rates and laws 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 £1.9bn. If measured to unwind at 20%, this would represent a deferred tax liability of £374.5m. Using the best estimate of the timing of the unwinding of the temporary differences the liability has been estimated to be £344.1m – a blended rate of 18.4%.

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

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
At 1 October 2014	–	–	6.2	–	6.2
Credit to equity	–	–	(4.9)	–	(4.9)
Controlled foreign company loss carried forward	–	–	–	0.5	0.5
At 1 October 2015	–	–	1.3	0.5	1.8
Charge to equity	–	–	0.2	–	0.2
Controlled foreign company loss carried forward	–	–	–	(0.5)	(0.5)
At 30 September 2016	–	–	1.5	–	1.5

28. Ordinary share capital

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

	2016	2015
Authorised:		
100,000 (2015: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2015: 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:

	2016 Group £m	2015 Group £m	2016 Company £m	2015 Company £m
Profit before tax	125.9	261.6	43.4	11.8
Adjustments for:				
Depreciation and amortisation charge on corporate assets	5.5	6.4	–	–
Depreciation charge on operating lease assets	923.4	831.0	–	–
Finance costs	187.2	183.3	(11.0)	(11.3)
Gains on disposal of operating lease assets	(64.5)	(120.9)	–	–
Losses on operating lease assets written off through insurance	23.4	2.3	–	–
Gains on disposal of corporate assets	(0.1)	(0.1)	–	–
(Decrease)/increase in debt provisions	(3.8)	7.8	–	–
Operating cash flows before movements in working capital	1,197.0	1,171.4	32.4	0.5
Purchase of assets held for use in operating leases	(3,039.4)	(2,971.0)	–	–
Proceeds from sale of assets held for use in operating leases	2,059.9	1,896.2	–	–
Proceeds from insurance reimbursements of operating lease assets written off	23.7	12.9	–	–
Decrease in hire purchase receivables	6.1	6.9	–	–
Increase in insurance receivables	(61.4)	(54.8)	–	–
(Increase)/decrease in other receivables	(41.8)	22.7	(2.0)	0.5
Increase in loans to and investment in subsidiaries	–	–	(300.0)	(152.5)
Increase in deferred rental income	0.3	29.9	–	–
Increase in general insurance provisions	79.7	79.7	–	–
Increase in insurance payables	13.1	20.8	–	–
Increase in payables	37.2	8.8	208.4	31.8
Cash generated from/(used in) operations	274.4	223.5	(61.2)	(119.7)

30. Analysis of changes in net debt

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

	At 1 October 2014 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2015 £m
Cash and bank balances	206.9	60.3	–	–	267.2
Bank overdrafts	(80.4)	11.3	–	–	(69.1)
Cash and cash equivalents	126.5	71.6	–	–	198.1
Borrowings due within one year	–	–	–	–	–
Borrowings due after one year	(448.4)	50.0	–	(0.3)	(398.7)
Debt issued under the Euro Medium Term Note Programme	(3,048.6)	(196.9)	38.5	(3.6)	(3,210.6)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,507.0)	(146.9)	38.5	(3.9)	(3,619.3)
Total net debt	(3,380.5)	(75.3)	38.5	(3.9)	(3,421.2)

	2016 Group £m	2015 Group £m
Cash and bank balances	493.3	267.2
Current financial liabilities	(108.3)	(419.3)
Non-current financial liabilities	(4,115.1)	(3,319.7)
Total	(3,730.1)	(3,471.8)
Less interest accruals included in financial liabilities	55.7	50.6
Total net debt	(3,674.4)	(3,421.2)

31. Operating lease arrangements

The Group as lessee

	2016 Group £m	2015 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:

	2016 Group £m	2015 Group £m
No later than one year	3.6	3.4
Later than one year and no later than five years	13.9	13.9
Later than five years	17.3	20.9
Total	34.8	38.2

Operating lease payments represent rentals payable by the Group for use of office properties. Leases are negotiated for an average term of 10 years and rentals fixed for an average of three years.

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 2016 amounted to £3,338,109 (2015: £3,184,632). Net contributions due at the balance sheet date were £3,911 (2015: £50).

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 4 to 30.

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

The relationship of the Company to the Motability Charity is set out on pages 4 and 5 of the Strategic Report.

Transactions

The Group paid Motability £9.3m (2015: £8.6m) relating to its administration costs (the 'Motability levy').

In addition, £1.8m (2015: £2.3m) was paid by the Group as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair-accessible vehicles. The Group donated £3,360 (2015: £7,288) to Motability's charitable funds during the year.

In 2013, the Government launched a new benefit – the Personal Independence Payment (PIP) – which will gradually replace Disability Living Allowance (DLA) for disabled people aged between 16 and 64. During the reassessment process and transition from DLA to PIP it is expected that some people may lose their eligibility for the Motability Scheme. The Group has worked closely with Motability to devise a transitional support package which includes charitable support grants from Motability (subject to conditions) of £2,000 for customers who joined the Scheme prior to January 2013 and £1,000 for customers joining the Scheme during calendar year 2013. During the year the Group has made an additional donation to Motability of £nil (2015: £25m) to fund this transitional support package.

During the year the Group made a charitable donation of £45.0m (2015: £nil) to Motability. The donation was made to enable Motability to provide customers with financial grants towards the cost of passenger Wheelchair Accessible Vehicles (WAVs) and other complex vehicle adaptations.

The funding of the Group and the Company through bank loans is provided by the shareholder banks on commercial terms (see note 9 for details of financing costs on bank loans; £0.3m (2015: £0.2m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2015: £0.8m) were due to the Shareholder banks in proportion to their shareholdings for management services.

During the year the Group made preference share dividend payments of £0.7m to the shareholder banks (2015: £0.7m).

At 30 September 2016 £139.5m of cash and cash equivalents were held with shareholder banks (30 September 2015: £67.7m). During the year the Group received interest payments on these cash deposits totalling £0.3m (2015: £0.3m).

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 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'.

	2016 £m	2015 £m
Short-term employee benefits	4.3	3.6
Post-employment benefits	0.1	0.1
Other long-term benefits	3.4	3.0
Total	7.8	6.7

34. Directors' remuneration

During the year there were no Executive Directors (2015: five) accruing benefits under money purchase pension schemes; payments were received in lieu of pension. As noted in the 2015 Annual Report, three Executive Directors resigned as Directors on 9 September 2015.

	2016	2015
Highest paid Director		
Salary	£536,367	£527,800
Performance-related payments	£252,758	£265,200(**)
Payments in lieu of pension (*)	£134,092	£131,950
Benefits	£25,077	£24,969
Aggregate emoluments in respect of qualifying services	£948,294	£949,919(**)
Pension contributions under money purchase pension schemes	£nil	£nil
All Directors		
Salary	£1,280,223	£2,105,358
Performance-related payments	£393,851	£862,450(**)
Payments in lieu of pension (*)	£211,756	£404,386
Benefits	£63,729	£115,642
Aggregate emoluments in respect of qualifying services	£1,949,559	£3,487,836(**)
Pension contributions under money purchase pension schemes	£nil	£11,774

(*) 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.

(**) Performance-related payments prior year restatements

Prior to 1 October 2015, annual performance-related payments were receivable only in December and therefore reported in the year of payment. Under the new structure, 50% of the annual performance-related payments now become receivable in the respect of the relevant financial year. Last year's table for 2015 showed the December 2014 receivable (£260,000 for the highest-paid Director and £845,450 in aggregate) and has been restated in order to show the figures on the same basis.

Long-term incentive arrangements

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

Long Term Incentive Plan (LTIP)

Any payments in respect of amounts vesting under the runoff 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 (275 units including 175 for the highest-paid Director).

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 2016 £1,141,827 was released to the Group Executive Directors including £726,617 for the highest-paid Director. (In the prior year, £1,046,674 was released to the Group Executive Directors including £666,065 for the highest-paid Director.)

Long Term Incentive Scheme (LTIS)

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

During the reported year to September 2016, no payments have been made (2015: £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 2016.

36. Funding and financial risk management

Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 25, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

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

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

- Maintain the sustainability and longevity of the business through having adequate reserves to withstand the impact of potential macroeconomic, 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 2016 the ratio was 1.81:1, and the Group has complied with the terms of the covenant throughout the year. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

Categories of financial instruments

	2016 Group carrying value £m	2015 Group carrying value £m	2016 Company carrying value £m	2015 Company carrying value £m
Non-derivative financial assets				
Hire purchase receivables	–	0.9	–	–
Held to maturity investments	101.6	24.9	–	–
Trade and other receivables	112.9	87.4	–	–
Loans to other Group companies	–	–	4,037.5	3,737.5
Cash and bank balances	493.3	267.2	356.9	114.4
Total non-derivative financial assets	707.8	380.4	4,394.4	3,851.9
Non-derivative financial liabilities				
Trade and other payables	(198.7)	(162.1)	(356.9)	(148.6)
Financial liabilities	(4,223.4)	(3,739.0)	(4,170.8)	(3,669.9)
Total non-derivative financial liabilities	(4,422.1)	(3,901.1)	(4,527.7)	(3,818.5)
Net non-derivative financial instruments	(3,714.3)	(3,520.7)	(133.3)	33.4
Derivative financial instruments				
Interest rate swaps	(1.1)	(0.7)	(1.1)	(0.7)
Cross-currency swaps	107.2	(98.1)	107.2	(98.1)
Total derivative financial instruments	106.1	(98.8)	106.1	(98.8)
Total financial instruments	(3,608.2)	(3,619.5)	(27.3)	(65.4)

36. Funding and financial risk management continued

Fair value of financial instruments

		2016 Group carrying value £m	2016 Group fair value £m	2015 Group carrying value £m	2015 Group fair value £m
Cash and bank balances	I	493.3	493.3	267.2	267.2
Trade and other receivables	II	112.9	112.9	87.4	87.4
Hire purchase receivables – current	III	–	–	0.9	0.9
Held to maturity investments	III	101.6	102.1	24.9	24.9
Trade and other payables	II	(198.7)	(198.7)	(162.1)	(162.1)
Bank loans including bank overdrafts – current	IV	(108.3)	(108.3)	(119.7)	(119.7)
Bank loans – non-current	IV	(398.8)	(398.8)	(398.7)	(398.7)
Debt issued under the Euro Medium Term Note Programme (*)	III	(3,706.3)	(4,478.8)	(3,210.6)	(3,577.8)
Redeemable preference share liabilities	III	(10.0)	(14.3)	(10.0)	(13.7)
Net non-derivative financial instruments		(3,714.3)	(4,490.6)	(3,520.7)	(3,891.6)
Interest rate swap – cash flow hedge		(1.1)	(1.1)	(0.7)	(0.7)
Cross-currency swap – cash flow hedge		107.2	107.2	(98.1)	(98.1)
Total		(3,608.2)	(4,384.5)	(3,619.5)	(3,990.4)

(*) 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
II Non-interest bearing
III Bearing interest at fixed rate
IV Bearing interest at floating rate

		2016 Company carrying value £m	2016 Company fair value £m	2015 Company carrying value £m	2015 Company fair value £m
Cash and bank balances	I	356.9	356.9	114.4	114.4
Loans to other Group companies	IV	4,037.5	4,037.5	3,737.5	3,737.5
Trade and other payables – current	II	(356.9)	(356.9)	(148.6)	(148.6)
Financial liabilities – current	IV	(55.7)	(55.7)	(50.6)	(50.6)
Bank loans – non-current	IV	(398.8)	(398.8)	(398.7)	(398.7)
Debt issued under the Euro Medium Term Note Programme (*)	III	(3,706.3)	(4,478.8)	(3,210.6)	(3,577.8)
Redeemable preference share liabilities	III	(10.0)	(14.3)	(10.0)	(13.7)
Net non-derivative financial instruments		(133.3)	(910.1)	33.4	(337.5)
Interest rate swap – cash flow hedge		(1.1)	(1.1)	(0.7)	(0.7)
Cross-currency swap – cash flow hedge		107.2	107.2	(98.1)	(98.1)
Total		(27.2)	(804.0)	(65.4)	(436.3)

(*) Amounts are shown net of unamortised discount, fee and transaction costs.

I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
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 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 hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions;
- 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

	2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Held to maturity investments	102.1	–	–	102.1
	102.1	–	–	102.1
Non-derivative financial liabilities				
Financial liabilities	–	(4,493.1)	–	(4,493.1)
	–	(4,493.1)	–	(4,493.1)
Derivative financial instruments				
Interest rate swaps	–	(1.1)	–	(1.1)
Cross-currency swaps	–	107.2	–	107.2
	–	106.1	–	106.1
Total	102.1	(4,387.0)	–	(4,284.9)

Notes to the financial statements continued

36. Funding and financial risk management continued

Fair value of financial instruments continued

Group

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Hire purchase receivables	–	0.9	–	0.9
Held to maturity investments	24.9	–	–	24.9
	24.9	0.9	–	25.8
Non-derivative financial liabilities				
Financial liabilities	–	(3,591.5)	–	(3,591.5)
	–	(3,591.5)	–	(3,591.5)
Derivative financial instruments				
Interest rate swaps	–	(0.7)	–	(0.7)
Cross-currency swaps	–	(98.1)	–	(98.1)
	–	(98.8)	–	(98.8)
Total	24.9	(3,689.4)	–	(3,664.5)

Company

	2016			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial liabilities				
Financial liabilities	–	(4,493.1)	–	(4,493.1)
	–	(4,493.1)	–	(4,493.1)
Derivative financial instruments				
Interest rate swaps	–	(1.1)	–	(1.1)
Cross-currency swaps	–	107.2	–	107.2
	–	106.1	–	106.1
Total	–	(4,387.0)	–	(4,387.0)

Company

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial liabilities				
Financial liabilities	–	(3,591.5)	–	(3,591.5)
	–	(3,591.5)	–	(3,591.5)
Derivative financial instruments				
Interest rate swaps	–	(0.7)	–	(0.7)
Cross-currency swaps	–	(98.1)	–	(98.1)
	–	(98.8)	–	(98.8)
Total	–	(3,690.3)	–	(3,690.3)

36. Funding and financial risk management continued

Fair value of financial instruments continued

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 primarily 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.

Interest rate risk management

The Group's revenues arise primarily from operating lease rentals, proceeds from disposal of operating lease assets and hire purchase repayments that are fixed for the period of the contract – 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 2016 of £399m (2015: £399m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2016 of £3,706m (2015: £3,211m).

The Group and the Company have interest rate swaps of £200m maturing on 28 December 2016 and £100m maturing on 29 December 2017 (2015: £200m maturing on 29 December 2015 and £200m maturing on 28 December 2016). Under these swaps the Group and the Company pay an average fixed rate of 0.84% (2015: 0.82%).

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 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.

36. Funding and financial risk management continued

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 2016 (2015: £0.3m). 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:

	2016 Average contract fixed interest rate %	2015 Average contract fixed interest rate %	2016 Nominal principal amount £m	2015 Nominal principal amount £m	2016 Fair value £m	2015 Fair value £m
No later than one year	0.8	0.8	200.0	200.0	(0.3)	(0.1)
Later than one year and no later than two years	0.8	0.8	100.0	200.0	(0.8)	(0.7)
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			300.0	400.0	(1.1)	(0.8)

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:

	2016 Contract fixed GBP interest rate %	2015 Contract fixed GBP interest rate %	2016 Nominal principal amount £m	2015 Nominal principal amount £m	2016 Fair value £m	2015 Fair value £m
No later than one year	–	–	–	–	–	–
Later than one year and no later than two years	4.2	–	425.2	–	9.3	–
Later than two years and no later than five years	3.7	3.9	459.8	885.0	22.1	(99.9)
Later than five years	3.0	3.0	402.5	402.5	75.8	1.8
Total			1,287.5	1,287.5	107.2	(98.1)

36. Funding and financial risk management continued

Credit risk management

Credit risk is managed using an established process encompassing credit limits, credit approvals, control of exposures and the monitoring and reporting of exposures. Credit risk may arise from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposures to customers.

The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low. A small residual credit risk arises from miscellaneous customer billings and monies due from dealers, auction houses and vehicle manufacturers. Group management regularly carries out credit assessments of the limits set for auction houses, manufacturers and dealers.

For banks and financial institutions, only independently rated institutions with a minimum 'A' rating are accepted. All new proposed counterparties are subject to internal credit approval and Asset & Liability Management Committee ratification prior to entering into any transaction. Credit limits for non-derivative financial assets, and credit reporting thresholds for derivative financial assets are set by the treasury function and are subject to approval by the Asset & Liability Management Committee.

For the year under review the following figures represent the Group's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2016 and 2015 attributable to banks/financial institutions.

	2016 Total limit £m	2016 Maximum utilisation £m	Balance as at 30 September 2016 £m	2015 Total limit £m	2015 Maximum utilisation £m	Balance as at 30 September 2015 £m
Counterparty credit limit	700.0	771.5	463.1	360.0	425.9	250.4

No counterparty credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties. During the year ending 30 September 2016 the credit limits were temporarily increased to £900m to accommodate temporary surplus liquidity arising from the March 2016 £600m bond issuance (2015: credit limits were temporarily increased to £550m to accommodate temporary surplus liquidity arising from the June 2015 €550m bond issuance).

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

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 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 25 is a description of additional undrawn facilities that the Group has at its disposal.

The following tables detail the contractual maturity of the Group and the Company's non-derivative financial liabilities. The table has 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 table includes liabilities for both principal and interest.

36. Funding and financial risk management continued

Liquidity risk management continued

Group

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Financial liabilities – bank loans – variable interest rate	1.0	(3.9)	(7.5)	(409.1)	–	(420.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.4	(143.7)	(1,189.2)	(658.2)	(2,952.2)	(4,943.3)
Financial liabilities – bank overdrafts and short-term borrowings	1.2	(52.6)	–	–	–	(52.6)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(198.7)	–	–	–	(198.7)
Total		(399.6)	(1,198.1)	(1,068.7)	(2,963.5)	(5,629.9)

(*) 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

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(5.9)	(14.9)	(402.3)	–	(423.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.7	(455.7)	(695.0)	(1,112.8)	(2,111.6)	(4,375.1)
Financial liabilities – bank overdrafts and short-term borrowings	1.4	(80.4)	–	–	–	(80.4)
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	–	(162.1)	–	–	–	(162.1)
Total		(704.8)	(711.3)	(1,516.5)	(2,122.9)	(5,055.5)

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

Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Financial liabilities – bank loans – variable interest rate	1.0	(3.9)	(7.5)	(409.1)	–	(420.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.4	(143.7)	(1,189.2)	(658.2)	(2,952.2)	(4,943.3)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(356.9)	–	–	–	(356.9)
Total		(505.2)	(1,198.1)	(1,068.7)	(2,963.5)	(5,735.5)

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

36. Funding and financial risk management continued

Liquidity risk management continued

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(5.9)	(14.9)	(402.3)	–	(423.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.7	(455.7)	(695.0)	(1,112.8)	(2,111.6)	(4,375.1)
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	–	(148.6)	–	–	–	(148.6)
Total		(610.9)	(711.3)	(1,516.5)	(2,122.9)	(4,961.6)

(*) 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 table has 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

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Interest rate swaps	0.8	(0.9)	(0.2)	–	–	(1.1)
Cross-currency swaps	3.6	(9.4)	0.4	(11.1)	(11.1)	(31.2)

Group

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Interest rate swaps	0.8	(0.7)	(0.1)	–	–	(0.8)
Cross-currency swaps	3.6	(9.8)	(10.0)	(4.6)	(16.6)	(41.0)

Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Interest rate swaps	0.8	(0.9)	(0.2)	–	–	(1.1)
Cross-currency swaps	3.6	(9.4)	0.4	(11.1)	(11.1)	(31.2)

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Interest rate swaps	0.8	(0.7)	(0.1)	–	–	(0.8)
Cross-currency swaps	3.6	(9.8)	(10.0)	(4.6)	(16.6)	(41.0)

36. Funding and financial risk management continued

Liquidity risk management continued

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets, except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from held to maturity investments and loans to Group companies, the non-derivative financial assets are anticipated to mature within one year.

Group

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Held to maturity investments – fixed interest rate	2.4	27.5	74.1	–	–	101.6
Trade and other receivables – non-interest bearing	–	112.9	–	–	–	112.9
Cash and bank balances – non-interest bearing	–	493.3	–	–	–	493.3
Total		633.7	74.1	–	–	707.8

Group

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Hire purchase receivables – fixed interest rate	9.7	0.9	–	–	–	0.9
Held to maturity investments – fixed interest rate	1.1	1.4	23.6	–	–	25.0
Trade and other receivables – non-interest bearing	–	87.4	–	–	–	87.4
Cash and bank balances – non-interest bearing	–	267.2	–	–	–	267.2
Total		356.9	23.6	–	–	380.5

Company

	2016 Weighted average interest rate %	2016 Under 1 year £m	2016 Between 1-3 years £m	2016 Between 3-5 years £m	2016 Over 5 years £m	2016 Total £m
Loans to other Group companies	3.6	190.2	342.4	261.0	4,273.9	5,067.5

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Loans to other Group companies	4.2	170.4	309.8	271.2	3,988.0	4,739.4

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