Motability Operations | Group plc

Supporting our customers for today and tomorrow

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* These sections constitute the 'Directors' Report' inclusive of the corporate governance statement on pages 45 to 46

2018 Highlights

98%

overall customer satisfaction (independently measured)

£183m

investment into direct customer support delivering services in excess of the core worry-free mobility proposition

£400m

charitable donation paid to Motability funding their broader support of the disabled community

>91%

customer renewal rate at the end of lease

>340

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

94%

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

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

Since being founded in 1978 we have focused on providing freedom and independence to people with a wide range of disabilities. We have always offered this support to our valued customers and we will continue to do just that for today and tomorrow.

Who we are and what we do

Motability Operations was founded in 1978 to deliver the Motability Scheme, under contract to Motability the national charity. As we do not pay shareholder dividends we can focus purely on delivering for our customers with profits reinvested to support current and future needs.

We provide mobility to people with a wide range of different disabilities opening an opportunity to achieve freedom and independence.

Over 600,000 customers choose to access affordable, worry-free mobility using their mobility allowance to lease a car, scooter or wheelchair. The Scheme is fully inclusive of insurance, breakdown cover, maintenance, and servicing, and available on identical terms to all qualifying recipients across the UK.

Our experience means we have a unique understanding of our customers' needs. For more than 40 years we have shaped our business by listening and responding to customers, which has seen us develop strong and lasting relationships with vehicle manufacturers and converters, dealers and service partners.

A commercial business model underpins the successful delivery of this unique Scheme. Our innovation and operational efficiency support targeted investments to provide better outcomes for our customers. The business model is underpinned by a capital base that provides the Scheme with financial security for the future.

Key customer statistics

625k

customers currently choose to use the Scheme

5m

almost 5m vehicles supplied since the Motability Scheme was launched

£6.8bn

value of vehicles funded

Delivering the Scheme

1.7m

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

Overall customer satisfaction independently measured at

98%

or above for eight consecutive years

We work with **16,000** Motability Dealer Specialists

We bought over **220,000** new cars this year

across a national network of over **4,600** approved Motability dealers

and sold over **4,200** cars per week*

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

* into the used-car market as vehicles are returned to us at the end of lease

The objectives of the Scheme

Supporting our customers for today and tomorrow
We believe in making life simpler

Universal service offering
Our proposition is designed to be universally accessible to all recipients of a qualifying mobility allowance, regardless of their personal circumstances, location or means.

Worry-free mobility
We believe in making life simpler by providing a comprehensive, all-inclusive worry-free mobility solution. Our standard car lease includes full insurance, maintenance and servicing, tyre and windscreen replacement, breakdown cover and 60,000 mile allowance over three years.

Excellent customer service
We aim to deliver excellent customer service with particular focus on understanding how disability affects our customers' needs. We deliver this first hand through our dedicated call centre and work with our service partners to ensure this is consistent through all customer touchpoints.

Affordable choice
We aim to provide customers with access to a wide range of affordable vehicles which are suitable for their specific needs.

Value for money
We aim to deliver a proposition which represents excellent value for money for our customers.

Scheme customers

Efficiency
We aim to operate efficiently to ensure we deliver a cost-effective and seamless proposition for our customers. This includes a continual focus on tightly managing our cost base and maximising our economies of scale.

Sustainability
We aim to deliver to deliver this proposition in a sustainable manner, to meet the needs of today's and tomorrow's customers. This requires appropriate investment in our systems, people, and processes and is underpinned by a robust financial model.

Delivering for customers

Please open the page to find out more

at the heart of everything we do

>625k

Customers on the Scheme

For those who choose to use their allowance to access the Scheme we deliver our consistent proposition through a UK-wide network of over 4,600 car dealerships.

98%

Worry-free satisfaction rating

To test whether we achieve our aim of 'making life simpler' we ask those who know best.

Our customers, through an independent survey, rate the worry-free element of their package at 98% satisfaction.

No.1

Customer service organisation in the UK

The Institute of Customer Service have independently assessed Motability Operations to be the best customer service organisation in the UK (94.3%).

>340

Models available for no extra cost

Over the last year at least 340 models have been available costing no more than the customer's mobility allowance, ensuring access to suitable models at an affordable price (against a target of 200).

91%

Proportion of customers that renew their lease and take a new vehicle

The ultimate validation of value for money is evidenced by the customer's decision to take a new vehicle at the end of their original lease; this is also supported by a 98% value-for-money score recorded in an independent customer survey.

45%

Cheaper than market alternatives

Our worry-free package is significantly cheaper than alternative leasing options that are available in the market on a like-for-like basis; this reflects the efficiency of the underpinning operations and financial model alongside customer VAT concessions.

Delivering the Scheme for customers

40 years

The objectives of the Scheme

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Delivering sustainability

at the heart of everthing we do

Profitability

- We aim to deliver a consistent customer proposition that is protected from economic downturn or market-specific shocks.
- We include a margin in our lease price to enable us to minimise pricing volatility for customers should these events occur. It also means that we can recover financially from such impacts without needing to increase customer prices.
- To the extent that retained profit exceeds capital requirements, any additional profit can be reinvested into the customer proposition , or donated to Motability.

For further information on how we deliver value for our stakeholders please see page 6

Profitability is our only means to build and/or replenish capital reserves to protect from risk.

Funding

- In operating the Scheme, we are required to source the financing of £6.8bn of vehicles.
- Our capital reserves are fully reinvested into our fleet; this reduces the amount we have to borrow and therefore the cost of customer leases. The balance of our financing is provided by debt in the form of bonds issued in the debt capital markets and bank facilities.
- Our credit rating is an enabler to access funding at competitive rates from investors, with this rating being underpinned by our strong capital position.

For further information on our funding please refer to the Finance Director's review on page 24

Capital reserves are not held as cash but are invested in our fleet. This helps underpin our A+/A1 credit rating.

Our financial model is designed to underpin the long-term sustainability of the Scheme.

Delivering value and stability for today's and tomorrow's customers.

Capital and Risk

- As operators of the Motability Scheme, we bear a number of significant risks which could, if not carefully managed, undermine the long-term sustainability of the customer proposition.
- To protect the Scheme, and so customers, from exposure to these risks we aim to hold an adequate level of capital reserves.
- We use an externally validated model and approach to calculate the level of capital we should hold to underpin the long-term sustainability of the Scheme.

As we do not pay a shareholder dividend, any excess capital reserves are distributed to Motability by way of a charitable donation.

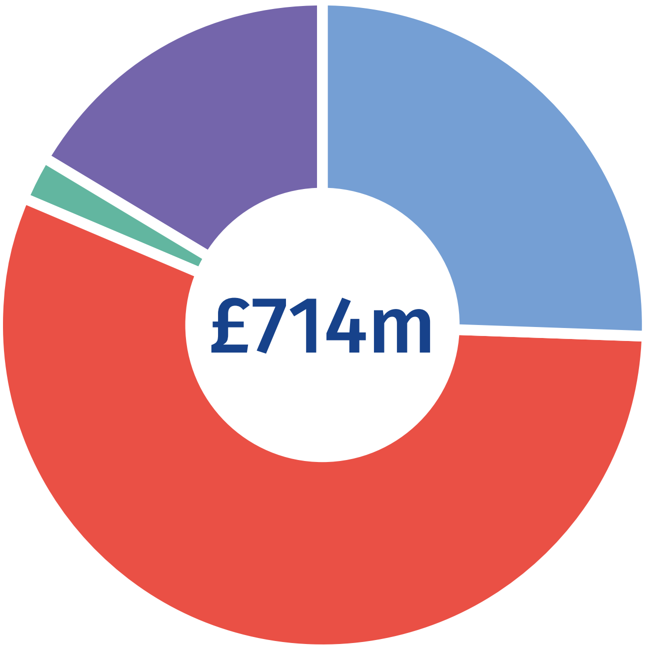
- Our biggest single risk relates to the value of used cars when they are returned to us by customers at the end of their lease; this residual value is something we have to forecast three to five years in advance. Lease prices are fixed therefore customers are not exposed to this risk.
- Used cars have been subject to significant volatility over recent years. A 1% reduction across our fleet equates to a £55m adverse impact on our financial position.

For further detail on how we manage risk please see Risk case study pages 37

Using our earnings to deliver value and service improvements

We constantly seek opportunities to enhance customer value. Our efficiency enables us to invest in areas that best support customer needs. Planned profit provides sustainability, supports capital requirements and protects customers from economic shock. To the extent that market conditions are more favourable and our financial position is ahead of target, then we will be in a position to make charitable donations to Motability.

How we use our earnings



Direct customer investments

By listening to customers and engaging with Motability we aim to tailor our proposition to enhance the worry-free package. We ensure that any investments are affordable and sustainable.

£183m

Charitable donation to Motability

A significant donation to Motability was signalled in our interim report at the half year. The final amount was supported by a buoyant used-car market and strong remarketing performance.

£400m

Underlying tax charge*

Motability Operations pays its full UK tax, the principle being to pay the right tax, in the right place, at the right time.

£15m

Retained earnings

Any retained earnings underpin our capital requirements and reduce our borrowing requirements.

£117m

- We use our income to deliver the worry-free proposition to customers.
- By driving business efficiencies and reducing cost we aim to maximise the value for money provided.

- Over time we have been able to progressively improve and broaden the customer proposition, whilst keeping lease prices stable.

- Motability Operations aims to deliver a profit equivalent to 1.5% Return on Assets. This margin is included in lease pricing.
- This profit is required to cover any growth in Motability Operations' capital requirements and to provide recoverability in the event of shock.

- To the extent that operating performance and/or market conditions mean that Motability Operations' results exceed profitability and Capital targets, then the Board would likely sanction a charitable donation to Motability.

* Underlying tax charge of £25.2m at an effective rate of 19.2%. The total tax on profit was £14.8m for the year after the remeasurement of deferred tax due to rate changes (see note 10, page 83)

Continuously improving our service

Direct customer investments

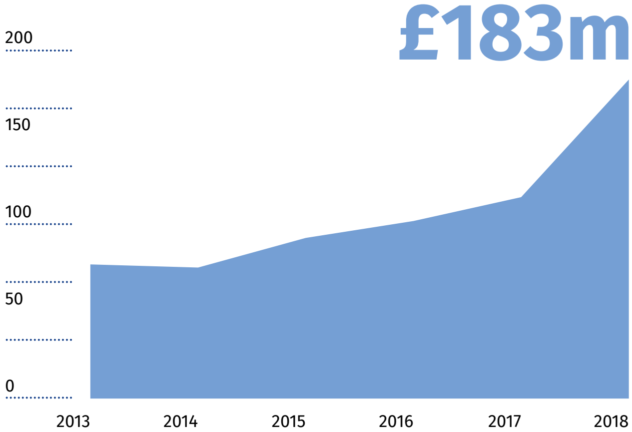
As operators of the Scheme, we seek to leverage economies of scale and tightly manage our cost base. By running an efficient operation we are able to deliver a consistent, highly affordable and competitive proposition for our customers.

Our focus on efficiency has enabled us, in consultation with Motability, to use more of our earnings to provide incremental value for our customers:

- During the year we doubled our investment in a 'Good Condition Bonus' (GCB) which is available to reward customers who engage in our vehicle return process; this is paid to 95% of customers at the end of their lease. The GCB has increased from £250 to £500 for most customers.
- We have also committed an incremental £10m per annum to enhance the interior trim condition of wheelchair accessible vehicles to align more closely to a standard production car; this includes carpets and basic soundproofing.
- We continue to subsidise the cost of adaptations to support specific customer needs, many now available free of charge.
- We have invested in a variety of solutions to support continuous mobility should our customer's vehicle be off the road for a period of time (e.g. mechanical fault, accident repairs, etc.)

Our investment*

£183m



* Direct customer investments are services or subsidies provided to customers in excess of the worry-free mobility package (e.g. insurance, maintenance and servicing, roadside recovery, tyre and windscreen replacement)

The increase in FY18 is largely the result of decision to double our investment in the 'Good Condition Bonus' we make available to customers.

Underpinning sustainability for today and tomorrow

Retained earnings

Profit covers growth in capital requirements and recoverability in the event of financial shocks.

In the event that we generate profit leading to a capital position beyond our requirement, a charitable donation to Motability will be considered.

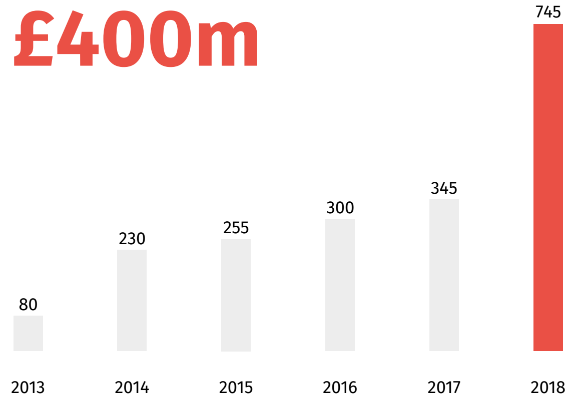
This year's exceptional trading result, a combination of strong underlying performance and a buoyant used-car market, provided significant above target profitability which has enabled the Board to approve a £400m donation.

Supporting wider disability needs

Charitable Donations

The £400m donation made in September 2018 is the sixth since 2010, with £745m having been donated in total across this period.

£400m



Motability Operations does not pay a dividend to its shareholders. All profits are reinvested for the benefit of customers or donated to Motability to invest in transportation solutions for disabled people.

How it works

Motability, the charity, 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 subsequently 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.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme a disabled person must receive one of the qualifying mobility allowances below:

- Higher Rate Mobility Component of the Disability Living Allowance (DLA)
- Enhanced Rate of the Mobility Component of the Personal Independence Payment (PIP)
- War Pensioners' Mobility Supplement or the Armed Forces Independence Payment (AFIP)

Eligibility decisions are derived purely from Government policy; neither Motability Operations nor Motability plays any role in deciding who is eligible for a qualifying allowance.

What we do

Mobility allowance

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

Scheme customers

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

How we add value

We aim to make sure that qualifying customers gain access to a mobility solution meeting their individual needs through a process which is made as simple as possible.

We work with 32 manufacturers and over 4,600 car dealerships to provide a wide selection of vehicles to support our customers' needs. We operate an accreditation process to ensure that each dealership has Motability specialists available to support our customers.

249k

new leases processed during the year through our online application process

>16,000

trained Motability Dealer Specialists across 4,600 network dealers

Funding

Reinvesting our capital reserves to fund the fleet saves our customers around £400 per lease. This leaves around £4bn to be borrowed from the financial market

Suppliers

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

Delivering the Scheme

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

End of lease

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

Remarketing

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

We aim to ensure that our customers receive excellent service through every aspect of their lease and we understand that when issues arise a swift and satisfactory response is essential for our customers.

40mins

the average time before a member of the roadside recovery team is with our customer to resolve their issue

We operate a straightforward no quibbles process for our customers to return their vehicle at the end of the lease and provide support such as home collections, should our customers have any difficulties.

A 'Good Condition Bonus' (GCB) is available to customers at the end of their lease.

95%

of customers who returned their vehicle at the end of lease received a GCB payment reflecting our customers engagement through the process

Through our online remarketing process we are able to create a competitive marketplace for the disposal of vehicles returned at the end of lease thereby, maximising sales value in the most cost-efficient manner.

>600

used cars sold every day, seven days a week

Another successful year for Motability Operations

Neil Johnson OBE
Chairman

Managed transition

Nearly three years ago I informed the shareholder Banks and Lord Sterling, the Chairman of the Charity, that it was my intention to retire as Chairman of Motability Operations Plc in the spring of 2019. The search for my successor commenced in late 2017, and I'm happy to report that the Rt. Hon. Sir Stephen O'Brien will be joining our Board as Chairman designate in January. I will hand over to him in April, having chaired my final Board meeting and the AGM in March. Stephen's skills and experience are a great fit for the Scheme and we are indeed fortunate to have attracted him to the role.

I know that Stephen will continue to pursue the excellent progress which has been made over recent years and will have the same fantastic support from both Non-Executive and Executive colleagues that I have enjoyed.

I have been proud to have been part of the team which transformed the operation and delivery of the Motability Scheme and improved so many lives by providing seamless mobility not just to our over 600,000 customers but also to their families. I have had the pleasure of working with an outstanding management team and Board, and I thank everyone in Motability Operations for their hard work and, crucially, tireless focus on customer satisfaction.

I would also like to thank Lord Sterling and the Governors of the Motability Charity for their unswerving support and for taking the courageous but correct decision in 2002 to transform the Scheme by demanding a more professional and commercial model. As founder of the original Scheme 40 years ago, Lord Sterling has been an indefatigable supporter of both the Scheme and disabled people. On a personal note, I have much enjoyed our relationship, and working together in positive partnership to tackle and overcome the many challenges we have jointly faced over the past decade or so.

The Shareholder Banks have also shown unflagging support throughout, and provided valuable advice and guidance both at Board meetings and through wider interaction at senior level.

Since 2002, Scheme customer numbers have grown from 394,000 to over 625,000. Customer satisfaction has increased to 98% and customer renewal rates at the end of lease (the ultimate validation of customer's satisfaction) from 70% to 91%. The number of vehicle models available costing no more than the customer's allowance has risen from 63 to now stand at over 340.

Capital reserves have risen from just £61.6m to £2.5 billion through careful management and these reserves, which are invested in our fleet (cars not cash) underpin the security and stability of the Scheme for future generations and reduce the amount we need to borrow to fund the Scheme, saving customers over £400 per lease.

No dividends are paid to shareholders but all profits are ploughed back into the Scheme to improve the product offer for customers. Since 2002 we have directly invested over £1.3 billion for the benefit of customers, including charitable donations totalling £745m to Motability for their use in improving the lives of disabled people.

Mike Betts joined Motability Operations in 2002 as Chief Operating Officer, becoming CEO in 2003, and orchestrated a successful turnaround of the business, before leading it through the successes of the past decade. The Motability Operations Board is clear that the recommendations made by the NAO would benefit from Mike's experience and skills to see them through, and he will also play a vital role in assisting the new Chairman to settle in. After this, and the appointment of a suitable successor, Mike Betts and the Board have agreed that he will step down, not later than May 2020.

It is too early to take an extensive look back over Mike's enormously successful career, but given that this will be my final statement as Chairman of the Motability Operations Board, I would like to set on record my personal appreciation for the dedication and passion that Mike has brought to the business. Under his leadership, and with his senior executive team, Motability Operations has become an outstanding commercial enterprise delivering the highest levels of customer service.

Performance

This year saw the 40th anniversary of the Motability Scheme, and it gives me great pleasure to report another year of excellent performance, reflected through strong levels of customer satisfaction and an exceptional financial result, buoyed by unexpected upside in the used car market.

The successful delivery of our business model underpins the provision of affordable and sustainable services for Scheme customers. It also creates the potential for donations that provide broader investment opportunities to support disabled people, and this was reflected in a substantial donation to Motability, the Charity, this year.

Customer service remains core to our business and I am pleased we were able to sustain an exceptional rating of 98% from customers in our independent (CSI) survey of customers. This result was underlined by the Institute of Customer Service in their UK-wide survey awarding us a satisfaction score of 94.3%, putting Motability Operations top in the UK, significantly above some of the UK's best-known consumer brands.

The results were particularly striking, given the increased pressure resulting from the transition to Personal Independence Payment

(PIP). By January 2019, PIP customers will have taken over from Disability Living Allowance (DLA) as the main qualifying allowance for the Scheme, and we expect that by the end of next year, some three quarters of customers will qualify through PIP.

One impact of the changing criteria introduced through PIP has been the growth in numbers of customers with highly complex needs, and greater prevalence of mental health or neurological conditions. We have invested in specific training to help teams handle the pressures of managing these issues day to day, as well as using research to help us shape our services to better support those with a wide variety of needs.

Reflecting this changing customer base, our call volumes continue to rise with over 1.2 million calls received during the year. The increased complexity and therefore length of calls have increased pressure on our call centre which, when combined with the unusually severe winter of 2017/18, led to stress on call answering targets. However, committed employees, some of whom walked long distances through the snow, ensured that the call centre operated successfully throughout this winter period, with 77% of calls still answered within 20 seconds across the year.

Our robust financial position meant that, despite a turbulent economic environment, and depressed Sterling exchange rates, we continued to offer more than 340 cars on the price list costing no more than the customer's allowance. The year also saw outstanding results for vehicle sales with our remarketing team maximising value obtained in an exceptionally buoyant used-car market. Our strong financial performance has enabled us to sustain appropriate levels of reserves, while continuing to invest in many areas of customer need, including support for wheelchair accessible vehicles and adaptations.

Over the year, the company invested £183m in direct support for Motability Scheme customers, including free vehicle adaptations and a good condition bonus, payable to customers at the end of their lease. In September, the standard good condition bonus was increased from £250 to £500, ensuring customers benefit directly from the increased premium achieved when selling cars maintained in good order.

We were also this year able to make a substantial donation of £400m to Motability, one of a series of donations made over the last 10 years to support their charitable work. The scale of this payment was made possible primarily as a result of windfall gains relating to unexpected buoyancy in the used car market and strong operational performance from the company in 2017/18. This meant the donation was affordable, without diluting capital ratios, or compromising the reserves. These reserves are not held as cash – they part-fund vehicle purchases, and are the essential shock absorber to keep the Scheme protected. The reserves are used to meet around one third of our total funding requirement, effectively saving customers around £400 on each lease. Economic volatility is just one of a range of risks we face, and plan for, as a business.

Similarly, our reinsurance captive, MO Reinsurance Ltd (MORL), is capitalised to cope with any unexpected volatility in claims. We also have robust structures in place to mitigate cyber risk, supplier or operational failure.

Both Motability and Motability Operations have been the subject of media and Parliamentary scrutiny this year, including attending a joint Work and Pensions and Treasury Select Committee evidence hearing on 5 March. The Joint Select Committee published its report on 21 May, and as a result, and in the interests of transparency, Motability and Motability Operations voluntarily agreed for the National Audit Office (NAO), to conduct a value-for-money review into the operations of the Scheme. Their report is due to be published on 7 December.

We welcome the recommendations of the NAO report. We are proud that the report acknowledges the impressive performance of the company, and the excellent service it offers to its 625,000 customers. The report also recognises that significant level of investment made back into the customer proposition. The success of our business model has meant the company in co-operation with Motability has returned more than £500 million in direct payments to customers over the last 10 years. Moreover, efficient running of the Scheme has ensured that prices are consistently 44 per cent cheaper than any alternative. We will continue to invest to improve our service and value for money.

Acting on the report's recommendations we are already embarking on a number of initiatives, including enhancing our reporting of executive remuneration, so that it is more transparent and exceeds the regulatory requirements which we currently meet. We will also review our approach to forecasting, to provide a firm basis for projecting future profit distributions, while also developing a longer-term strategy for how profits are re-invested or donated, including reviewing how return-on-investment is monitored in terms of customer impact.

We are working with Motability the charity to take part in a review of reserves and Scheme governance. We are also very happy to support the DWP in efforts to increase awareness and understanding of the Scheme, among eligible non-customers.

The NAO report also comments upon Executive Remuneration at Motability Operations. I should therefore lend my support to both historic and current remuneration policy. A professional, dedicated and effective team was needed to transform the business model up to the global financial crisis in 2008 and then the turbulent years which followed. In the 2014 Annual report and Accounts I announced a review of executive pay which recognised both evolving external pressures and changing dynamics within the business. The outcome was a comprehensive review undertaken with the support of external advisers New Bridge Street in 2015. The size and complexity of the business means we need to attract and retain those executives with the experience, skills and expertise to lead the business successfully at this level, and the remuneration scheme is appropriate in both structure and terms for what the NAO recognises as this "skilled management team".

Pay is evaluated against a range of testing performance targets, including maintaining customer affordability and service levels; business culture; financial performance relating to capital adequacy, liquidity and cost efficiency. There is no reward for failure.

We are proud of our successful business, which helps support hundreds of thousands of disabled people and their families. Our employees believe passionately in what we do, underpinned by a strong and supportive culture. We keep employee engagement in our sights at all times, and act where we can see improvement is needed. One such area has been highlighted by the 2018 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 27.2%, and we are committed to addressing this. A range of initiatives already underway will build on our culture of diversity and inclusion, to create supportive environments for all employees. Our overall employee engagement, independently assessed by Towers Watson, continues to be among the highest both in the UK, and globally.

Finally, in this my last Chairman's Statement, may I send my heartfelt thanks to the wonderful team at Motability Operations, with whom I have had the privilege of working. Past and present, Board directors, senior executives and colleagues at all levels of the organisation, all of us united by the common culture and passion of providing outstanding service and value to customers of the Motability Scheme.

Long may it continue to thrive.

Neil Johnson OBE
Chairman

Delivering a consistently excellent customer proposition

Mike Betts
Chief Executive

Forty years ago this summer, the first Motability car was handed over at a landmark event in London's Earls Court. In the years since, many aspects have changed beyond recognition, not least the range and complexity of vehicles and adaptations available. We have reshaped the business, invested in new services and products, and created the mechanisms to protect the Scheme's long-term financial base. One element of the Scheme has, however, remained central – the absolute focus on meeting customer needs. Our business is structured, and dedicated to, providing worry-free motoring to those who face considerable barriers in achieving mobility. Our employees are passionate about meeting customers' day-to-day needs.

We aim not simply to meet the needs of customers today, but to ensure a secure financial base to protect the Scheme over the long term. The successful delivery of our business model means we not only provide affordable services for customers, but also have the potential to generate sums for further investment to support people with disabilities.

We are proud of the service we provide, and particularly pleased to see that in 2018 we again topped the Institute for Customer Services league table for customer service in the UK, ahead of many familiar household names.

These achievements don't come about by chance. Since the Scheme completed a fundamental change programme in 2008, we have invested – and continue to invest – in a series of improvements to customer service, support and infrastructure. These include a £75m core systems replacement; the establishment of a new insurance model and reinsurance company; and the refinancing of the business, raising over £4bn of debt capital. This year's achievements show this track record of success continuing.

Employees and service partners are challenged to keep up to date with the changing needs of customers, as we experience a shift away from our traditional Disability Living Allowance (DLA) customer base, to one that comprises primarily customers with Personal Independence Payment (PIP).

More far-reaching changes are underway, including a replacement system for the nearly 5,000 dealers handling scheme applications.

Strategic priorities

With that as a backdrop, during 2017/18 we moved significantly ahead on our strategic priorities: to ensure long-term sustainability; to maintain consistently high levels of customer satisfaction; to provide a wide variety of vehicles at affordable prices; and to create improved awareness and understanding of the Scheme.

Across the board, it proved an outstanding year, with the achievement of a number of significant milestones. At the core of this is our strong business culture, fundamental to delivering a consistent customer proposition, and evident in the energy and dedication of employees.

Customer Focus

Meeting the needs of Scheme Customers is our major focus, and we experienced another year of excellent performance. Independently commissioned, six-monthly customer surveys showed satisfaction levels remain at 9.8 out of 10, with 98% of customers also saying they would recommend the Scheme to others, and nearly 92% choosing to renew.

We also measure our activity through benchmarking research from the Institute of Customer Service (ICS). This year the ICS once again recognised our customer service as the highest in the UK, with an exceptional score of 94.3%, compared to a sector average of 79.8%.

Scheme customers rate Motability Operations particularly well for ease of doing business, reflecting our focus on flexible and facilitating customer service. Customers are pleasantly surprised to get straight through to a person when they call, instead of a recorded service menu. We aim to resolve as many customer queries as possible in one call.

> "Meeting the needs of Scheme customers is our major focus, and we experienced another year of excellent performance."

This year we supplemented our telephony services with the introduction of a virtual assistant which, alongside webchat, enables customers to answer queries online. This online channel has proved particularly popular with customers who are unable, or prefer not, to use the telephone. The virtual assistant is also able to provide immediate answers, outside call centre opening hours.

It was pleasing to see that we maintained customer satisfaction levels despite continued pressure from call volumes and increased handling times, this shift in requirements reflecting our changing customer base through the impact of the Government's welfare reform programme. During the year, almost 22,000 Disability Living Allowance recipients lost eligibility for the Scheme, and returned their vehicle.

Currently, around 40% of working-age customers undergoing reassessment fail to qualify for the enhanced mobility rate of PIP though the Scheme attracted around 67,000 new customers, who chose to use their allowance to lease a Motability car. This meant overall Scheme volumes remained relatively stable year on year.

As a Scheme, we support customers if they lose eligibility, recognising the unique and unexpected nature of these changes to the allowance criteria. We provide information and advice on next steps and, additionally, Motability offers transitional support payments of up to £2,000 towards mobility needs.

Customers can choose whether to take the full payment, or keep the car for up to six months, at which point they receive a reduced sum of up to £500. This offers greater flexibility for customers wishing to challenge their assessment through reconsideration or appeal. Overall, the Scheme paid more than £21m in transitional support during the year.

PIP recipients comprise an ever-growing proportion of our customer base. By year end, we had around 263,000 PIP customers, some first time applicants, others transferring from Disability Living Allowance (DLA); they now make up more than 42% of our customers.

For the business, this generates new challenges as we reach out to, and support, customers with a wider variety of conditions. Over the years, we have developed good understanding of how to assist customers with a range of physical impairments. We still aim to provide first-class service to these individuals, with more than 80% of our customers likely still to have some form of physical impairment. For many, however, this may be just one element of a complex blend of needs.

With PIP putting greater emphasis on mental health and psychotic conditions, we need to ensure customers with mental and cognitive barriers to mobility have appropriate support. In common with wider society, we are also seeing more customers in general experiencing greater levels of depression and anxiety. Over the year, training and coaching has helped to equip our teams with the right skills to support customers with these diverse needs.

One of the areas that marks out our customer services from other organisations is our focus on emotional intelligence; this means that in handling calls, our advisers think beyond the immediate issue, seeking to understand the context and individual behind the call. This level of empathy is recognised in the high ratings given for our customer service teams.

A network of partner organisations, including around 5,000 dealers, work with us to delivering service to customers. We train dealers to attain consistent levels of quality service across the UK, helping them become confident in meeting the needs of customers with a range of disabilities.

During the year we delivered operational and disability confidence training for several thousand dealer Motability specialists, through online and classroom events. Preparation also got underway for the bi-annual dealer business briefings, when we will address more than 3,000 dealers in a series of UK-wide roadshows, in the early part of 2019.

Our other key partners, including RSA, Europcar, RAC and KwikFit, are also fundamental to providing seamless services to customers. Over the year, we worked closely with them to improve experiences for customers requiring breakdown services or replacement cars, and further improvements are planned.

In addition to our car fleet, we also have more than 15,000 powered wheelchair and scooter customers. Satisfaction is also rising among these groups; all customer touch points rated at least 90% in our customer satisfaction survey. Of these customers, 96% now intend to renew, and 97% would recommend the Scheme to others.

The Scheme offers support for people with a wide range of conditions, and for many, an adaptation can make driving possible, offering a hugely enhanced level of freedom and independence. It's an area where we invest heavily as a business, to support those requiring additional help. Around 10% of our fleet comprises adapted vehicles. In addition, we now have 30,000 wheelchair accessible vehicles (WAVs) on the fleet, and 376 'drive from wheelchair' vehicles were also handed over. During the year we invested over £19m in subsidies for adapted and converted vehicles.

Customers and potential customers can find out more about adaptations and conversions, and the Scheme in general, at our series of summer events, known as One Big Days. The five shows, which included Northern Ireland this year, attracted more than 20,000 visitors, and a record 1,684 adapted test-drives.

A new feature this year was the passenger WAV 'taster experiences', which provided the opportunity to try out a WAV before committing to one, long term. We also added expert talks from guest speakers, delivered live at the event, as well as streamed on our Facebook page. Guests evaluated the events on average at 92%, with most saying they would follow up their attendance with a dealer visit.

We highly value our relationship with disability organisations, and a number of individual briefings and visits took place through the year. More than 70 organisations receive our quarterly newsletter, and we continue to build engagement, especially with those organisations representing the different types of conditions increasingly prominent among PIP qualifiers.

Financial strength

As we do not pay shareholder dividends we can focus purely on delivering for our customers and ensuring we have the financial and operational security to continue to deliver into the future.

We aim to return a profit each year. If successful, this provides opportunities to fund additional investment in the customer proposition, support our capital requirements, or, should our overall financial position allow, provide donations to Motability, which our strong performance in recent years has enabled on a regular basis.

This year we have achieved an exceptional financial result recording a post-tax profit of £116.6m net of a £400m donation to Motabilty. This result is underpinned by our own excellent performance in selling used cars within an unexpectedly buoyant market, delivering a gross profit of £236.5m from car disposals.

Given the particularly strong used-car market, we also made the decision to double the level of Good Condition Bonus, from a standard £250 to £500. In this way we are able to share directly with customers the additional premium obtained from selling a well-maintained car. In all, through the year we invested £183m in direct customer support.

These investments were made without weakening our level of reserves, which are sustained at a level capable of withstanding severe levels of economic shocks.

Our reserves (£2.5bn) are not held as cash and cash equivalents (£286m), but are used to fund cars and reduce our still substantial borrowing requirement to around £4bn. The use of our reserves in this regard delivers a saving of around £400 for each customer.

Despite economic pressures, pricing affordability for customers was held stable, with more than 340 cars available at no more than the allowance. More than 100 cars were always available priced at less than the full allowance, allowing customers to keep some money back. Excellent relationships with the major car manufacturers help us maintain choice and affordability for customers, and during the year, we reduced the top 10-model concentration from 42.1% to 37.0%.

Our reinsurance captive, managed through a wholly owned subsidiary MO Reinsurance Ltd (MORL), delivers a robust, enduring and cost-effective insurance solution with benefits from a reduction in claims costs supporting a net profit of £29.8m.

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

Our culture is the bedrock of our business. Employees are passionate about our business, and the way it delivers for customers. Their engagement is fundamental to what marks us out. Each year, we evaluate this engagement through a survey carried out for us by Willis Towers Watson, which benchmarks Motability Operations against the UK's highest-performing companies.

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

We set out to recruit and retain the talent needed to maintain our strong performance over the long term, including through our graduate, scholarship and internship programmes. We invest in training and development, and plan carefully for succession. This helps ensure we have the right people and skills to underpin our long-term success.

Like many organisations, we are experiencing changes affecting our workforce, with technological innovation, employee expectations, developments in society, and changing customer needs, all playing a part. One impact of this has been a refresh of our company values, and these have been rolled out across the business, to be in place for performance evaluation from October 2018. We are also taking a fresh look at our office environment, to provide creative space for team workshops and more flexible working.

Our success is driven by our people so we maintain our focus on employee engagement, listening and acting on feedback where we identify the need for improvement. One such area was highlighted by the 2018 gender pay gap review. While we pay equally for equal roles, we have identified a mean gender pay gap of 27.2%, and we are committed to addressing this. A range of initiatives, already underway, will build on our culture of diversity and inclusion, delivering a supportive environments for all.

Long-term business health requires appropriate infrastructure, and we continue to invest in development of our IT systems. Following the major upgrade onto the new Alfa leasing system completed in 2017, we expect to retire over 20 legacy systems. Work therefore continued through the year on replacement and upgrades to our online applications tool, pricing and vehicle remarketing systems.

Alfa was also successfully upgraded for the first time with over 200 enhancements delivered. In addition, we saw the benefits of the Alfa transition flowing into the business, with enhanced reconciliation processes improving our financial control.

Our longer-term roadmap prepares the ground for more wide-ranging digital services, including the potential for customer accounts, and broader levels of online services.

Financial and operational risks are tightly managed through detailed governance and control processes. A best-practice Risk Appetite Framework is now an established cornerstone of our risk management processes.

Outlook

The next year will bring fresh challenges, including the continuing impact of welfare reform, with PIP reassessments expected to extend through to early 2020. We also need to continue to address the support required to meet the needs of the changing profile of customers now joining the Scheme.

Uncertainty will affect the used-car market, as Britain heads closer towards separation from the European Union, with the potential for impact on Sterling and the possibility of tariffs or raised importation costs putting pressure on pricing.

While many of our challenges are far from unique, such as marketing used cars, or seeking funding in the financial markets, this is an unusual business. Our model has been established specifically to provide exceptional value for customers, while ensuring long-term stability. We take a prudent approach, so customers can be confident that we will be there for them, whatever economic turbulence comes our way. In difficult years, we will have a reserve to protect prices; when market conditions are strong, such as 2017/18, we invest in customer support, and are able to make substantial charitable donations. None of these scenarios costs the Government anything in public funding.

Delivering our business achievements, including successfully addressing the support required for customers with more complex needs, delivering sustained levels of customer satisfaction, and keeping costs low while retaining a strong financial base, come about only through the skills and dedication of our employees and executive team.

I'd like to thank everyone for their tireless support in delivering this outstanding set of results

Mike Betts
Chief Executive

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.

Turn to pages 16-23 for more information on our strategy

Our values

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

Turn to page 41 for more information on our values

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 42 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 16-23 for more information on our performance

Risk management

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

Turn to pages 33-39 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.

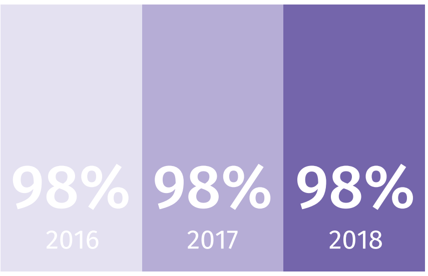
Objectives

- 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 this year:

- Expanded our front-line customer services team as a planned response to addressing more complex customer needs that have arisen through our changing customer base. An essential part of this is resolving queries in an efficient and effective manner and our investment has supported a first-call resolution rate of 94%, meaning most customers only have to speak to one advisor to resolve their query.
- Invested further in adaptations to maximise the range available to customers when they choose their vehicle and extended our support to improve Wheelchair Accessible Vehicle (WAVs) affordability.
- Initiated a 'try before you buy' service for customers who require a WAV. This enables the customer to test a similar vehicle for an extended period of time to ensure it is right for their needs and make an informed decision on selecting a vehicle which is typically on a five-year lease term.
- Enhanced our proposition to maintain mobility for our customers when issues arise with their vehicles by launching a continuous mobility programme, with a national taxi service which no longer requires customers to pre-fund journeys prior to claiming costs back from us, removing a real barrier to mobility for customers in these situations.
- Worked with our WAV suppliers to improve dealer and specialist conversion repairs, with the value of this work evidenced in our best ever independent customer satisfaction scores for WAV customers.
- Expanded our web chat offering to include a virtual assistant, meaning customers have access to information at any time of the day. This channel has proven particularly popular with customers who are unable, or prefer not, to use the telephone.
- Continued to support PIP stopped-allowance cases and provided an option for qualifying customers to retain their vehicle for 26 weeks. This was extended in the year to allow customers to retain their vehicle beyond the 26 weeks if their appeal was yet to be determined.
- Continued to develop our expertise in working with customers who have cognitive disabilities and understanding the best way to support our customers with complex mental health conditions to ensure that their interaction with us is appropriate to their individual needs.

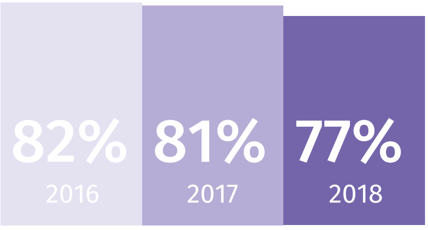
KPIs



98%
Target of >92%

Overall customer satisfaction

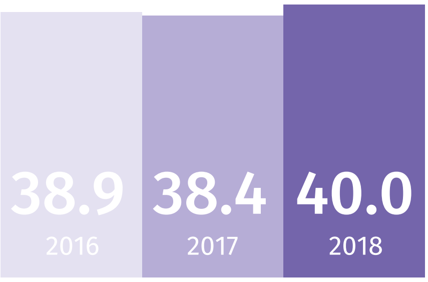
We deliver by listening to our customers and ensuring that we meet their requirements.



77%
Target of >80%

Calls answered within 20 seconds

We have invested in our call centre to meet the increasingly complex needs of our changing customer base. However, our average call answering performance was impacted by a number of extreme winter weather events which effectively closed the roads leading to our office (we are thankful that many of the team walked through the snow to ensure we remained open).



40.0 min
Target of <42 mins

Roadside assistance average response time

Mobility is a priority to our customers. In the event of a breakdown our customers receive priority assistance, and with an average response time of 40 minutes during the year (compared with a KPI target of <42 minutes), customers are quickly attended to and are mobile again.

Received a
87%
satisfaction rating for our complaints handling

Net Promoter Score
89.4%
in Institute of Customer Service's UK Customer Satisfaction Index (UKCSI)

> "For me, it's about being able to do all the normal Dad stuff and spend proper quality time with the boys."

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.

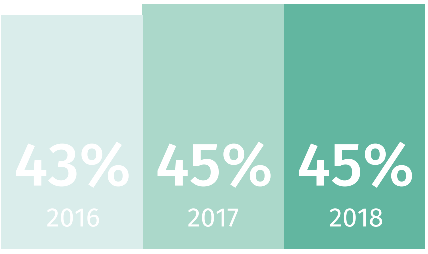
Objectives

- 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 this year:

- Worked with car manufacturers to maintain choice and affordability for customers with more than 340 cars available at no more than the allowance. This was achieved despite cost pressures from exchange rates and supply challenges related to the emissions testing being introduced through the Worldwide Harmonised Light Vehicle Test Procedure (WLTP).
- Initiated a trial which will enable the provision of a lightweight manual wheelchair that can be included, where suitable, as part of the main car lease.
- Increased the volume of cars through the year available at less than the customers full allowance with 244 cars available in the final quarter.
- Increased the Good Condition Bonus (GCB) from a standard £250 to £500. In this way we share directly with customers the addition premium obtained from selling a well-maintained car.
- Our remarketing activity has been designed and developed to gain maximum value through our disposals process. We have a track record of delivering additional value which can then be reinvested into the customer proposition and we have plans to ensure we retain a market-leading position:
  - Initiated a two-year systems project focused on retaining our market-leading position in used-car sales. The development will deliver a sustainable and secure platform for the future and provide opportunities to deliver enhancements to our existing remarketing capabilities.
  - Delivered increased sales values relative to the exceptionally buoyant used-car market through the use of proprietary online channels and auction events. This included work with our vehicle refurbishment partner to evolve processes to maximise value by ensuring cars are effectively allocated to the correct sales channel.
  - Automated and simplified the claims process for dealers purchasing cars through our online channel. This activity supports a 95% trust rating from our dealers who we actively engage and who recognise Motability Operations as a premier supply partner.

KPIs

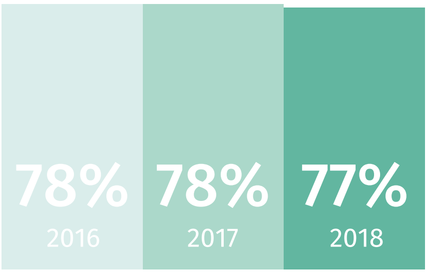


>45%

cheaper

Relative affordability – % cheaper than alternative

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

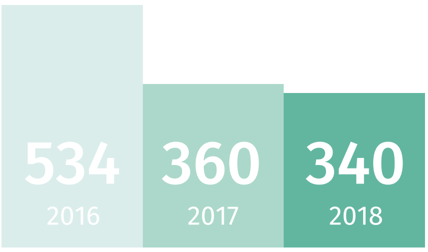


77%

Target of >70%

% of vehicles sold online at the end of lease

Selling via our online sales channel 'mfldirect', provides an effective, low-cost route to market which facilitates the management of our high volume of disposals, and also ensures a competitive sales environment through which we seek to maximise our net return. During the year to September 2018, 77% of vehicles were sold online.



>340

Target of >200

Affordable vehicle choice at 'nil advance payment'

We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the year to September 2018 we exceeded this target with at least 348 models at any one time.

Brand participation % on Scheme*

> 92%

*Weighted by UK market share

> "For me, it's given me my independence back. When I want to meet someone, I can."

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 this year:

- Continued our series of summer events, known as One Big Days, offering current and potential customers, and their families, the opportunity to find out more about the Motability Scheme at first hand. These events attracted almost 21,000 visitors, and a record 1,684 adapted test drives. Guests rated the events on average at 92%, with almost two thirds saying they would follow up their attendance with a visit to a dealer.
- Work has been completed on the initial phase of a major systems project that will replace the current application system used across the dealer network. The initial phase will migrate functionality to a sustainable and more flexible platform that will not only deliver immediate improvements in system stability and end-user experience but will ultimately support the option for customers, if they wish, to manage elements of their application and other in-life changes online.
- Refresh of the Powered Wheelchair and Scooter Scheme (PWSS) Motability Dealer Partnership (MDP) from January 2018 to increase the focus through the dealer network on key drivers of customer satisfaction including provision of a simpler and more streamlined process.
- Completed the roll-out of a systems platform for PWS dealers to cover all in-life repair processes, by reducing the complexity of the administration process so that more time is available to actively manage the repair and keep customers informed of progress.
- Worked with Family Fund, the UK's largest charity providing grants for low income families raising disabled or seriously ill children and young people, to deliver a pilot scheme providing vehicles to families with children under the age of three who are seriously ill or disabled but do not yet qualify for a government mobility allowance. The pilot was endorsed by the DWP with funding to date provided by the Motability Tenth Anniversary Trust (TAT).

KPIs

2016	2017	2018
98%	98%	98%

98%
Trust in the Scheme

Trust in Motability

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

2016	2017	2018
92%	91%	91%

>91%
Target of >85%

Customer renewal rate at the end of lease

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 2018 this was maintained at over 91%, compared with a KPI target of 85%.

2016	2017	2018
98%	99%	98%

98%
Target of 85%

Customer advocacy

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

We work with
>16,000
Motability Dealer Specialists

Across a national network of over
4,600
approved Motability Dealers

> "For us, it's being able to do the everyday things that others might consider a chore."

Ensure long-term sustainability

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

Goals

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

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, providing a choice of environmentally friendly vehicles on the scheme, balancing customer needs with fuel economy and emissions
- Ensure that our premises and information technology infrastructure are robust and future-proof
- Attract and retain quality people

Initiatives delivered this year:

- Delivered an exceptional financial result, underpinned to a large extent by the continued buoyancy in the used-car market, supporting a significant donation to Motability. The donation, signalled as likely in our interim review, was agreed following Board assessment of our financial position in September 2018.
- Following the successful refinancing activities last year, we have been able to repay the bond that matured in November 2017 whilst retaining sufficient liquidity to settle the bond maturing in November 2018, without the need to raise any additional finance. As planned, following a period of elevated cash holding to pre-fund these bond repayments we expect to draw on our Revolving Credit Facility in the near term.
- Following the migration of our car fleet onto a new leasing system we have successfully bedded-in new processes and completed two planned upgrades which not only ensures the system remains resilient but has supported further improvements to our core transactional processes and enables development across the linked systems estate.
- Initiated further development aligned to our strategic IT roadmap that will secure systems sustainability (replacing aged legacy systems) with linked benefits flowing across business operations:
  - Enhance customer interaction through development of our online application process
  - Improve the efficiency of our quarterly pricing processes
  - Expand our remarketing capabilities.
- Our annual independent employee culture survey provided an engagement score of 93%, significantly ahead of the benchmark of other high-performing organisations.
- We have refreshed our internal values which provide guidance on delivering to the high expectations we demand in working to meet the needs of our customers.
- Given the high performance levels expected of individuals who work to deliver the Scheme we have invested resources to ensure we maintain and develop an appropriate environment that supports their needs and that recognises and embraces the benefits of a diverse workforce.

KPIs

93% 2016 | 94% 2017 | 93% 2018

Employee engagement

93%

Target to exceed HPO benchmark (82%)

Employee engagement

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

A+ / A1

Credit rating

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

7.93 2016 | 7.87 2017 | 7.87 2018

7.87 yrs

Debt maturity profile

The Group aims to retain a well-laddered debt maturity profile in order to effectively manage refinancing risk. Following bond refinancing activities during the year, the average debt maturity profile has been effectively maintained at 7.87 years.

"For me, it's having the means to do things. Now I can say 'Mum, fancy going there on Saturday?'"

Our key financial objective is to secure long-term sustainability for the Scheme

Matthew Hamilton-James
Finance Director

Performance overview

The business delivered another year of strong performance across the full range of financial and non-financial measures.

I am pleased to report that the strong trading performance, reflected in our interim result published in May, has continued into the second half of the year. Not only has this financial upside afforded an increase in customer investments (such as an increase in the Good Condition Bonus paid to customers and enhancements to the Wheelchair Accessible Vehicle (WAV) proposition), but has enabled the Board to agree a £400m charitable donation to Motability in September 2018. This significant donation is our sixth since 2010 and brings the total donated to £745m. It will be used by Motability to support disabled people across the UK with their mobility and transport needs.

The financial result this year was significantly above both planned and priced expectations. This was primarily driven by unexpected buoyancy in the used-car market which has been felt across the sector. Industry analysts and forecasts had anticipated that significant increases in the supply of used cars and a cautious demand-side would suppress market values. However, with exchange-rate pressures pushing up new vehicle prices, consumer demand has switched into the used market. This demand has been amplified by the increasing availability of used-car finance, including used Personal Contract Purchase (PCP). Consequently used-car values have exceeded industry expectations.

These market dynamics have resulted in profit levels over and above the target 1.5% Return on Assets (RoA) reflected in lease pricing. This positive variance flows through into our reported financial performance in two key ways; firstly and directly through profit on disposals made during the year (with a vehicle resale profit of £236.5m (2017: £119m) being recorded) and secondly by way of positive adjustments to our assessment of the residual value of our remaining fleet (including the reversal of depreciation charged in previous periods), resulting in a £125.9m depreciation credit in the year to September 2018 in respect of the live fleet and a further £19.7m in relation to vehicle leases expiring during the year. I describe these effects in more detail later in my report.

From a financing and liquidity perspective, and as planned, cash balances reduced following settlement of the bond maturity in November 2017 and payment of the donation to Motability in September 2018. Following settlement of our November 2018 bond maturity we anticipate to have fully utilised our available cash and expect to draw on our bank overdraft and credit facilities. During 2019 we will turn our attention to the need to refinance our next bond which expires in December 2019.

Our strong performance in a buoyant used-car market has provided headroom to absorb the cost of the £400m charitable donation to Motability, without diluting capital ratios. Therefore, our September 2018 capital position remains robust and consistent with our aim of shielding the Scheme from potential economic shock events. Whilst we maintain a cautious outlook with Brexit uncertainties in mind (and the potential impact they may have on financial stability), our current projections suggest that there will be scope to make a further charitable donation to Motability next year.

Financial performance

The Group recorded post-tax profit for the year to September 2018 of £116.6m (2017: £212.7m), representing a return on assets of 1.4% (2017: 2.5%) net of the significant charitable donation (£400m) paid to Motability in September 2018.

Customer renewal rates at the end of lease, the ultimate performance validation, remained consistently strong at over 91% and 67,000 new customers also joined the Scheme. However, as expected, our overall number of customers remained broadly flat (0.5% reduction) at 625,600 (comprising 610,100 Car Scheme and 15,500 Powered Wheelchair & Scooter Scheme customers) due to the continuing impact of customers losing their eligibility to access the Scheme as a result of the Personal Independence Payment (PIP) reassessment process.

Sterling exchange rates have not recovered from the deterioration that occurred following the UK's decision to leave the European Union. This continues to create pricing pressures on vehicle purchases for new leases, though I am pleased to report that, working with manufacturers, we have been able to maintain a competitive price list with at least 340 vehicles costing no more than the customer's allowance available versus a target of 200 vehicles.

Total revenue decreased by 1.8% to £4,147m (FY2017: £4,222m) with a similar reduction in both customer rentals and total disposal proceeds:

- As regards rental income, the impact of the marginal decrease in customer numbers was more than offset by the 3% uplift in mobility allowances in April 2018 (allowances are uplifted each April based on the Consumer Price Index from the previous September). However, this underlying increase in total customer rentals was impacted by the Board's decision to increase the Good Condition Bonus (GCB) that is awarded to most customers (95%) when they hand their vehicle back at the end of the lease. This investment, raising the standard award from £250 to £500, required a stepped increase in the level of deferred revenue (see note 20, page 91) to match the increased future liability, reducing rental income by £66m.
- Revenue from vehicle resale at the end of lease reduced year on year, notwithstanding the buoyancy in car values noted earlier in my report. Whilst there was a 7% increase in the average value of vehicles sold, this was more than offset by an 8% reduction in the volume of cars sold (in line with the expected de-fleet profile).

As outlined above, the increase in used-car values is in part a consequence of weakened exchange rates which have depressed the new car market and resulted in consumers switching demand towards used cars. This demand has been augmented by a dealer focus on PCPs and an advantageous interest rate environment. However, in addition to this, our remarketing team has performed strongly during the year with 77% of car disposals completed using our own proprietary online b2b remarketing platform, mfldirect. This platform is the largest single vendor remarketing platform of its type in Europe, and is a key component in maximising the net return for each individual car sold (we sold, on average, 25 cars every hour of the year).

The upside in used-car values manifests not only through physical disposal profits but also within our revaluation of the live fleet, as our outlook improved due to the buoyancy in current values. This led to a favourable financial impact this year through the unwinding of previously booked depreciation (which had been charged in previous financial periods, based on a less positive outlook for used-car values). The net result is a lower depreciation charge in the year of £679.4m (2017: £812.5m) with a £125.9m residual value credit (2017: £72m charge) relating to the change in estimate during the year of future residual values adjusting previously booked depreciation (see note 13, page 86).

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

As reported in the 2018 Half Year Report, we have continued to invest in the customer proposition, with more than £183m invested in direct customer initiatives during the year to September 2018, a 62% increase on the previous year (2017: £113m). Customer investments include expenditure to ensure continuous mobility for customers when their vehicle is off the road, providing a Good Condition Bonus for customers who return their vehicle in appropriate condition at the end of lease, and expenditure to support the cost of vehicle adaptations and the affordability of wheelchair accessible vehicles.

The post-tax profit of £116.6m (FY2017: £212.7m), which is retained in the business for the benefit of customers, results in restricted reserves on the Balance Sheet increasing to £2,547.5m (FY2017: £2,430.9m). 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.

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.

Taxation

As set out in our published Tax Strategy (available on our corporate website), the Group continues to adopt a clear and transparent approach to tax matters, with the overarching principle being to ensure that the right tax is paid in the right place at the right time. This is reflected in our approach to the taxation treatment of MO Reinsurance Ltd in the Isle of Man,

Reconciliation between underlying and reported profitability

	£m
Underlying profit before tax*	140.9
Vehicle resale profitability	236.5
Reversal of depreciation	146
Insurance Performance	74
Increase in Good Condition Bonus	(66)
Charitable Donation	(400)
Reported Profit before tax	131.4

* Consistent with the target 1.5% Return on Assets; after planned direct customer investments

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 2018, the Group's underlying tax charge was £25.2m (19.2%) with a £10.4m deferred tax release following the re-measurement of deferred tax in relation to changes in the UK corporation tax rate (see note 26, page 99 for further detail).

Cost management

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

We also recognise the need to invest appropriately to ensure the long-term stability of our infrastructure and, following the successful migration of our car fleet to a new finance system in 2017, we have continued to invest in our systems infrastructure aligned to our strategic IT roadmap. We will retire over 20 legacy systems as we move forward in a number of areas including the delivery of an enhanced online application process for customers, a new pricing engine to modernise and streamline our processes and interaction with manufacturers, and extending our online sales capabilities as we look to maintain our market-leading position in vehicle remarketing.

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 enhance, directly and indirectly, the customer proposition.

Use of earnings

Our earnings generated in the year have been used to support the provision of our worry-free proposition for today's customers and to strengthen our capital position to ensure continued provision into the long term. Earnings this year were used as follows:

- To invest in the customer proposition: earnings were reinvested in initiatives targeted on directly and indirectly improving the customer experience, such as pricing support for adaptations and 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 2018 this total investment was £255m (2017: £187m), including £183m of direct customer investment, and £72m of indirect investments
- To provide a charitable donation to Motability: a £400m charitable donation to Motability was affordable in the context of the exceptional financial performance reported. This is the sixth donation since 2010 with cumulative donations of £745m.
- To pay our tax: after allowing for the investments outlined above, we delivered a pre-tax profit of £131.4m in 2018, incurring an underlying tax charge of £25.2m (net tax charge of £14.8m due to remeasurement of deferred income) with an underlying tax rate of 19.2%
- To support capital requirements and to finance the fleet: our post-tax profit 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 33-39). The retained earnings contribute to financing the purchase of new vehicles, thereby also reducing future borrowing requirements.

Insurance performance

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

As in previous years, the Group financial statements include the consolidated results of MORL with segmental reporting to reflect the way we manage and report on this business activity. The segmental analysis can be found on pages 80-81. It is pleasing to report that from a Group perspective the insurance results was ahead of expectations delivering a profit of £36.8m in the year to September 2018. This result is underpinned by the latest review of the underwriting position, (validated through an independent actuarial review of claims exposures), which reflected a positive development in claims reserves.

Consistent with last year we have received a rebate related to a profit share agreement within our previous insurance arrangement. Our recognition of this rebate, which is netted-off with our fleet operating costs (see note 6, page 82) is in line with our accounting policy (see note 2, page 76). This is the final rebate we expect to receive from this previous contract though any movements in final claims costs will be recognised in future periods, though these are not expected to be material.

A similar commission arrangement was put in place in respect of a MORL quota-share reinsurance contract (detail of the reinsurance structure is provided in our risk management section, page 34) that effectively rebates MORL if claims experience is better that anticipated. The first recognition of a rebate, should it crystallise, will occur in 2019 when the valuation is adequately robust (see note 3, page 78).

Assets and residual values

Operating Lease Assets were £6,829m at September 2018. Within this, the unguaranteed residual value across the fleet was £5,470m. 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.

At September 2018, the projected gross revaluation of the fleet versus the priced position reflected an anticipated gross gain of £399m, which after adjusting for selling costs and early terminating leases results in a net gain of £75.6m. The 12 months to September 2018 include a credit of £125.9m as previously booked incremental depreciation charges unwind.

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 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. Our core approach is 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.

Following the review this year there were no additional risks or material movements, there was in fact a small reduction in the capital required per vehicle driven by an improvement in insurance claims volatility.

We received an independent review of the Group's Economic Capital methodology last year which confirmed our approach to be proportionate and appropriately conservative given the Group's overarching objective to ensure long-term sustainability. We will continue to seek independent review on a regular basis to confirm our approach remains appropriate.

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

It was against the backdrop of the UK's triggering of Article 50, in addition to various European elections on the horizon, that we undertook refinancing action in March 2017 to de-risk our future requirements. Whilst this strategy resulted in a temporary elevated cash position at the previous year end, this provided the liquidity required to subsequently settle the €500m bond that matured in November 2017 and to donate £400m to Motability in September 2018.

Of the Group's £286m Cash and Cash Equivalents balance reported at 30 September 2018 (see note 17, page 90), £82m is ring-fenced in respect of insurance liabilities in MO Reinsurance Ltd, with a further £326m (being the swapped GBP equivalent of €390m) assigned to settle the Group's November 2018 bond maturity. After meeting these commitments, excluding operational cash flow, the Group expects to hold a net cash deficit of £122m. This will be financed using our Revolving Credit Facility which provides appropriate and sustainable liquidity pending any future debt capital market financing initiatives.

In September we exercised the extension clause on our current bank funding (final roll-over on a five-year '+1, +1' arrangement), meaning that our £400m term loan and £1.5bn Revolving Credit Facility have been reset to a five-year term ending September 2023.

Existing bank facilities, in combination with the ten bonds in issuance under our EMTN programme, provide the Group with liquidity in line with targets. The Group's average debt maturity was 7.87 years at the Balance Sheet date.

Treasury policy

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

We 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 2018 was £6.3m post-tax.

Brexit

The uncertainty related to the structure and timing of the UK's future trade deal with the European Union has been assessed against our key risks (pages 34-35).

Our most significant risk relates to unforeseen movements in the market value of second-hand vehicles and our fleet revaluation includes a Brexit overlay based on our assessment of the potential impact from an economic downturn following a disorderly settlement. The impact of this adjustment to our central forecast reduces the projected value of the unguaranteed residual value of the fleet by £110m. This impact is spread across the remaining life of the live fleet by way of recalibrated depreciation with £60m of this booked in the current year.

In respect of pricing, we can react to further weakening of exchange rates, should that occur, through our quarterly pricing process. Inflation in vehicle base costs and/or servicing would likely need to be passed through to customer pricing. However, depending on the depth and severity of the situation we would assess the impact on profitability and capital targets and look to insulate customers if affordable in the context of our long-term sustainability requirements.

Our customer price list is updated every quarter. This provides us with the agility to respond to the changing macro-economic environment. Given that leases being priced today will in the main not be returning for between three and five years, we do not include any specific Brexit overlays into current lease pricing.

We already have a mature process which enables customers to remain in their vehicles beyond their original lease term should an issue arise on the handover to their new vehicle (over 91% of customers renew their leases with us). To the extent our customers are faced with issues related to import delays we are operationally secure in ensuring we can keep our customers mobile by extending their current leases.

We took the strategic decision to bring forward our refinancing activity last year, in part due to potential exposure to volatility in debt capital markets but equally in consideration of the upcoming refinancing requirements. We are currently well-placed to repay the bond maturity in November 2018 and have adequate liquidity available, with our recently renewed five-year Revolving Credit Facility, to support our needs should debt capital markets be inaccessible for the medium term.

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

Matthew Hamilton-James
Finance Director

Excellent service levels and a consistent proposition

Overview

As outlined in the 'Strategy in action and performance' section (pages 16-24), the year ended September 2018 saw the Group continue to deliver high levels of performance across a range of targets.

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

Customer awareness and advocacy of the Scheme

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

Our activity aims to increase this understanding 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 be very popular, with almost 21,000 people taking the opportunity to visit and find out more.

During the year over 67,000 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme and more than 91% of customers chose to renew their leases at the end of contract.

Government Welfare Reform changes

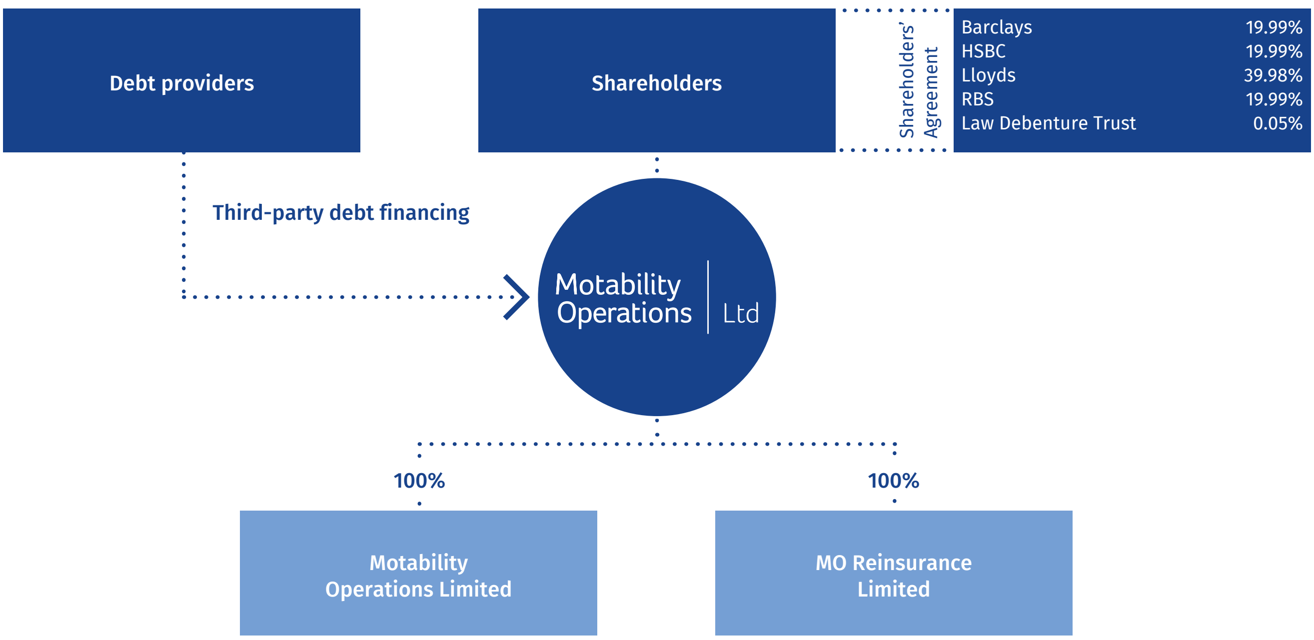
In 2013, the Government introduced a new benefit – the Personal Independence Payment (PIP) – which is gradually replacing Disability Living Allowance (DLA) for disabled people aged between 16 and 64.

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

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

Corporate structure

The diagram below sets out the Group's corporate structure



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

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

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

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

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

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

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

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

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

As of September 2018, over 89,000 Scheme customers had lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme.

To date Motability has made almost 65,000 transitional support payments totalling over £112m to customers who have returned or purchased their vehicles having met the criteria set out above.

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 has been achieved despite the continuing pressures from the wider economic impacts on prices.

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

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

We have worked hard with manufacturers to ensure that we continue to offer an affordable proposition across a broad range of vehicles. During the financial year, we offered vehicles from 32 manufacturers with over 2,000 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 takes steps to remind customers and business partners of their obligations in this respect. This includes asking all customers, drivers and car dealers to sign a Statement of Responsibilities at car handover to confirm they understand these terms of use. These clear guidelines are designed to ensure that Motability cars are used for the benefit of the disabled customer.

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

During the past year, we dealt with almost 20,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, many of which led to prosecution.

Around 7,800 cases resulted in enforcement action, including over 4,000 customers who had their agreements terminated and their cars withdrawn. We continue to invest in Scheme protection activities both to safeguard the reputation of the Scheme and to protect the proposition for our customers.

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

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

Customer experience

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

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

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

Our customer call centre plays a pivotal role in supporting our customers. The strong customer satisfaction results are in no small part attributable to the consistent service levels delivered by the call centre, with 94% of customer queries resolved during their first call.

Initiatives designed to support and enhance the customer experience include:

- Working with mental health charity Mind to improve our understanding of how best to support customers with mental health conditions and to develop resilience training for our customer service teams in handling more difficult or emotionally challenging calls
- Improving customer communications and the website, creating a more welcoming impact, and more than doubling the information available. This included the launch of our online 'News and Views' section and monthly customer email programme
- Removal of Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly, and implementation this year of web chat, which has proved particularly popular with customers who are unable, or prefer not, to use the telephone
- Availability of an online 'car search', which gives customers a user-friendly and readily navigable tool to find the vehicle that best meets their needs
- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

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

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

Examples include:

- The use of a Specialised Mobility Team to support the delivery of the 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
- Awarded the new 'Disability Confident Employer' accreditation

Fleet insurance arrangements

As reported in previous Annual Reports, the Group's current fleet insurance arrangements commenced on 1 October 2013. Under these arrangements RSA continues as insurer, but premium exposure is shared with Motability Operations via its reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme (see the Risk management report on page 34 for more detail).

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

- Customer service: RSA has been the insurance supplier to the Scheme for many years and our arrangement ensures the continuity of our customers' 'worry-free' claims management experience. The revised structure did not result in any visible change for our customers
- Financial: the financial model that underpins the revised 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.

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 34. From a Group perspective financial performance aligned to expectations, as outlined in the Finance Director's review on page 26.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 93% brand availability based on market share, with 32 manufacturers currently on the Scheme. This now provides our customers with access to over 2,000 vehicle derivatives, delivered through a network of over 4,600 car dealerships. During the year we accounted for over 9% of UK car registrations.

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

While we take responsibility for the overall customer experience, over 16,000 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 2018, we sold over 220,000 cars. We continue to develop our multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online process which is augmented by a proactive auction programme. Our online sales channel, 'mfldirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has a number of advantages over physical channels, including its lower cost and, supporting a more targeted approach that increases the average value of disposals. Following an upgrade to the system platform last year a second round of digital enhancements was delivered to provide a series of customer-requested enhancements. We ensure we listen to our remarketing customers and in an independent satisfaction questionnaire our customers rated our remarketing team at 95% for trust.

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

Through 'mfldirect' we have established an efficient and competitive sales environment which ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for 77% of all disposals during 2018. Cars that do not sell online are usually routed to auction and sold at one of our branded events. We have progressively routed more of our early terminating stock via the online channel, and with early terminating volumes having increased as the PIP reassessment process gathers momentum, this route to market ensures that we optimise the value obtained for these vehicles.

Through the versatility of our remarketing strategies, the proactive management of stock and an increased buyer base, the remarketing team has delivered an excellent performance in 2018, contributing to significant gains.

Environment

We know that our customers are keen to look for greener choices. However, given their limited mobility, public transport is, for them, rarely a viable option. We therefore aim to ensure that a range of lower-emission, higher-MPG vehicle choices is available (which in turn are more cost-effective for our customers). We continue to take a proactive approach to managing our CO_2 emissions agenda with a number of initiatives that provide information and choice for our customers. These include:

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

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

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

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

Our 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 Committees.

We have a Director with specific responsibility for risk. We have also further strengthened our risk management approach during the course of this year, through our dedicated Risk Management function. This year saw the risk processes further substantiated following an independent review 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 agreed level of risk appetite.

Risk identification and monitoring

We have designed our risk management framework around the ‘three lines of defence’ approach to risk governance. Consistent with this approach, we have a dedicated risk 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 review 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

❶ Residual values

We provide our customers with a fixed price over their lease term, predominantly a covering a three-year period. In supporting this proposition the most significant risk we face is the exposure to unforeseen and material movement in the market value of second-hand vehicles. Residual value risk 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 buyer surveys and market experts. The model is periodically recalibrated and validated with an independent review being completed this year. Since it was first implemented in October 2004, our in-house model has generally 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.

❷ Insurance risk

Insurance is the second biggest risk we face and as we fix this cost for our customers for between three and five years our exposure is larger than is typical in the market.

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 2018, and continues to be placed with a panel of 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 £30,000 (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 £30,000, 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' reserving processes
- Motability Operations has also developed an in-house actuarial team to provide relevant internal expertise.

❸ 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 on 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.

❹ Supplier failure

Our core product offering is delivered through contracts with key suppliers who provide vehicle insurance services, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have significant financial implications as we seek alternative service providers. 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 most likely 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, dedicated account management 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.

❺ 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 and 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 awareness, 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.

❻ Cyber risk and information security

Cyber risk and information security are key priorities for the business. We have a sophisticated layered approach to IT security and have implemented initiatives to enhance controls. We continue to monitor the ever-changing nature of the external threats faced and have established controls and an ongoing programme of development in this area. The business purchased cyber insurance and has a Cyber Incident Response Playbook in place as part of our structured approach to Incident Management. In addition to these practical measures we have assigned additional capital within our capital modelling to provide protection against this potential risk.

❼ Credit risk

Customers assign their allowances to us, and this is paid directly from the DWP. As a result, the credit risk is considered to be very low and MO Group does not hold any capital against this risk, with the benefit that this confers passed through to customers. If the Government did transfer responsibility of payment to the customer, as with Housing Benefit under Universal Credit, MO could be exposed to significant credit risk.

Where the total cost of the lease exceeds the value of the customer's allowance, then the customer is required to make an upfront balancing payment – the 'advance payment' – prior to taking possession of the vehicle.

When we sell vehicles at the end of the lease then we are exposed to credit risk through dealers and auction houses. To manage this we regularly carry out credit assessments 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).

Capital adequacy and economic capital

Although the Group is not regulated for capital purposes, our approach to balance sheet management aligns with best practice, with the overarching objective being to ensure that we have the financial resilience to withstand economic turbulence without compromising the customer offering. The Group holds capital in the form of 'restricted reserves' to provide the necessary financial shock-absorber against the majority of unexpected loss to ensure sustainability into the long term. This capital is retained exclusively for the benefit of the Scheme and invested in our fleet which serves to reduce lease costs by around £400 shareholders have 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. This enables us to determine an appropriate level of capital required to protect the Scheme from potential shock events.

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

To ensure that our capital planning adequately reflects the current risk profile of the business, we undertake an annual review of our Economic Capital requirement 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.

Following our 2018 review we have seen a small reduction (1.2%) in our calculated EC requirement per car which translates to a £2.3bn minimum reserve level to cover the current fleet.

An independent expert review of the Group's Economic Capital methodology was undertaken in 2017, with feedback confirming our approach to be proportionate and appropriately conservative given the Group's overarching objective to ensure long-term sustainability.

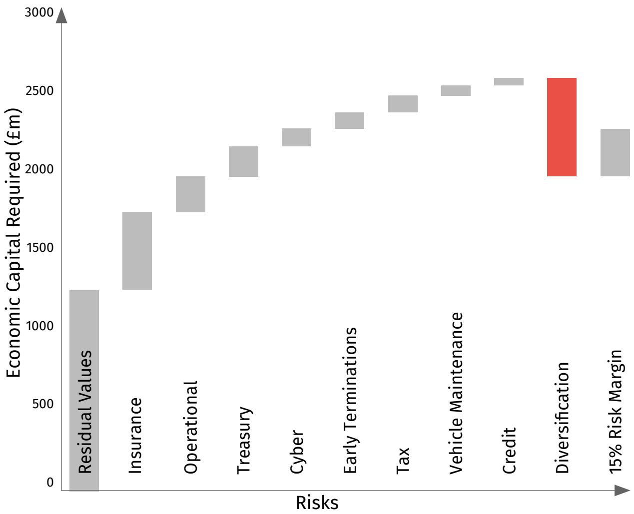
At the financial year end, the Group's closing capital position (represented by restricted reserves on the Balance Sheet) was considered by Directors to be adequate given the current and emerging potential risks faced by the Scheme.

Calculating the Economic Capital Requirement

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

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

We apply a correlation matrix to allow for diversification across risks leading to a 24% reduction in our risk assessment for 2018. Combined with the diversification impacts within different risks themselves, our total diversification impact for 2018 is 37%.



Residual Value Risk

Market risk £0.83bn

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

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

Performance risk £0.45bn

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

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

Clare Ickringill
Head of Asset Risk and Pricing

Forecasting Residual Values

An estimated residual fleet value of £5.5bn (September 2018) means that even a 1% error in our forecast equates to a £55m financial exposure for MO.

To provide some market context, used-car values in the UK dropped by 22% in 12 months during the 2008/09 financial crash, demonstrating the volatility and complexity in estimating used-car values between three and five years into the future in support of fixed customer pricing and revaluing our fleet.

More recently, the extent of negative sentiment for diesel vehicles, following emission scandals, created an unexpected shift in supply/demand dynamics around fuel types and overall used-car demand has been boosted by the emergence of related consumer finance options.

We seek to recruit and retain the relevant skills and expertise to develop, support and challenge our processes, supported by independent review and expertise to routinely validate and continually develop our approach.

We combine econometric modelling techniques with car industry expertise with our aim to ensure that customer pricing is based on a fair and reasonable assessment of future market values.

Though no forecast of this complexity will ever be 100% accurate we have a strong track record of outperforming alternative market benchmarks.

Damian Oton
Head of Commercial Operations

Effective Remarketing

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

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

During the year we sold over 220k used cars and wheelchair accessible vehicles worth £2.2bn 77% of these vehicles were sold using our own proprietary online b2b remarketing platform, mfldirect. This platform is the largest single vendor remarketing platform of its type in Europe, and is a key component in maximising the net return for each individual car sold.

Through this platform we actively manage a portfolio of 3,500 dealers who recently gave a 95% score in the level of trust they have with our remarketing teams.

In addition to our online platform we work with leading auction organisations throughout the UK to provide flexibility and resilience in what is an increasingly competitive and difficult element of the automotive market.

Summary of our key risks and mitigations

	1 Residual values Unexpected movements in used-car values, failure to achieve market value on disposal	2 Insurance Exposure to insurance claims that exceed expectations or supplier failure	3 Treasury Exposure to interest or exchange rate movements, liquidity, funding, counterparty and operational risk	4 Supplier failure Failure of key manufacturer or other key Scheme supplier
Potential impact	• Volatility in profitability, reserves and pricing. Potential impact on affordability and choice	• Financial impact of claims exceeding priced expectations • Failure of a reinsurer could transfer risk back to Motability Operations • Legislative changes (e.g. Ogden rate changes)	• Potential impacts include volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• Compromised customer service provision and potential financial impact of securing alternative supplier • In case of manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties
Mitigation	• Sophisticated in-house residual value setting and forecasting process • Risk capital management for asset risk using Economic Capital principles • Market-leading remarketing approach	• Conservatively placed reinsurance programme effectively limits the Group's net risk • Risk capital in place to cover net risk • Access to extensive expertise • Diversification of supply across highly rated reinsurers	• 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	• Active monitoring of credit ratings and market announcements • Strong supplier relationships and communication • Diversification of supply • Diversified portfolio
Link to strategy	• The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology)	• Our revised insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term	• The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk-averse	• Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs

	5 Operational Risk of failure of key systems, controls or processes	6 Cyber risk and information security The loss or harm related to unauthorised access to infrastructure or data	7 Credit Risk of default of key income streams and exposure to bad debt
Potential impact	• Potential financial and reputational risk • Risk of business disruption	• Potential impacts to customer and stakeholder confidence • Potential financial and reputational risk • Risk of business disruption	• Potential impact on cash inflows and consequent write-off to income statement
Mitigation	• Robust control environment • Active monitoring and testing of Business Continuity and Disaster Recovery plans • Focus and investment in IT infrastructure providing a stable and resilient operating platform	• Information security framework aligned to best practice and industry standards • Designated data protection officer • Ongoing employee awareness programme • Cyber Insurance and Incident Response plan in place	• 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	• We ensure that we make appropriate strategic investments in our infrastructure, systems and processes	• Customer confidence in the Scheme underpins our strategy • The strategic pillar of ensuring long-term sustainability ensuring compliance with key regulation	• The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme

Risk Appetite Framework

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

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

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

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

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

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

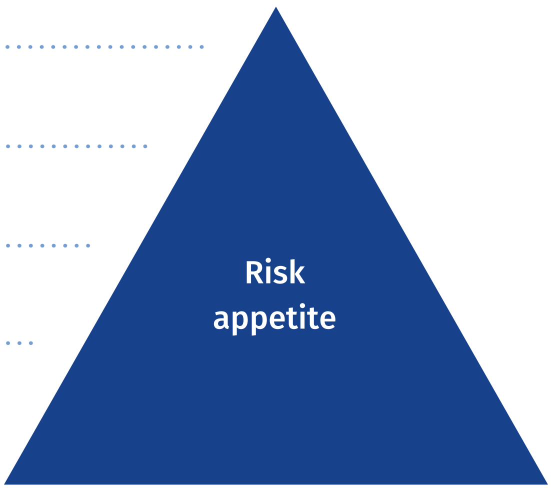
Strategic plan, objectives and risk strategy

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

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

Specific
Principles and policies to operationalise risk appetite

Detailed
Detailed risk appetite measures and limits



Business dimensions

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

Viability Statement

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 2021.

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; and
- 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 33 to 39.

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

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

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

- Across the next three years the Group will be required to repay two bonds. The first is due in November 2018 (£326m GBP equivalent) and the second in December 2019 (£300m). Directors assess that the Group has access to sufficient liquidity to make these repayments from its committed bank credit facilities in the event that refinancing in the debt capital markets is not viable.
- Whilst it is noted that the longer-term nature of these obligations can extend significantly beyond the three-year period adopted for this viability review, the Directors are satisfied that lenders are not only provided with robust protection through the relevant documentation, but that the Group will have the resources to meet these obligations under the full range of stress scenarios referenced above.

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

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

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

Our people are fundamental to our success

Our business is all about changing lives through providing our customers with a seamless first-class service. In order to achieve this, we recognise that the calibre and commitment of our people is key. We welcome diversity in our business in the broadest sense and believe that, by combining our talents and knowledge, we can drive a high-performance culture where all employees can flourish.

Values and Culture

The way we work is central to delivering and meeting the needs and expectations of our customers. Guided by clear-cut values and principles, our business culture provides a foundation for success. In recognition of our desire to reflect the changes taking place within our business, with our customers and in society, we took the opportunity to refresh our brand and values during 2018.

The new branding and values built on existing strengths, but also took the opportunity to gain fresh insights from customers, dealers and employees. Through discussions and focus groups with a cross-section of employees, leaders and executives, we developed our new Employee Values and Behaviours.

Inclusion

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

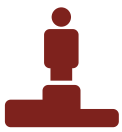
Empathy

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

Forward thinking

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

Excellence



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

Empowerment

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

> "Our business is all about changing lives, and increasing opportunities for people with diverse needs."
>
> **Mike Betts**
> **Chief Executive**

Principles

We have identified 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 fuel economy and emissions.

Employee Engagement

Every year, we conduct an independent culture benchmarking survey, "My View", with all of our employees, which is facilitated by a global employee research and consulting organisation. Our results are compared against a benchmark of 'UK High-Performing Organisations'. Over the last ten years, our results have significantly outperformed the 'UK High-Performing Norm'.

In 2018 we achieved a survey response rate of 94%. We continued to outperform the High-Performing benchmark, with a 93% positive rating achieved for our key measure of Employee engagement.

The results of "My View" are shared with all employees at roadshows hosted by the Chief Executive where key themes are identified and actions highlighted to address emerging issues. Roadshows will also include updates on Company performance and strategic initiatives.

Diversity and Inclusion

At Motability Operations we believe in accessibility in the broadest sense, recognising that everyone has differences in capabilities, needs and aspirations. Within our business, this means providing the same job opportunities for every employee. It means sustaining a culture where people are free to flourish, and their contribution is rewarded equally regardless of race, national or ethnic origin, disability or gender.

Disability

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. We are members of the Business Disability Forum and accredited by the Department for Work & Pensions as a 'Disability Confident' employer. We have an established programme of training workshops for leaders focused on the recruitment and development of employees with disabilities, both physical and cognitive. As part of our on-boarding process, all new employees receive Disability Confidence training.

Since 2010 we have run a successful Scholarship Programme aimed at supporting disabled students during their academic studies and providing work experience during the summer months.

Diversity Networking Groups

Our internal Disability Working Group was established in 2008, providing a forum and voice for employees to raise important issues. As part of our agenda around diversity, we have committed to introduce additional Networking Groups, including a Women's Group, an Ethnicity Group and a LGBT+ Group, as well as a refreshed Disability Networking Group. The Chief Executive is the overall sponsor for all of our networking groups.

Diversity Training

Our business is all about changing lives, and increasing opportunities for people with diverse needs. Inclusion continues to be a normal part of who we are and what we do and we are actively reviewing how our working practices can make roles in the organisation more accessible to all.

We have commenced a programme of Diversity Training, starting with our senior team and Diversity Networking Group leaders, and this will continue to roll out to all leaders throughout 2018/19.

Gender Pay

The gender pay gap reporting regulations came into effect in April 2017. Employers with more than 250 employees are required to measure and report on data relating to gender pay and bonuses. Motability Operations Ltd's results are set out below.

Motability Operations Ltd's gender pay gap of 27.2% and gender bonus gap of 61.4% represents the difference in the average pay and bonuses of all employees across the organisation. Although our analysis shows we pay equal rates for work of equivalent value, the gender pay gap emerges because there is an uneven distribution of men and women across different roles within the business.

We have taken a number of positive and meaningful steps to address this issue, including diversity training for managers, and the creation of networking groups, including a Women's Networking Group to provide a forum for discussion of ideas and potential solutions to advance gender equality. We actively encourage internal development; just over 50% of our senior managers are women, the majority of whom were promoted from within. We plan to maintain this representation and close the negligible gender pay gap at this level.

In 2018 we launched a programme of initiatives to update the workplace and create a working environment that attracts and supports every employee. Particular areas of focus include;

Dynamic Working

Reflecting on the evolving requirements of both our current and future employees, we recognised that different generations value different things from their work and employer. Our aim is to enhance our culture and remove barriers, thereby creating an environment where the best talent succeeds.

In the summer of 2018 we launched 'Dynamic Working' which enabled leaders to respond to requests of ad-hoc flexibility from all employees without the need for contractual and formalised processes. Through the use of technology we have provided options for employees to work from home, adjust start and finish times to balance personal commitments as well as more formal arrangements to request a permanent change to working patterns. Employee feedback from this initiative has been very positive.

In June 2018 we introduced the concept of 'Dress for your Day', supporting our commitment to modernise our working environment. We recognise that a one-size-fits-all approach does not match the diversity across our organisation with individuals offered the flexibility to dress appropriately to their needs, with the emphasis on ensuring that a professional image is still presented to our customers, colleagues, partners and suppliers.

> "Motability Operations is committed to developing people, retaining talent and creating opportunities for individuals who want to succeed."

Kate

IT Portfolio and PMO Manager

Employee Wi-Fi

Access to free employee Wi-Fi was introduced across both of our London and Bristol offices, together with training for all employees on 'How to Stay Safe Online'.

Sabbaticals

Aimed at retaining the skills, expertise and experience of our employees, we have introduced a new Sabbatical Policy. This enables employees with over five years' service to take an unpaid career break, whilst at the same time protecting their continuous service and holding their role open for their return to work.

Family-related Policies

Most employees who take time away from the business on family-related leave choose to return to their role. In 2017/18, 85% of those on maternity, adoption or shared parental leave returned to work, and of this 56% returned on a flexible working pattern. In 2018 we made further improvements to our family-related policies.

Working Environment

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

We have recently introduced new technology-led features and layouts to our office space to encourage collaboration and dynamic working, including creative studios, flexible seating and interactive boards.

Attracting and Developing Talent

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.

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 within the business. After this period, we expect graduates to move into key line management or specialist roles.

We also have internship programmes within our Business System and Risk Divisions to attract new talent into these technical and specialist areas, as well as an apprenticeship programme in our Commercial Services division. Studying for relevant professional qualifications is actively encouraged within our Finance and Treasury departments.

Training, Development and Succession Planning

Employee development is supported through a number of mechanisms including formal training, involvement in specific initiatives and projects, or through secondments to other parts of the business. In 2017/18, 37% of our vacant positions were filled internally.

We manage the risk of losing key individuals through regular talent reviews and succession planning. High-potential employees are identified and plans are 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 Programmes.

Rewarding High Performance

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. Individual's objectives are directly aligned to business 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 importance. Leaders are also assessed using 360-degree feedback. Company performance is communicated to employees regularly during the year through team meetings, roadshows and the intranet.

Our remuneration is regularly reviewed against the market to ensure that 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. Through our competitive tendering processes, we also ensure that our suppliers follow the same principles.

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

Our core benefits package is an important part of the total remuneration for all employees. Our flexible benefits system provides choices and options based on lifestyle needs. Our Group Personal Pension Plan is regularly reviewed, and in 2017 we made changes to our Default Investment Option to reflect the additional pension freedoms offered in respect of taking benefits at retirement.

Wellbeing

We recognise the importance of supporting our employees to look after their own health and wellbeing and throughout 2017 and 2018 we have implemented a number of initiatives, which include:

- Incorporating mental wellbeing into Disability Confidence workshops attended by all employees
- Providing Mindfulness sessions
- Encouraging employees to participate in lunch-time yoga sessions, cycle surgeries, and social events
- Supporting volunteering events
- Provision of financial wellbeing workshops, including pension planning seminars.

In addition we continue to raise awareness of our Employee Assistance Programme which is available to all employees.

Committed to high standards of governance

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

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

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

Clearly defined lines of accountability and delegation of authority alongside well-established policies and procedures in respect of financial planning and reporting, the preparation of monthly management accounts, project governance and information security, all form part of our internal control systems that ensure the accuracy and reliability of financial reporting. The disclosures within the annual report and accounts are reviewed by the directors and functional leads to ensure they reflect the developments within the group and the meet the requirement of being fair, balanced and understandable.

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

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

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

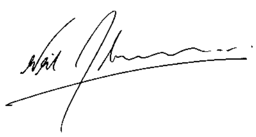
An annual review of governance committees was completed to support this structure, and company policies were also reviewed and relaunched.

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

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

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

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



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.

Our Board

Membership of the Board comprises a Non-Executive Chairman, two Executive Directors, seven 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 on 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

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

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

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

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 September 2016).

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

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

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

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

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

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

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

Executive Committee

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

The Executive Committee is chaired by Mike Betts, Group Chief Executive, and includes Matthew Hamilton-James, Group Finance Director, and the other members of the Motability Operations Ltd Board – Ian Goswell, Commercial Director; Jo Pentland, Corporate Services Director; Ashley Sylvester, Risk & Business Systems Director; and Julie McManus, Company Secretary.

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

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

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

The performance and strengths of the Executive Committee are evaluated periodically and individual members’ performance is assessed annually.

Mike Betts
Chief Executive

Audit Committee

Ruth Prior
Audit Committee Chairman

As part of a planned transition, Christopher Lendrum (Senior Independent Director), having completed his third three-year term, stood down as chair of the Audit Committee on 23 May 2018. I was subsequently appointed chair of the Audit Committee effective from 5 September 2018. I am pleased to present my first report of the Committee in this Annual Report.

Firstly, I would like to thank Christopher for his diligent approach and effective stewardship over the committee's activities during the past nine years in an ever-changing risk landscape. Throughout, Christopher has focused on ensuring that Motability Operations operates an effective control environment and risk management approach within a best-practice governance framework. This has supported the business in successfully delivering a number of strategic priorities, including the rigours of a new PLC environment and refinancing journey following Motability Operations' corporate restructure in 2008, the implementation of revised insurance arrangements in 2013 and most recently the successful IT system replacement which was delivered in July 2017.

As the incoming chair, I am pleased to be taking on an effective and well-established committee, in a business where risk management is firmly embedded in the culture.

The Audit Committee comprises three Independent Non-Executive Directors and four shareholder-appointed Non-Executive Directors. In my capacity as an Independent Non-Executive Director I chair the committee with other members during the year being Lisa Bartrip, Daniel Meredith Jones, Barry O'Byrne, David Smith, Neill Thomas and Paul Thwaite. Executive Directors, other members of senior management, the Head of Internal Audit and the external auditors (PricewaterhouseCoopers LLP (PwC)) are in attendance where appropriate, together with senior representatives of Motability, the charity.

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, recommending to the Board adoption of the half-year and full-year accounts.

The Committee meets quarterly in advance of meetings of the main Board, at which the Committee 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

Audit Committee continued

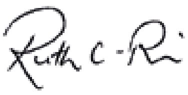
- A treasury report covering policy and factors affecting liquidity (including ongoing Group financial performance, bank finance availability and bond market access) to ensure that satisfactory liquidity is maintained at all times, within the agreed policy
- Progress reports from the responsible Executive Director on all key aspects of the business
- Review of the outputs of and matters considered by the Financial Risk Management and the Risk Policy and Compliance Committees, presented by the responsible Executive Directors
- Internal Audit reports and issue resolution on a quarterly basis, together with the appropriate resourcing of the function. No significant issues were encountered
- Reports on any significant control failures or incidents over the previous quarter, and resolution to the satisfaction of the Committee.

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

- Regulatory and legal compliance obligations, with particular focus this year on the Group's preparation for ensuring compliance with the General Data Protection Regulation (GDPR) effective from May 2018
- A post-implementation review of the deployment of the IT system replacement programme, a project which was delivered within budget, to plan and in line with business expectations
- The potential impact on residual values arising from sustained negative sentiment towards diesel vehicles and the economic uncertainty related to the UK's exit from the European Union
- Confirmation that Motability Operations will retain its 'low risk' tax status, a status afforded by HMRC on a taxpayer who has an open and transparent relationship with them
- Motability Operations' decision to take part in HRMC's pilot scheme for submitting VAT returns (Making Tax Digital)
- Received updates on the external auditor transition planning to enable a smooth transition of Group external auditors from PwC to KPMG effective from 1 October 2018
- 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 2018 the auditors provided appropriate assurance and identified no matters of material concern either to themselves or to the Committee.

Significant financial reporting/judgements and changes in relation to the Group's Financial Statements considered by the Committee are set out on page 51.

In recognition of the importance of evaluating its own effectiveness, the Committee undertook a review in 2018 covering members' experience and knowledge in the context of changing demands in the key aspects of its work. The results of this evaluation confirmed the Committee's underlying effectiveness, and provided useful insights for future challenges.



Ruth Prior
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 PwC as the external auditor provided assurance to the Audit Committee that the residual value forecasting process was undertaken in a controlled manner. The Audit Committee was satisfied that residual value 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.
Other accounting estimates	
Other areas of accounting estimates include maintenance accrual and end-of-contract payments. Changes in estimates of future expenditure or payout rates may affect the reported financial result.	The Committee assessed accounting estimates as part of the review process for the financial statements. The Committee discussed the work and findings of Internal Audit and the external auditor to assess the appropriateness and robustness of estimates. On this basis, the Audit Committee was satisfied that accounting estimates were appropriate and processes well controlled.
IT systems replacement	
Having successfully implemented the functionality for the new processing and accounting system in July 2017, the first financial accounts were completed on the new technology for the financial year ending September 2017. The ongoing effectiveness of the Group's systems and control environment remains essential to the integrity of the Group's financial statements.	The Committee received regular updates on the status of IT systems performance and the control environment as processes continued to bed in during the year. The Committee noted that the first of regular planned upgrades of our new core leasing system was successfully completed in May 2018 ensuring we maintain an up-to-date and fully supported system. The Committee received a Post Implementation Review (PIR) on the implementation project and was satisfied this had been delivered to plan, within budget and met all key objectives.

Nomination Committee

Neil Johnson OBE
Chairman

The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. It is chaired by the Non-Executive Chairman, Neil Johnson, and the other members are Neill Thomas and Ruth Prior. The Chief Executive and Corporate Services Director attend where appropriate. The Head of Human Resources acts as secretary to the Committee.

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

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

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:

- Michael Hordley was appointed as alternate to Barry O'Byrne, HSBC.

An exercise to evaluate the effectiveness of the Committee will be carried out again in December 2018.

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 2018.

Key Developments in 2018

As referred to in the Chairman's statement, during the last few months the Group has been subject to the scrutiny of the National Audit Office. The remuneration of the Executive Directors was a particular focus of this review and the Committee has welcomed the external examination of its remuneration methodology and procedures. As highlighted in the 2016 remuneration report, a detailed review was undertaken in 2015 and reflected in a new Remuneration Policy which was applied with effect from 1 October 2015. The Committee believes that the methodology used and the decisions made in respect of the remuneration of the Executive Directors is appropriate in order to attract and retain individuals with the necessary skills, experience and expertise to run a business of the size and complexity of Motability Operations.

During 2018 all remuneration decisions were subject to the review and scrutiny of the Remuneration Committee and made in accordance with such Remuneration Policy. In May 2018, the Committee received and reviewed a report from our independent advisers, New Bridge Street, which set out the most up-to-date remuneration data from a range of companies including private entities, mutual organisations and FTSE250 companies. Motability Operations is a unique business so the Committee's approach is to use market data and any emerging policy trends to inform but not dictate its decisions on the level and components of Executive Directors' remuneration. During the May meeting the remuneration range for each Executive Director role was considered in the context of New Bridge Street's report. The Committee subsequently reconfirmed the existing ranges, with no changes being recommended.

These remuneration ranges then set the boundaries within which the Remuneration Committee will consider the award of annual bonuses and the application of any salary increases applying during the forthcoming financial year.

2018 Performance

Performance is assessed across customer, cultural and financial targets, as well as against governance, risk management and strategic development goals. 2018 proved to be another year of strong performance notwithstanding the continuing challenges presented by the programme of PIP reassessments and uncertainty for the Group's main markets as the UK begins to navigate its path of exit from the EU.

Details are set out in the remuneration report below and in the Strategy section of this report (pages 16-24); however, headlines in terms of performance targets include:

- Customer: A score of 94.3% (2017 : 94.8%) overall satisfaction in the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI), compared with a UK all-sector average of 77.9% and a sector average (Bank & Building Societies) of 79.8%
- Culture: Business culture scores, as independently measured through Willis Towers Watson's 'High-Performing Organisations' culture survey, statistically significantly outperformed the UK 'High-Performing Organisations' Norm groups across all 11 categories (including a Customer Focus score of 95% (2017: 96%) and Employee Engagement at 93% (2017: 94%))
- Financial: 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.

During the year there was good progress on a number of strategic initiatives – including the bedding-in of the new Alfa system following its implementation in July 2017 (with the first financial year end being completed on the new technology), the initial development of our new front-end customer acquisition system and foundation work towards transferring our pricing engine onto the Alfa platform – the details of which are set out in the 'Strategy in action and performance' section of this report (pages 16-24).

Implementation in 2018

Following the Remuneration Committee's review of Company performance, it was agreed to release bonus awards for Group Executive 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.

Remuneration Committee continued

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 2018 the Committee assessed the performance against these conditions and concluded that the conditions had been met in full.

Under the 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, this policy was only introduced from 1 October 2015 there are currently no such deferred bonus amounts outstanding and due for release. As a result this was not a matter that required the Remuneration Committee's consideration in 2018.

Neill Thomas
Remuneration Committee Chairman

Remuneration report

Total remuneration

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

	Salary		Benefits[1]		Pension[2]		Bonus[3]		Vesting of deferred bonuses and long term incentives[4]		TOTAL	
£'000	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Executive Directors												
Mike Betts	564	549	25	25	141	137	264	263	727	727	1,721	1,701
Matthew Hamilton-James	274	255	16	16	41	38	132	121	150	–	613	430
Independent Non-Executive Directors												
Neil Johnson (Chairman)	152	152	21	21	–	–	–	–	–	–	173	173
Christopher Lendrum^	50	73	–	–	–	–	–	–	–	–	50	73
John Callender^	13	50	–	–	–	–	–	–	–	–	13	50
Neill Thomas	67	64	–	–	–	–	–	–	–	–	67	64
Frank Gardner^	6	37	–	–	–	–	–	–	–	–	6	37
Joe Hennessy	50	50	–	–	–	–	–	–	–	–	50	50
David Smith	50	50	–	–	–	–	–	–	–	–	50	50
Ruth Prior^	32	–	–	–	–	–	–	–	–	–	32	–
Ruth Owen^	16	–	–	–	–	–	–	–	–	–	16	–
Alison Hastings^	16	–	–	–	–	–	–	–	–	–	16	–
Simon Minty^	4	–	–	–	–	–	–	–	–	–	4	–

1 Benefits include car allowance, private medical cover and travel insurance
2 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.
3 Bonus reflects the 50% of the award that is payable for the current year. The remaining 50% is deferred for a period of three years.
4 This includes the vesting of payments made in respect of the run-off of the now closed LTIP and £150k in respect of a retention payment for Matthew Hamilton-James paid in October 2017. The first potential release of deferred bonuses under the new policy will be in 2019.
^ All Directors served throughout the year unless marked ^. Of the Board's Non-Executive Directors, only the Chairman and Independent Non-Executive Directors receive remuneration.

As set out on page 47 (Board of Directors), there were a number of changes in Independent Non-Executive Directors during the year with John Callender, Frank Gardner and Chris Lendrum stepping down from the Board. Ruth Prior, Alison Hastings, Ruth Owen and Simon Minty were appointed to the Board during the year. The previous long-term incentive plan (described below) for Executive Directors will run-off during next year.

Future incentives - summary table of scheme interests awarded but not yet receivable

Legacy LTIP	Date of award	Performance period	Date receivable	Maximum vesting value £'000	Value expected at vesting £'000	% of maximum
Mike Betts	Oct 2015	2015-2018	Dec 2018	787	666	85%
Matthew Hamilton-James	Oct 2015	2015-2018	Dec 2018	112	95	85%

Deferred bonuses	Date of awards	Performance period	Date receivable	Maximum vesting value £'000	Value expected at vesting £'000
Mike Betts	Oct 2016	2016-2019	Dec 2019	253	253
	Oct 2017	2017-2020	Dec 2020	263	263
	Oct 2018	2018-2021	Dec 2021	264	264
Matthew Hamilton-James	Oct 2016	2016-2019	Dec 2019	103	103
	Oct 2017	2017-2020	Dec 2020	121	121
	Oct 2018	2018-2021	Dec 2021	132	132

LTIS/LTPP	Date of award	Performance period	Date receivable	Vesting value expected at Dec 2022 £'000	Vesting value if withdrawn at Dec 2018 £'000
Mike Betts	Dec 2010	2010-2022	Dec 2022	2,217	1,859

Retention incentives	Date of award	Service period	Date receivable	Maximum vesting value £'000	Value expected at vesting £'000
Mike Betts	Oct 2017	2018-2019	Dec 2019	120	120
		2019-2020	Dec 2020	120	120
		2020-2021	Dec 2021	120	120

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

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

Executive Directors' remuneration

The remuneration of Executive Directors 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 Group Executive Directors, the maximum annual performance-related payment is 100% of base salary.

For 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 2017 and 2018, with annual performance adjustments, up and down, being applied. Final payments will be made in December 2018, subject to the annual performance criteria being met and the Company's credit rating. The final payments will be disclosed in the financial statements of the year ending September 2019.

A five-year Long Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. During 2015, the LTIS was converted into a "Long Term Performance Plan" or "LTPP" and it was agreed that

Remuneration Committee continued

any potential benefit from the LTPP would be deferred for seven years, during which period no additional allocations will be made into the Scheme and any potential benefit will continue to be linked to stretching financial performance targets. Future payments under these long-term incentive arrangements are subject to malus and 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 lifetime limits to tax-relievable pension contributions which the Government introduced in 2010, Executive Directors can reduce or cease contributions being made to the Company's pension scheme and, instead, receive a pension allowance. Where an allowance is paid, normal tax and National Insurance deductions are made.

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. Performance against corporate objectives is given a 75% weighting in determining any bonus award, with the remaining 25% related to the delivery of personal objectives as defined in individual's accountability statements.

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

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

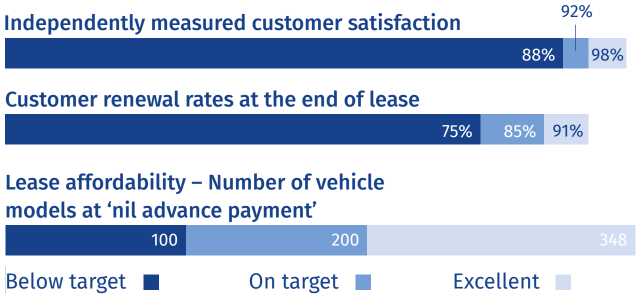
Customer service is assessed against independently measured benchmarks, including both an independent customer satisfaction survey and the Institute of Customer Service's UK Customer Satisfaction Index (UKCSI) benchmark report (January 2018), the latter comparing the Group's performance with that of 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 2018.

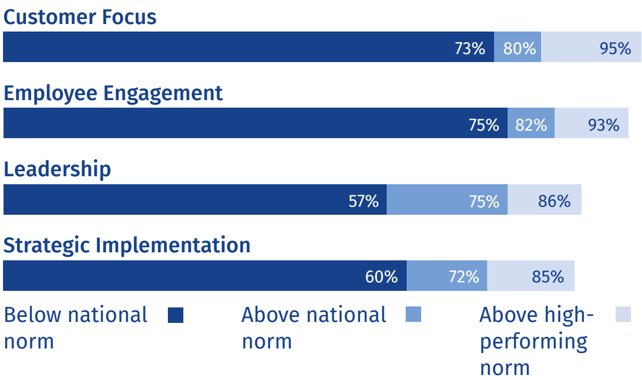
Customer service

The Group is targeted to deliver first-class levels of customer service and excellent value for money. Customer service is measured via an independent customer satisfaction survey and through a balance of other measures including customer renewal rates at the end of lease, which provides validation of the level of service and value that 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.



Business culture

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



Financial performance

Financial performance targets are in place to ensure that the Company remains robust and sustainable through the economic cycle, thereby safeguarding the future of the Scheme in the long term. Financial performance measures include the assessment of capital adequacy, liquidity and cost efficiency. Management is set targets against these measures. During the year to September 2018:

- 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.

Non-Executive Directors' remuneration

The Non-Executive Chairman's remuneration comprises an annual fee plus private medical insurance, travel insurance and a company car (or cash in lieu) and the Independent Directors receive a base annual fee which reflects time commitment and fees for chairing the Audit Committee and the Remuneration Committee. In addition, the Senior Independent Director receives a fee to reflect the role's responsibilities.

The remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors was reviewed in 2016 with recommendations subsequently approved by the Board. Changes were effective from 1 October 2016, with the exception of the Non-Executive Chairman's remuneration which was revised in April 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 2018 the Committee members were Neill Thomas, who chaired the Committee, Anna Cross (replaced by Daniel Meredith Jones on 21 February 2018), Joe Hennessy, Neil Johnson, Chris Lendrum (replaced by Ruth Prior on 23 May 2018) and David Smith.

The Chief Executive attends the Committee (but is absent for any discussion about his own remuneration). The Corporate Services 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
- Oversight of the Gender Pay Gap reporting in accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017. The first Gender Pay Gap report, highlighting a mean pay gap of 27.2%, was published in April 2018 (for further detail please refer to People and principles pages 41-44).

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

The effectiveness of the Committee is evaluated at least every three years. A review was undertaken in October 2016 with positive feedback being received from the Committee members and the Board concluding that it had full confidence in the effectiveness and thoroughness of the Committee.

Remuneration Committee continued

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 four times in the financial year ending 30 September 2018 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
- 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
- Review pension and benefits
- Evaluate the Committee's effectiveness.

Directors' Remuneration Policy

Executive Director Remuneration Policy

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

Each Executive Director receives a copy of the Strategic Review, the Annual Operating Plan (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 Corporate Services Director work with the Remuneration Committee to ensure that contractual terms on termination, and payments made, are fair to the individual and the Group and 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 ongoing development, enabling Executives to broaden their experience and expertise. Any potential appointments are reviewed and agreed by the Nomination Committee. Under the Group's Remuneration Policy Executive Directors may retain any fees received for Non-Executive activities.

Basis of employment

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

Neill Thomas

Neill Thomas
Remuneration Committee Chairman

Non-Financial Information

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

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

Environment

We continue to take a proactive approach to managing our CO_2 emissions agenda with a number of initiatives that provide information and choice for our customers and meeting our environmental responsibilities by managing our internal infrastructure and creating a work environment which looks to minimise our carbon footprint. Details of our initiatives and approach can be found in the Environment section at page 32.

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

Social matters

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

- Our core focus is to help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local organisations
- During the year the Company made charitable donations of £52,000 (2017: £39,959) to support and sponsor local initiatives through our "mycommunity" programme. In addition, the Group made a £400m charitable donation to Motability (2017: £45m) and a charitable donation to Wizzybugs supporting the provision of powered wheelchairs to disabled children
- We operate a Scholarship Programme providing financial support and work experience for a number of disabled students each year and started an Apprenticeship Programme
- We recognise the importance of supporting employees to look after their own health and wellbeing and implemented a number of initiatives to achieve this. Please see page 44 for further details.

People

We recognise that our people are fundamental to our success and are committed to making Motability Operations a great place to work, with a safe working environment and a culture that supports diversity, inclusivity, personal development and respect. We have a number of key People Policies (including Bullying & Harassment, Disability Confidence, Diversity, Grievances and Health & Safety) to meet our objectives. Read more on Our People on pages 41 and 44.

Human Rights

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

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

- Information Security & Data Protection Policy together with Data Privacy Notices, Modern Slavery Statement, Whistleblowing policy, Pre-employment vetting guidelines, Anti-Corruption and Anti-Bribery

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

Customer service and complaints handling

We are committed to delivering excellent customer service.

- In 2018, the UK Institute of Customer Service (UK ICS) rated Motability Operations as the highest-performing organisation in the UK with regard to customer service, achieving 94.3%
- Our customer services team is UK-based and can be reached via a low cost 0300 number with 77% of calls made to our customer services team 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 is ready to assist.

Customer Service Data

- Our customer services team handled in excess of 1.2 million telephone calls in the year ending 30 September 2018
- Motability Operations has a customer base of circa 625,000.

Our approach to complaints

Customers are at the heart of everything that we do. However, if things go wrong we encourage our customers to tell us in order that we can put things right as quickly as possible. We have robust processes in place to ensure we handle all complaints fairly and in a timely manner.

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

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

Period covered	Volume of complaints
1 October 2017 to 30 September 2018	2,109

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 2018 we contacted a representative sample of customers who had complained to us between January 2018 and March 2018. They rated us with an overall score of 8.7 out of 10 for our complaint handling.

There were 54 customers who asked the Financial Ombudsman Service (FOS) to review a decision made by Motability Operations in the year ending 30 September 2018. Of the 54 requests for review by customers, the FOS has found in favour of Motability Operations in relation to 38 of these and 14 are pending the FOS decision.

Proposed dividend

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

Directors' indemnity

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

Statement of directors' responsibilities in respect of the financial statements

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the group and 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 company and of the profit or loss of the group and company for that period. In preparing the financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- state whether applicable IFRSs as adopted by the European Union have been followed for the group and company financial statements, subject to any material departures disclosed and explained in the financial statements;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the group and company will continue in business.

The directors are also responsible for safeguarding the assets of the group and company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the group and company's transactions and disclose with reasonable accuracy at any time the financial position of the group and company and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the group and company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the group and company's auditors are aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Each of the Directors, whose names and functions are listed on page 47, confirms 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 2018 Annual Report & Accounts includes a Viability Statement. This can be found on page 40 of this report.

Independent auditors

As previously announced, in conformance with EU Mandatory Audit Firm rotation and following a tender process overseen by the Audit Committee, the auditors KPMG have indicated their willingness to commence office and the Board has appointed them to fill the casual vacancy until the Annual General Meeting in March 2019 when a resolution to appoint them for the next financial year will be proposed.

Directors

Neil Johnson, Mike Betts, Barry O'Byrne, Matthew Hamilton-James, Joe Hennessy, Daniel Meredith Jones, Neill Thomas, Paul Thwaite and David Smith served as Directors throughout the year.

Peter Lord and Martin Dodd served as an alternate Director throughout the year.

Anna Cross resigned as a Non-Executive Director on 31 October 2017.

Lisa Bartrip was appointed as a Non-Executive Director on 1 November 2017.

Frank Gardner resigned as an Independent Non-Executive Director on 30 November 2017.

John Callender resigned as an Independent Non-Executive Director on 31 December 2017.

Ruth Prior was appointed as an Independent Non-Executive Director on 1 March 2018.

Alison Hastings was appointed as an Independent Non-Executive Director on 1 June 2018.

Ruth Owen was appointed as an Independent Non-Executive Director on 1 June 2018.

Chris Lendrum resigned as Senior Independent Director on 6 June 2018.

Simon Minty was appointed as an Independent Non-Executive Director on 1 September 2018.

Nivedita Subramanian was re-appointed as an alternate Director on 1 October 2017 and resigned on 1 December 2017.

Steve Bolton was appointed as an alternate Director on 1 November 2017.

Michael Hordley was appointed as an alternate Director on 1 February 2018.

Directors' interests

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

Signed by order of the Board

Jo Pentland
Group Company Secretary

6 December 2018

Report on the audit of the financial statements

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 2018 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 the Company's financial statements, as applied 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.

We have audited the financial statements, included within the Annual Report and Accounts (the "Annual Report"), which comprise: the Group and Company balance sheets as at 30 September 2018, the Group income statement, the Group statement of comprehensive income, the Group and Company statements of changes in equity and the Group and Company statements of cashflows for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

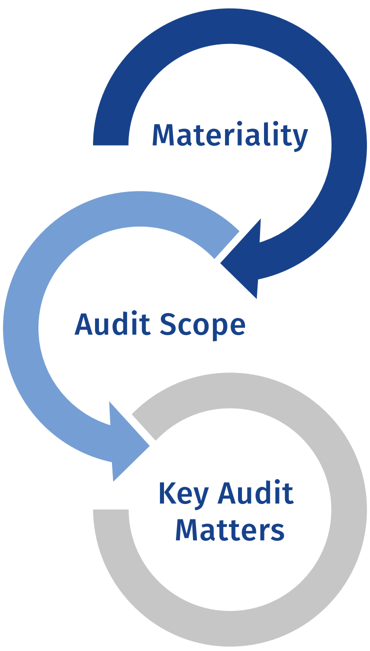
We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 7 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 1 October 2017 to 30 September 2018.

Our audit approach

Overview



Materiality

- Overall Group materiality: £19.7 million (2017: £20.1 million), based on 1% of rentals receivable from operating leases.
- Overall Company materiality: £46.4 million (2017: £57.6 million), based on 1% of total assets.

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

- Residual Values of Used Cars.
- Maintenance deferred income.
- Management Override of Controls.

The scope of our audit

As part of designing our audit, we determined materiality and assessed 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.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, Companies Act 2006 and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with the regulators, review of correspondence with legal advisors, enquiries of management, review of significant component auditors' work and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by the auditors, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. This is not a complete list of all risks identified by our audit.

Key audit matter

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.

Assessing residual values requires a high degree of estimation and is dependent on a number of factors including: projected supply and demand for used cars; the economic outlook; the estimated mileage; and the condition of the vehicles at the end of their contracts.

Uncertainty surrounding the terms of the UK's exit from the European Union, and the corresponding impact on the UK economy, further increases the level of estimation involved in forecasting the future economic outlook.

Increased scrutiny over the environmental impact of diesel vehicles also adds a further level of uncertainty when estimating residual values for the diesel portion of the car fleet.

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.

How our audit addressed the key audit matter

We understood and evaluated management's controls over the estimation of residual values, including:

- controls over the model and inputs used to forecast residual values, including management's annual assessment of their preferred economic forecaster and review of changes to the model by third-party experts;
- controls over completeness of the population of vehicles used for the estimation of residual values; and
- controls over the automated calculation of depreciation and the review and approval of manual depreciation journals.

We attended two of the Residual Value forum meetings, in which management sets the forecast three-year residual used-car values as part of their price setting process. We also attended two of the Fleet Valuation forum meetings in which management reviews the residual values of the current car fleet and tested that the final residual values determined through these forum meetings were those used to calculate the depreciation charge for the year.

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.

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.

With the continued uncertainty over the terms of the UK's exit from the European Union, and the corresponding potential future impact on the UK economy, management continues to assess the implications for future residual values. We assessed the basis and reasonableness of the overlay made to adjust future residual values, including both its timing and magnitude, in response to this continued uncertainty.

Key audit matter	How our audit addressed the key audit matter
Residual values of used cars continued If residual value estimates vary from period to period for the live fleet, the change in estimate will impact the depreciation charge and profit as follows: • If residual value estimates are revised upwards, the depreciation charge for the year will be reduced compared to what it would have been using the previous estimate. • If residual value estimates are revised downwards, the depreciation charge for the year will be increased compared to what it would have been using the previous residual value estimate.	The impact of diesel vehicles on the environment continues to receive scrutiny. We consequently understood and evaluated the potential impact fuel type has on residual value estimates. We compared previous estimates of residual values to recent Group sales data and actual performance of third-party data sources, which are widely used in the automotive industry, to test that residual values calculated by management were reasonable. As part of this assessment we considered whether the profits on disposal recognised in the year reflected factors that were reasonably foreseeable when previous forecasts were made. 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.
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 judgemental and dependent on a number of factors including vehicle mileage and usage, part costs, servicing costs and servicing schedules.	We understood the maintenance budgeting and cost evaluation processes, including how revenue was deferred and subsequently released in the period in which the maintenance activity took place. We checked that this accounting was in line with the Group's accounting policies. We attended the year-end Service, Maintenance and Repair (SMR) forum in which management on a quarterly basis approves the estimated maintenance costs. We tested that maintenance budgets, actual expenditure and forecast remaining costs are accurately updated in the calculation of deferred income. We obtained the forecasting model used to calculate the estimated maintenance costs from year end to termination date of the leases. 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. We assessed the suitability of the calculations used to build the spend curves used in reforecasting the SMR expenditure. 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.
Management override of controls Management is in a unique position to override controls that otherwise appear to be operating effectively. As a result, auditing standards require that we consider the inherent risk of the potential for management to override controls for all audits. The Group has continued to post strong underlying profits pre any charitable donations and has built a large reserves balance, which has recently attracted both media and Parliamentary scrutiny. Following a Joint Work and Pensions and Treasury Select Committee hearing, the Group have agreed for the National Audit Office to conduct a value for money review into the scheme. We considered whether the external pressure from Parliament and the media increased the incentive for management to override controls. In our view, such pressures could increase arliament and the media increased the incentive for management to override controls. the incentive that controls may be overridden to understate profits.	We designed audit procedures to address the inherent risk of management override of controls. • We performed a detailed review of the financial statements and performed substantive procedures with particular focus on judgemental areas and significant one-off transactions. • We used data analytic tools to identify journals with characteristics considered to present a heightened risk and substantiated the journals to appropriate supporting documentation. • We incorporated an element of unpredictability in our audit by varying the nature, timing and extent of some of our procedures, as detailed below. • We substantiated a sample of smaller debits in the Income Statement and reconciling items within bank reconciliations, in addition to our normal sample sizes to identify postings made to understate profits. • We substantiated a sample of balances within Trade and Other Payables based on pre-defined risk criteria that were designed to identify those that could have been posted inappropriately. Based on the audit evidence obtained through the testing outlined above, there was no indication that management had overridden controls.

We determined that there were no key audit matters applicable to the Company to communicate in our report.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

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 9.

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 rentals receivable from operating leases and 95% of total assets. This work gave us the evidence we needed for our opinion on the Group financial statements as a whole.

The primary operation of the Company is as a holding Company for the underlying Group operations, accordingly the main financial statement balances includes loans to Group companies and cash and bank balances. We perform an audit of the complete financial information of the Company.

Materiality

The scope of our audit was 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 on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£19.7 million (2017: £20.1 million).	£46.4 million (2017: £57.6 million).
How we determined it	1% of rentals receivable from operating leases.	1% of total assets.
Rationale for benchmark applied	We believe that rentals receivable from operating leases provides a consistent year-on-year basis for determining materiality. Revenue relating to the disposal of operating lease assets is likely to fluctuate and management assesses core business revenue performance excluding these proceeds.	We believe that total assets provides the most appropriate basis for determining materiality as the primary operation of the entity is as a holding company for the underlying Group operations.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The range of materiality allocated across components was £18.7 million to £9.2 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1 million (Group audit) (2017: £1 million) and £1 million (Company audit) (2017: £1 million) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which ISAs (UK) require us to report to you when:

- the Directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group's and Company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic Report and Directors' Report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, ISAs (UK) require us also to report certain opinions and matters as described below.

Strategic Report and Directors' Report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic Report and Directors' Report for the year ended 30 September 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic Report and Directors' Report

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' Responsibilities set out on page 66, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Company or to cease operations, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

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.

Other required reporting

Companies Act 2006 exception reporting

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
- certain disclosures of directors' remuneration specified by law are not made; 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.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the Chairman's Committee on 2 February 1995 to audit the financial statements for the year ended 30 September 1995 and then annually re-appointed by the Board and at the AGMs for subsequent financial periods. The period of total uninterrupted engagement is 24 years, covering the years ended 30 September 1995 to 30 September 2018.

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

6 December 2018

Income statement

For the year ended 30 September 2018

	Note	2018 Group £m	2017 Group £m
Revenue	4	4,146.7	4,221.7
Net operating costs excluding charitable donations		(3,450.6)	(3,706.6)
Charitable donations		(400.4)	(45.3)
Net operating costs	6	(3,851.0)	(3,751.9)
Profit from operations		295.7	469.8
Finance costs	9	(164.3)	(211.8)
Profit before tax		131.4	258.0
Taxation			
Taxation excluding the impact of future changes in the UK corporation tax rate	10	(25.2)	(50.6)
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	10	10.4	5.3
Profit for the financial year		116.6	212.7

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

Statement of comprehensive income

For the year ended 30 September 2018

	Note	2018 Group £m	2017 Group £m
Profit for the financial year		116.6	212.7
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	24	2.2	20.0
Gains/(losses) on foreign currency translation	24	2.8	(24.8)
Tax relating to components of other comprehensive income/(expense)		(0.9)	0.9
Other comprehensive income/(expense) for the year, net of tax		4.1	(3.9)
Total comprehensive income for the year		120.7	208.8

The notes on pages 72 to 113 form an integral part of these financial statements

Balance sheets

As at 30 September 2018

	Note	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Assets					
Non-current assets					
Intangible assets	11	49.6	45.7	–	–
Property, plant and equipment	12	18.6	17.3	–	–
Assets held for use in operating leases	13	6,829.2	6,413.2	–	–
Held to maturity investments	15	138.1	46.0	–	–
Investment in subsidiaries	16	–	–	113.5	113.5
Loans to Group companies	16	–	–	4,112.2	4,537.4
Trade and other receivables	19	21.2	20.6	4.8	4.9
Derivative financial instruments	25	106.4	110.2	106.4	110.2
		7,163.1	6,653.0	4,336.9	4,766.0
Current assets					
Corporation tax receivable		29.5	–	–	–
Inventories	14	82.5	86.1	–	–
Held to maturity investments	15	94.8	56.3	30.0	–
Cash and bank balances	17	327.7	1,168.3	243.6	965.4
Insurance receivables	18	298.9	225.2	–	–
Trade and other receivables	19	290.2	278.9	6.1	13.6
Derivative financial instruments	25	22.0	16.0	22.0	16.0
		1,145.6	1,830.8	301.7	995.0
Total assets		8,308.7	8,483.8	4,638.6	5,761.0
Liabilities					
Current liabilities					
Corporation tax payable		–	(15.6)	–	(12.1)
Deferred rental income	20	(234.6)	(183.8)	–	–
Insurance payables	21	(74.7)	(65.8)	–	–
Trade and other payables	22	(198.0)	(250.4)	(202.9)	(961.0)
General insurance provisions	23	(345.5)	(272.1)	–	–
Financial liabilities	24	(427.3)	(502.7)	(385.6)	(492.7)
Derivative financial instruments	25	–	(0.1)	–	(0.1)
		(1,280.1)	(1,290.5)	(588.5)	(1,465.9)
Net current (liabilities)/assets		(134.5)	540.3	(286.8)	(470.9)
Non-current liabilities					
Deferred rental income	20	(243.6)	(213.8)	–	–
Financial liabilities	24	(3,865.6)	(4,196.5)	(3,865.6)	(4,196.5)
Deferred tax liabilities	26	(365.5)	(349.8)	(1.4)	(0.5)
		(4,474.7)	(4,760.1)	(3,867.0)	(4,197.0)
Total liabilities		(5,754.8)	(6,050.6)	(4,455.5)	(5,662.9)
Net assets		2,553.9	2,433.2	183.1	98.1
Equity					
Ordinary share capital	27	0.1	0.1	0.1	0.1
Hedging reserve		6.3	2.2	6.3	2.2
Restricted reserves*		2,547.5	2,430.9	176.7	95.8
Total equity		2,553.9	2,433.2	183.1	98.1

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

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 £80.9m (2017: £4.5m), of which £65.0m (2017: £nil) was a result of dividends received from subsidiaries (see note 16).

These financial statements on pages 68 to 113 were approved by the Board of Directors on 6 December 2018 and signed on behalf of the Board.

Mike Betts
Chief Executive
Motability Operations Group plc
Registered number 6541091
The notes on pages 72 to 113 form an integral part of these financial statements

Statements of changes in equity

For the year ended 30 September 2018

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2016	0.1	6.1	2,218.2	2,224.4
Comprehensive income				
Profit for the year	–	–	212.7	212.7
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	20.0	–	20.0
Losses on foreign currency translation	–	(24.8)	–	(24.8)
Tax relating to components of other comprehensive income	–	0.9	–	0.9
Total comprehensive (expense)/income	–	(3.9)	212.7	208.8
At 1 October 2017	0.1	2.2	2,430.9	2,433.2
Comprehensive income				
Profit for the year	–	–	116.6	116.6
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	2.2	–	2.2
Gains on foreign currency translation	–	2.8	–	2.8
Tax relating to components of other comprehensive income	–	(0.9)	–	(0.9)
Total comprehensive income	–	4.1	116.6	120.7
At 30 September 2018	0.1	6.3	2,547.5	2,553.9

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2016	0.1	6.1	91.3	97.5
Comprehensive income				
Profit for the year	–	–	4.5	4.5
Other comprehensive (expense)/income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	20.0	–	20.0
Losses on foreign currency translation	–	(24.8)	–	(24.8)
Tax relating to components of other comprehensive income	–	0.9	–	0.9
Total comprehensive (expense)/income	–	(3.9)	4.5	0.6
At 1 October 2017	0.1	2.2	95.8	98.1
Comprehensive income				
Profit for the year	–	–	80.9	80.9
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	2.2	–	2.2
Gains on foreign currency translation	–	2.8	–	2.8
Tax relating to components of other comprehensive income	–	(0.9)	–	(0.9)
Total comprehensive income	–	4.1	80.9	85.0
At 30 September 2018	0.1	6.3	176.7	183.1

The notes on pages 72 to 113 form an integral part of these financial statements

Statements of cash flows

For the year ended 30 September 2018

	Note	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	28	311.0	552.5	(330.2)	105.7
Interest (paid)/received		(166.9)	(211.0)	12.6	15.6
Income tax paid		(45.0)	(49.4)	(14.0)	(5.7)
Charitable donations		(400.4)	(45.3)	–	–
Net cash (used in)/generated from operating activities		(301.3)	246.8	(331.6)	115.6
Cash flows from investing activities					
Dividend received	16	–	–	65.0	–
Purchase of intangible assets	11	(10.6)	(19.3)	–	–
Purchase of corporate property, plant and equipment	12	(5.2)	(2.7)	–	–
Proceeds from sale of corporate property, plant and equipment	12, 28	0.6	0.6	–	–
Investment in held to maturity financial assets	15	(130.6)	(0.7)	(30.0)	–
Net cash (used in)/generated from investing activities		(145.8)	(22.1)	35.0	–
Cash flows from financing activities					
Bank loan costs and repayments		–	(0.3)	–	(0.3)
Bonds issued	24	–	777.0	–	777.0
Bonds redeemed		(425.2)	(283.8)	(425.2)	(283.8)
Net cash (used in)/generated from financing activities		(425.2)	492.9	(425.2)	492.9
Net (decrease)/increase in cash and cash equivalents		(872.3)	717.6	(721.8)	608.5
Cash and cash equivalents at beginning of year		1,158.3	440.7	965.4	356.9
Cash and cash equivalents at end of year	17	286.0	1,158.3	243.6	965.4

The notes on pages 72 to 113 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 8 to 9 and the Group's shareholders are detailed in the Operational review on page 28.

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 IFRS Interpretations Committee (IFRSIC) 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 2018 and 2017.

Adoption of new or revised standards

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

Amendments to IFRS 12	*Disclosure of Interests in Other Entities*
Amendments to IAS 7	*Statement of Cash Flows*
Amendments to IAS 12	*Income Taxes*
Annual improvements to IFRSs	*2014-2016 Cycle*

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 1	*First-time Adoption of International Financial Reporting Standards*
Amendments to IFRS 2	*IFRS 2 Share-based Payment*
IFRS 4	*IFRS 4 Insurance Contracts*
IFRS 9	*Financial Instruments*
IFRS 15	*Revenue from Contracts with Customers*
IFRS 16	*Leases*
IFRS 17	*Insurance Contracts*

IFRS 9 – Financial Instruments

IFRS 9 covers the classification, measurement and derecognition of financial assets and financial liabilities. It also introduces a new impairment model for financial assets and new rules for hedge accounting. The standard must be applied for financial years commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019.

The Group is assessing the impact of the adoption of IFRS 9 and expectations are that, whilst it may require changes to the classification of certain financial assets and liabilities and related disclosures, it should have no material impact on the Group's reported profits and net assets. The financial assets of the Group include debt instruments currently classified as held to maturity and measured at amortised cost, and these instruments also meet the conditions for classification at amortised cost under IFRS 9. The Group's current hedging relationships also qualify as continuing hedges under IFRS 9, and the Group's financial liabilities should not be impacted.

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

2. Significant accounting policies continued

Adoption of new or revised standards continued

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 must be implemented for accounting periods commencing on or after 1 January 2018, so for the Group the first period of adoption will be the year ending 30 September 2019 (with comparative figures for the previous year also affected). Although leasing revenue and insurance revenue is out of scope for IFRS 15, the Group will be applying the standard to the bundle of services provided along with the vehicle itself within each of our contracts with customers. The new standard is based on the principle that revenue is recognised when services are delivered to customers in settlement of performance obligations in the contract. The standard permits either a full retrospective or a modified retrospective approach for the adoption.

Management has assessed the effects of applying the new standard on the Group's financial statements and has identified the following affected areas:

- the Group's rental receivable from operating leases will be split into three main elements: leasing the vehicle (to be covered under IFRS 16), providing insurance cover (which will eventually be covered by IFRS 17) and providing other services relating to keeping the vehicle on the road (under IFRS 15);
- the other services consist of the provision of routine vehicle maintenance (including replacement tyres) and roadside breakdown assistance;
- given the standard nature of our leasing contract and the size of the fleet, the Group will apply the standard to portfolios of contracts based on their start date, as this will best reflect the way performance obligations regarding these services will be met over time (by arranging for insurance cover, vehicle maintenance, tyres and roadside assistance at a portfolio level) and will not differ materially from applying the standard to the individual contracts within the portfolio; and
- the Group will adopt a fully retrospective approach upon transition as the Group's contracts with customers are of relatively short duration and standard in form.

If IFRS 15 was adopted at 30 September 2018, there would have been a £6.1m reduction in the Group's restricted reserves as margins assigned to the service elements would have been deferred to future periods.

This will not have any material impact on Motability Operations Group plc's individual Company financial statements.

IFRS 16 – Leases

IFRS 16 must be applied for financial years commencing on or after 1 January 2019, so for the Group the first period of adoption will be the year ending 30 September 2020. The Group has undertaken an initial assessment of the impact of adoption of this standard. The standard does not make any significant changes to accounting for lessors, and the only material impact on the Group as a lessee will arise through the recognition of leased premises on the balance sheet. This will result in an increase in the Group's "property, plant and equipment" assets (representing the right to use the premises) and a similar increase in financial liabilities (representing the commitment to pay rentals).

The standard will not have any material impact on Motability Operations Group plc's individual Company financial statements.

IFRS 17 – Insurance Contracts

IFRS 17 was issued on 18 May 2017. In November 2018 the IASB announced a one year deferral to set a new implementation date of accounting periods commencing on or after 1 January 2022, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2023 (with comparative figures for the previous accounting period also affected). The Group is assessing the impact of the changes for the reporting of the fleet reinsurance segment and has no plans to apply the requirements of the standard earlier than the required date.

The Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group, and do not plan to apply any of the new IFRSs in advance of their required dates.

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

Notes to the financial statements continued

2. Significant accounting policies continued

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 16 to 24. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 24 to 27. In addition, note 35 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.

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 seven years.

Property, plant and equipment

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

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

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

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

Assets held for use in operating leases

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

2. Significant accounting policies continued

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: 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.

Deferred income – maintenance

Rental income in respect of vehicle maintenance is deferred to the extent that it relates to future maintenance activities. See note 20.

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 20.

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 32) and overheads. An analysis is provided in note 6.

The Group's insurance costs are presented net of a "profit sharing" arrangement with the fronting insurer. These premium rebates are recognised by the Group once loss ratios are determined with reasonable certainty. On the basis of current loss development patterns, reasonable certainty is deemed to be 18 months after the last exposure date of each tranche.

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.

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 33). The cost is recognised during the years in which services are rendered subject to meeting specific performance requirements.

Share capital

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

Notes to the financial statements continued

2. Significant accounting policies continued

Financial instruments

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

Foreign currency translation

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

Monetary assets and liabilities expressed in foreign currencies are translated into Sterling at rates of exchange prevailing at the balance sheet date. Foreign currency amounts are initially recorded at the rates of exchange prevailing on the dates of the transactions. Individual transactions denominated in foreign currencies are translated into Sterling at the exchange rates prevailing on the dates payment takes place. Gains and losses arising on retranslation are, with the exception of the effective portion of foreign exchange gains or losses on debt instruments designated as hedging instruments in a cash flow hedge relationship, included in the income statement for the period and are classified as either operating or financing depending on the nature of the monetary item giving rise to them. The 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. Further details of critical accounting judgements and key sources of estimation uncertainty relating to insurance receivables are disclosed in note 3 to the financial statements.

Cash and cash equivalents

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

Held to maturity investments

Held to maturity investments (fixed-income bonds and reverse sale and repurchase agreements) 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.

2. Significant accounting policies continued

Insurance payables

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

Derivative financial instruments

The Group enters into derivative financial instruments, comprising interest rate and cross-currency swaps, to manage its exposures to interest rate and foreign exchange risk. Further details of derivative financial instruments are disclosed in note 24 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 23.

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

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.

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 24 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

Cash flow hedges

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.

Notes to the financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Judgements are made when applying significant accounting policies and disclosed below where these judgements materially affect the reported number.

Key estimate: Residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 13, and the impact of the change in estimates during the year is also disclosed in note 6. Included in the estimate of residual values is an adjustment of £110.8m (2017: £83.2m) with regards to downside risk to future vehicle resale values due to uncertainty around Brexit negotiations and the European/domestic political landscape.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2018, 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 £54.7m (2017: £48.3m). 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.

Key estimate and judgement: Insurance contracts

There are certain factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the claims invariably results in a lengthy legal process where claims quantum can fluctuate, as described in more detail in note 23.

A key judgement arises when considering the recognition of reinsurance commissions receivable. The level of commission receivable from the Group's outward reinsurance comprises two elements. The first is a guaranteed percentage of the premium payable to reinsurers; this is recognised in the financial statements on the same basis as the related reinsurance expense. The second element of the reinsurance commission is dependent upon the reinsurance loss ratio experienced over the term of the contract. This element of the commission is not recognised as income in the financial statements until such time as the loss ratio can be determined with reasonable certainty, which on the basis of an analysis of current loss development patterns, is judged to be 18 months after the contract end date at which time 100% of the provisional commission receivable will be recognised.

The Group actuary has undertaken an actuarial study of the Group's claims reserves and, based upon the latest study and the current Ogden discount rate of -0.75% (2017: -0.75%), the actuary has estimated that, as at 30 September 2018, there is a contingent commission of £36.1m (2017: £13.2m) receivable by the Group. If the Ogden discount rate were to change at a discount rate of 0% there would be a contingent commission of £44.0m (2017: £20.4m), while at a discount rate of 1% there would be a contingent commission of £51.6m (2017: £27.4m).

Key estimate: Intangible assets

The Group's accounting policy as described in note 2 is to amortise intangible assets on a straight-line basis over their estimated useful lives, between three and seven years.

In July 2017 the Group implemented new IT systems. These systems are working as anticipated and are delivering our business processes. They also meet our needs for the foreseeable future and can be modified through configuration and continued support from the software supplier. As such, they are long-term strategic solutions that will be maintained and upgraded to support the business requirements over the coming years. Based on this the estimated useful life of the intangible asset was seven years from implementation date, and there have been no indications of impairment.

4. Revenue

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

	2018 £m	2017 £m
Proceeds from disposal of operating lease assets (I)	2,139.5	2,179.0
Rentals receivable from operating leases (II)	1,969.7	2,007.0
Insurance reimbursements from disposal of operating lease assets	29.4	30.2
Finance income	5.3	3.4
Other income	2.8	1.7
Contingent rentals (III)	–	0.4
Total revenue	4,146.7	4,221.7

(I) During the year the Group made a gain of £236.5m on the disposal of operating lease assets (2017: £119.0m). See note 28.
(II) During the year the Group increased the value of the customers' end-of-contract bonuses. This resulted in both an increase in deferred revenue liabilities (see note 20), and a decrease in rentals receivable from operating leases of £65.9m.
(III) Contingent rentals relate to variable charges for excess mileage on operating leases.

Reinsurance premiums earned by the Group's insurance captive of £257.3m (2017: £266.7m) 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.

Notes to the financial statements continued

5. Segmental analysis continued

Inter-segment revenues comprise insurance premiums from Scheme Operations to Fleet Reinsurance and insurance reimbursements from Fleet Reinsurance to Scheme Operations, and are eliminated on consolidation. Transactions were entered into on an arm's length basis in a manner similar to transactions with third parties.

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the years ended 30 September 2018 and 30 September 2017.

Year ended 30 September 2018	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	1,969.7	–	–	1,969.7
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,168.9	–	–	2,168.9
Inter-segment proceeds	37.2	–	(37.2)	–
Insurance income	–	257.3	(257.3)	–
Other revenue	6.0	2.1	–	8.1
Total revenue	4,181.8	259.4	(294.5)	4,146.7
Net book value of disposed operating lease assets	(1,957.1)	–	–	(1,957.1)
Fleet operating costs	(652.0)	–	257.3	(394.7)
Insurance claims and commission costs	–	(221.7)	37.2	(184.5)
Depreciation on assets used in operating leases	(679.4)	–	–	(679.4)
Other operating costs	(234.0)	(0.9)	–	(234.9)
Charitable donations	(400.4)	–	–	(400.4)
Net operating costs	(3,922.9)	(222.6)	294.5	(3,851.0)
Profit from operations	258.9	36.8	–	295.7
Finance costs	(164.3)	–	–	(164.3)
Profit before tax	94.6	36.8	–	131.4
Taxation	(7.8)	(7.0)	–	(14.8)
Profit for the year	86.8	29.8	–	116.6
PPE & intangible assets	68.2	–	–	68.2
Assets held for use in operating leases (including inventories)	6,911.7	–	–	6,911.7
Derivative financial instruments	128.4	–	–	128.4
Insurance receivables	–	254.3	44.6	298.9
Trade and other receivables	311.3	0.1	–	311.4
Corporation tax receivable	29.5	–	–	29.5
Financial assets	377.0	284.8	(101.2)	560.6
Total assets	7,826.1	539.2	(56.6)	8,308.7
Deferred income	(478.2)	–	–	(478.2)
Insurance payables	–	(74.7)	–	(74.7)
Trade and other payables	(197.8)	(0.2)	–	(198.0)
Financial liabilities	(4,292.9)	–	–	(4,292.9)
Deferred taxation	(365.5)	–	–	(365.5)
General insurance business provisions	–	(300.9)	(44.6)	(345.5)
Total liabilities	(5,334.4)	(375.8)	(44.6)	(5,754.8)
Net assets	2,491.7	163.4	(101.2)	2,553.9
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	6.3	–	–	6.3
Restricted reserves	2,485.3	62.2	–	2,547.5
Total equity	2,491.7	163.4	(101.2)	2,553.9

5. Segmental analysis continued

Year ended 30 September 2017	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable from operating lease assets	2,007.0	–	–	2,007.0
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	2,209.3	–	–	2,209.3
Inter-segment proceeds	38.2	–	(38.2)	–
Insurance income	–	266.7	(266.7)	–
Other revenue	4.1	1.3	–	5.4
Total revenue	4,258.6	268.0	(304.9)	4,221.7
Net book value of disposed operating lease assets	(2,118.4)	–	–	(2,118.4)
Fleet operating costs	(649.9)	–	266.7	(383.2)
Insurance claims and commission costs	–	(205.5)	38.2	(167.3)
Depreciation on assets used in operating leases	(812.5)	–	–	(812.5)
Other operating costs	(224.5)	(0.7)	–	(225.2)
Charitable donations	(45.3)	–	–	(45.3)
Net operating costs	(3,850.6)	(206.2)	304.9	(3,751.9)
Profit from operations	408.0	61.8	–	469.8
Finance costs	(211.8)	–	–	(211.8)
Profit before tax	196.2	61.8	–	258.0
Taxation	(33.0)	(12.3)	–	(45.3)
Profit for the year	163.2	49.5	–	212.7
PPE & intangible assets	63.0	–	–	63.0
Assets held for use in operating leases (including inventories)	6,499.3	–	–	6,499.3
Derivative financial instruments	126.2	–	–	126.2
Insurance receivables	–	188.4	36.8	225.2
Trade and other receivables	299.5	–	–	299.5
Financial assets	1,067.3	304.6	(101.3)	1,270.6
Total assets	8,055.3	493.0	(64.5)	8,483.8
Deferred income	(397.6)	–	–	(397.6)
Insurance payables	–	(65.8)	–	(65.8)
Trade and other payables	(250.2)	(0.2)	–	(250.4)
Corporation tax payable	(15.6)	–	–	(15.6)
Financial liabilities	(4,699.2)	–	–	(4,699.2)
Deferred taxation	(349.8)	–	–	(349.8)
General insurance business provisions	–	(235.3)	(36.8)	(272.1)
Derivative financial instruments	(0.1)	–	–	(0.1)
Total liabilities	(5,712.5)	(301.3)	(36.8)	(6,050.6)
Net assets	2,342.8	191.7	(101.3)	2,433.2
Ordinary share capital	0.1	101.3	(101.3)	0.1
Hedging reserve	2.2	–	–	2.2
Restricted reserves	2,340.5	90.4	–	2,430.9
Total equity	2,342.8	191.7	(101.3)	2,433.2

Notes to the financial statements continued

6. Net operating costs

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

	2018 £m	2017 £m
Net book value of disposed operating lease assets	1,903.0	2,060.0
Net book value of operating lease assets derecognised as insurance write-offs	54.1	58.4
Charitable donations	400.4	45.3
Fleet operating costs including insurance, maintenance and roadside assistance costs*	394.7	383.2
Insurance claims expense	184.5	167.3
Other operating costs	66.6	67.2
Employee costs	54.2	49.9
Other product costs including continuous mobility costs, adaptations support, communications	50.8	65.8
Legal and professional fees	23.9	19.4
Bad debt charges and movement in bad debt provisions	17.3	4.5
Motability levy and rebates	11.1	11.2
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	3,161.4	2,933.0
Depreciation on assets used in operating leases	679.4	812.5
Depreciation and amortisation of property, plant and equipment and intangible assets	10.2	6.4
Net operating costs	3,851.0	3,751.9

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

The depreciation charge on assets used in operating leases includes a £125.9m release (2017: £72.0m charge) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditors' remuneration

		2018	2017
Auditors' remuneration:	Audit fees for Group and Parent Company financial statements	£331,900	£222,400
Total audit fees		£331,900	£222,400
	Audit fees paid on behalf of subsidiaries	£140,600	£136,500
	Audit-related assurance services*	£70,900	£68,800
	Tax compliance services	£0	£0
	Tax advisory services	£0	£0
	Internal audit services	£0	£0
	Other assurance services	£22,400	£42,800
	Corporate finance services	£0	£0
Total other fees payable to auditors		£233,900	£248,100

* These services relate to the review report on the consolidated interim financial statements.

Included within the current year audit fees payable is a final fee adjustment of £130,000 related to the prior year audit in respect of overruns.

8. Employee costs

The employee costs for the company are £nil (2017: £nil). All employee costs for the Group are borne in full by its subsidiary Motability Operations Ltd. The average monthly number of persons employed on a full-time equivalent basis (including Executive Directors) was:

Group

	2018	2017
Administrative staff	890	858

	2018 £m	2017 £m
The breakdown of staff costs is as follows:		
Wages and salaries	44.7	41.6
Social security costs	4.6	4.5
Other pension costs	4.9	3.8
Total employee costs	54.2	49.9

9. Finance costs

	2018 £m	2017 £m
Interest and charges on bank loans and overdrafts	11.2	9.1
Interest on debt issued under the Euro Medium Term Note Programme	152.4	168.1
Cost of early redemption of debt issued under the Euro Medium Term Note Programme	–	33.9
Preference dividends	0.7	0.7
Total finance costs	164.3	211.8

10. Taxation

The major components of the Group tax expense are:

	2018 £m	2017 £m
Current tax		
Charge for the year	–	38.5
Adjustment in respect of prior years	–	0.1
Total	–	38.6
Deferred tax		
Origination and reversal of temporary differences	25.2	12.1
Adjustments recognised in the current year in relation to the current tax of prior years	–	(0.1)
Impact of change in UK tax rate	(10.4)	(5.3)
Total	14.8	6.7
Tax on profit	14.8	45.3

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:

	2018 £m	2017 £m
Profit before tax	131.4	258.0
Tax calculated at appropriate tax rates applicable to profit	24.9	50.3
Expenses not deductible for tax purposes	0.3	0.3
Adjustment relating to prior year’s deferred tax	–	(0.1)
Adjustments recognised in the current year in relation to the current tax of prior years	–	0.1
Taxation excluding the impact of future changes in the UK corporation tax rate	25.2	50.6
Non-recurring items		
Remeasurement of deferred tax due to future changes in the UK corporation tax rate	(10.4)	(5.3)
Total tax on profit	14.8	45.3

The standard rate of corporation tax in the UK changed from 20% to 19% with effect from 1 April 2017. Accordingly, profits are taxable at 19% for this accounting year (2017: 19.5%).

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 19.2% (2017: 19.6%). 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 19.1% as next year's standard rate will be 19% for the whole year (no rate changes are due on 1 April 2019).

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 2018, the Group paid £28.5m towards the current year tax charge of £nil (2017: £23.0m towards a tax charge of £38.6m). Together with £0.9m of tax receivable relating to prior years (2017: £0.9m) this makes up the balance of £29.4m shown as corporation tax receivable at the year end (2017: £15.6m corporation tax payable, consisting of £16.5m payable for 2017 and £0.9m receivable for prior years). The Group also paid the opening corporation tax payable for 2017 of £16.5m during the year, giving a total tax payment of £45.0m for 2018.

An analysis of the impact of the change in UK tax rates is disclosed in note 26.

Notes to the financial statements continued

11. Intangible assets

Group

Cost	Total £m
At 1 October 2016	48.3
Additions	19.3
At 1 October 2017	67.6
Additions	10.6
At 30 September 2018	78.2

Accumulated amortisation and impairment	
At 1 October 2016	18.7
Amortisation charge for the year	3.2
At 1 October 2017	21.9
Amortisation charge for the year	6.7
At 30 September 2018	28.6

Carrying amount	
At 1 October 2016	29.6
Additions	19.3
Amortisation	(3.2)
At 1 October 2017	45.7
Additions	10.6
Amortisation	(6.7)
At 30 September 2018	49.6

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

At 30 September 2018, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £3.2m (2017: £nil). These amounts relate to IT system replacement projects.

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2016	2.6	22.1	11.1	35.8
Additions	1.1	–	1.6	2.7
Disposals	(1.0)	–	–	(1.0)
At 1 October 2017	2.7	22.1	12.7	37.5
Additions	0.6	3.2	1.4	5.2
Disposals	(0.9)	–	–	(0.9)
At 30 September 2018	2.4	25.3	14.1	41.8

Accumulated depreciation				
At 1 October 2016	0.9	7.1	9.6	17.6
Charge for the year	0.6	1.6	1.0	3.2
Eliminated on disposals	(0.6)	–	–	(0.6)
At 1 October 2017	0.9	8.7	10.6	20.2
Charge for the year	0.6	1.6	1.3	3.5
Eliminated on disposals	(0.5)	–	–	(0.5)
At 30 September 2018	1.0	10.3	11.9	23.2

Carrying amount				
At 1 October 2016	1.7	15.0	1.5	18.2
Additions	1.1	–	1.6	2.7
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.6)	(1.6)	(1.0)	(3.2)
At 1 October 2017	1.8	13.4	2.1	17.3
Additions	0.6	3.2	1.4	5.2
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.6)	(1.6)	(1.3)	(3.5)
At 30 September 2018	1.4	15.0	2.2	18.6

At 30 September 2018, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £1.3m (2017: £nil).

Notes to the financial statements continued

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2016	7,873.3
Additions	2,991.9
Transfer to inventory	(2,932.9)
At 1 October 2017	7,932.3
Additions	3,049.0
Transfer to inventory	(2,795.1)
At 30 September 2018	8,186.2

Accumulated depreciation	
At 1 October 2016	1,549.9
Charge for the year	812.5
Eliminated on transfer to inventory	(843.3)
At 1 October 2017	1,519.1
Charge for the year	679.4
Eliminated on transfer to inventory	(841.5)
At 30 September 2018	1,357.0

Carrying amount	
At 1 October 2016	6,323.4
Additions	2,991.9
Depreciation	(812.5)
Transfer to inventory (note 14)	(2,089.6)
At 1 October 2017	6,413.2
Additions	3,049.0
Depreciation	(679.4)
Transfer to inventory (note 14)	(1,953.6)
At 30 September 2018	6,829.2

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

	2018 £m	2017 £m
No later than one year	1,723.9	1,441.1
Later than one year and no later than two years	1,737.7	1,524.6
Later than two years and no later than three years	1,930.1	1,792.7
Later than three years and no later than four years	36.6	29.6
Later than four years and no later than five years	41.4	39.6
Total exposure	5,469.7	4,827.6

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

	2018 £m	2017 £m
Amounts charged in prior years	(133.8)	(148.7)
Amounts released/(charged) in current year*	125.9	(72.0)
Total additional depreciation carried at 30 September**	(7.9)	(220.7)
Amounts to be released/(charged) in future years	83.5	(230.7)
Total increase/(decrease) in estimated residual value	75.6	(451.4)

* The amounts released/(charged) in the current year are recognised as depreciation on assets used in operating leases (see note 6).

** The total additional depreciation carried at 30 September 2018 of £7.9m (2017: £220.7m) is included within the accumulated depreciation balance of £1,357.0m (2017: £1,519.1m) on assets held for use in operating leases

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:

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
No later than one year	1,616.5	1,510.7	–	–
Later than one year and no later than two years	1,040.9	868.3	–	–
Later than two years and no later than three years	401.3	305.3	–	–
Later than three years and no later than four years	30.4	19.0	–	–
Later than four years and no later than five years	10.7	6.4	–	–
Total	3,099.8	2,709.7	–	–

14. Inventories

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Ex-operating lease assets held for sale	82.6	86.1	–	–
Provisions	(0.1)	–	–	–
Ex-operating lease assets held for sale (net)	82.5	86.1	–	–

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, £0.1m has been provided against irrecoverable vehicles (2017: £nil). During the year there was a £0.1m increase in provision and £0.1 written off (2017: £nil movement in provision and £nil written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £1,957.1m (2017: £2,118.4m).

The movements of the inventories in 2018 and 2017 are as follows:

	£m
At 1 October 2016	114.9
Transfer from operating lease assets (note 13)	2,089.6
Disposals (including insurance write-offs)	(2,118.4)
At 1 October 2017	86.1
Transfer from operating lease assets (note 13)	1,953.6
Disposals (including insurance write-offs)	(1,957.1)
At 30 September 2018	82.6

Notes to the financial statements continued

15. Held to maturity investments

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Held to maturity investments				
Fixed-income bonds	202.9	102.3	–	–
Reverse sale and repurchase agreements	30.0	–	30.0	–
Total	232.9	102.3	30.0	–
Included in non-current assets	138.1	46.0	–	–
Included in current assets	94.8	56.3	30.0	–
Held to maturity investments	232.9	102.3	30.0	–

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

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
On demand or no later than one year	94.8	56.3	30.0	–
Later than one year and no later than two years	62.1	30.5	–	–
Later than two years and no later than five years	62.4	15.5	–	–
Later than five years	13.6	–	–	–
Total	232.9	102.3	30.0	–

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

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

	2018 Group carrying amount £m	2018 Group fair value £m	2018 Company carrying amount £m	2018 Company fair value £m
Current held to maturity investments	94.8	94.8	30.0	30.0
Non-current held to maturity investments	138.1	137.1	–	–
Total	232.9	231.9	30.0	30.0

	2017 Group carrying amount £m	2017 Group fair value £m	2017 Company carrying amount £m	2017 Company fair value £m
Current held to maturity investments	56.3	56.4	–	–
Non-current held to maturity investments	46.0	45.8	–	–
Total	102.3	102.2	–	–

Fixed-income bonds

The Group's fixed-income bonds comprise investments in quoted debt securities, the majority of which are issued by institutions within the European Union. The bonds are rated A- or better by Standard and Poor's or A3 or better with Moody's. The average effective interest rate of the quoted debt securities is 2.3% per annum (2017: 2.3%), with coupon rates ranging from 0.1% to 6.1% per annum (2017: 0.5% to 6.3%). The fixed-income bonds are denominated in Sterling, which is the functional currency of the Group.

Reverse sale and repurchase agreements

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

As at 30 September 2018, 100% of collateral held comprises marketable securities (30 September 2017: n/a). The value of the collateral is monitored daily by the CCP. Should the collateral value increase or decrease, an adjustment posting is administered to the Group's collateral account. The transaction as at 30 September 2018 is for a single trade with a single bank at a yield of 0.67%.

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

	2018 Group £m	2017 Group £m
Receivables from reverse sale and repurchase agreements	30.0	–
Collateral required including interest outstanding	30.0	–
Fair value of collateral accepted in respect of the above*	30.5	–

* The Group invested £30.0m in a reverse sale and repurchase agreements secured against a collateral basket of UK Gilts with a market value of £30.5m, at 30 September 2018. The over-collateralisation reflects a 2% initial margin sufficient to take account of the unexpected loss that the Group may face due to the difficulty of selling that security in response to a default by the counterparty.

15. Held to maturity investments continued

Reverse sale and repurchase agreements continued

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

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

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

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Amount recognised as financial asset	30.0	–	30.0	–
Related amounts not offset in financial statements				
Financial instruments (including non-cash collateral)	30.5	–	30.5	–
Cash collateral received	–	–	–	–
Total	–	–	–	–

All amounts are measured on an amortised cost basis.

16. Investment in subsidiaries

	2018 £m	2017 £m
Investment in subsidiaries at 30 September	113.5	113.5

The Company's subsidiaries are set out below:

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

I City Gate House, 22 Southwark Bridge Road, London, England, SE1 9HB.
II Third Floor, St George's Court, Upper Church Street, Douglas, Isle of Man, IM1 1EE.

All of the above subsidiaries are incorporated in Great Britain, with the exception of MO Reinsurance Limited which is incorporated in the Isle of Man. The Directors consider that the carrying amount of the loans to Group companies approximates to their fair value.

During the year Motability Operations Group plc received a dividend payment of £65.0m (2017: £nil) from MO Reinsurance Limited.

Loans to Group companies

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Motability Operations Limited	–	–	4,112.2	4,537.4
Total	–	–	4,112.2	4,537.4

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Loans to Group companies – non-current	–	–	4,112.2	4,537.4
Total	–	–	4,112.2	4,537.4

The loans to Group companies were entered into on an arm's length basis and do not have a defined maturity (see note 35).

During the year the Company received interest payments of £244.0m (2017: £226.3m) in respect of loans to Group companies.

The Directors consider that the carrying amount investment in subsidiaries approximates to their fair value.

Notes to the financial statements continued

17. Cash and cash equivalents

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Cleared balances	327.4	1,168.1	243.6	965.4
Cash in the course of collection	0.3	0.2	–	–
Cash and bank balances	327.7	1,168.3	243.6	965.4
Cash in the course of transmission	(41.7)	(10.0)	–	–
Cash and cash equivalents	286.0	1,158.3	243.6	965.4

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

18. Insurance receivables

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Insurance premium debtor	32.7	36.0	–	–
Claims recoveries and rebates	52.2	44.9	–	–
Reinsurance claims recoveries and commissions receivable	214.0	144.3	–	–
Total insurance receivables	298.9	225.2	–	–

The carrying value of insurance receivables approximates to fair value.

19. Trade and other receivables

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Trade receivables	89.2	116.4	–	–
Other receivables	114.7	74.9	–	–
Prepayments and accrued income	107.5	108.2	10.9	18.5
Total	311.4	299.5	10.9	18.5
Included in current assets	290.2	278.9	6.1	13.6
Included in non-current assets	21.2	20.6	4.8	4.9
Total	311.4	299.5	10.9	18.5

Trade receivables include an allowance for estimated irrecoverable amounts of £1.8m (2017: £1.5m). This allowance has been made by reference to past default experience. During the year there was a £0.3m increase in provision and £16.9m of receivables were written off (2017: £6.8m decrease in provision and £15.2m written off). The average receivable days period is eight days (2017: nine 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 £45.5m (2017: £31.8m) 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 one day (2017: two days).

Ageing of past due but not impaired receivables:

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Past due by 1-30 days	43.6	30.2	–	–
Past due by 31-60 days	1.6	1.4	–	–
Past due by 61-90 days	0.1	0.1	–	–
Past due by 91-120 days	0.1	–	–	–
Past due by more than 120 days	0.1	0.1	–	–
Total	45.5	31.8	–	–

20. Deferred rental income

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Current				
Customers' advance payments*	138.0	126.3	–	–
Vehicle maintenance income	13.5	15.1	–	–
Customers' end-of-contract bonuses**	83.1	42.4	–	–
Total current	234.6	183.8	–	–
Non-current				
Customers' advance payments*	143.3	131.6	–	–
Vehicle maintenance income	43.6	41.5	–	–
Vehicle insurance income	–	11.2	–	–
Customers' end-of-contract bonuses**	56.7	29.5	–	–
Total non-current	243.6	213.8	–	–
Total	478.2	397.6	–	–

* Customers may choose a leased vehicle where the price exceeds the mobility allowance. In such cases they make an advance payment which is recognised on a straight-line basis over the life of the lease.

** During the year the Group increased the value of the customers' end-of-contract bonuses. This resulted in both a decrease in rentals receivable from operating leases (see note 4), and an increase in deferred revenue liabilities of £65.9m.

21. Insurance payables

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Reinsurance premiums payable	16.3	15.0	–	–
Commissions and administration fee payable	31.5	24.7	–	–
Claims reimbursements payable	26.9	26.1	–	–
Total insurance payables	74.7	65.8	–	–

The carrying value of insurance payables approximates to fair value.

22. Trade and other payables

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Trade payables	71.7	110.0	–	–
Social security and other taxes	1.4	1.5	–	–
Accruals	122.0	134.9	–	–
Other payables	0.5	0.4	202.9	961.0
Advance payments received from DWP	2.4	3.6	–	–
Total	198.0	250.4	202.9	961.0

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 (2017: 30 days).

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

Notes to the financial statements continued

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

Sources of uncertainty in the estimation of future claim payments

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

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

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £30,000 (2017: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2017: £5,000,000) each and every claim. Stop Loss reinsurance protects the Group against accumulation of losses exceeding 118.3% (2017: 119.3%) of the Group's net earned premium income or £309,348,000 (2017: £302,450,000) in the aggregate, whichever is the lesser. Stop Loss reinsurance cover is limited to a maximum of 129.5% (2017: 129.2%) of net premium earned or £29,266,000 (2017: £25,030,000) 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.

23. General insurance provisions and insurance risk management continued

General insurance provisions

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

Claims reserves including IBNR

Claims reserves are stated gross of losses recoverable from reinsurers. Claims provisions are based on assumptions regarding past claims experience and on assessments by an independent claims handler, and are intended to provide a best estimate of the most likely or expected outcome. The ultimate liabilities will vary as a result of subsequent developments. Differences resulting from reassessment of the ultimate liabilities are recognised in subsequent financial statements.

Motor quota-share reinsurance	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Claims reserves including IBNR	345.5	272.1	–	–
Third-party recoveries reserve	(44.6)	(36.8)	–	–
Reinsurance recoveries reserve	(209.9)	(140.7)	–	–
Total net retained	91.0	94.6	–	–

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

Chain Ladder method

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

Expected Burning Cost method

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

Bornhuetter-Ferguson method

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

Average Cost per Claim method

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

The Directors have considered the report of the Group actuary and the report of the independently appointed actuary, and the pattern of development is believed to be sufficiently consistent period on period to provide an appropriate basis to establish additional reserves.

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 2014 £m	Underwriting year 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Total £m
At end of reporting year	52.0	157.2	220.5	251.3	281.3	
One year later	51.7	153.6	221.3	229.4	–	
Two years later	49.3	154.1	214.1	–	–	
Three years later	53.4	148.5	–	–	–	
Four years later	49.8	–	–	–	–	
Current estimate of cumulative claims	49.8	148.5	214.1	229.4	281.3	923.1
Cumulative payments to date	(49.4)	(132.8)	(170.9)	(181.3)	(158.5)	(692.9)
Rebates	4.1	12.9	20.6	25.0	26.4	89.0
Total liability included in balance sheet	4.5	28.6	63.8	73.1	149.2	319.2

Notes to the financial statements continued

23. General insurance provisions and insurance risk management continued

Motor quota-share reinsurance continued

Estimate of ultimate claims cost net of reinsurance	Underwriting year 2014 £m	Underwriting year 2015 £m	Underwriting year 2016 £m	Underwriting year 2017 £m	Underwriting year 2018 £m	Total £m
At end of reporting year	40.3	122.9	163.9	176.2	193.6	
One year later	40.2	118.2	154.0	160.5	–	
Two years later	39.1	115.7	160.5	–	–	
Three years later	39.4	113.9	–	–	–	
Four years later	38.7	–	–	–	–	
Current estimate of cumulative claims	38.7	113.9	160.5	160.5	193.6	667.2
Cumulative payments to date	(42.5)	(124.2)	(163.4)	(177.1)	(158.0)	(665.2)
Rebates	4.1	12.9	20.5	25.0	26.5	89.0
Total liability net of reinsurance included in balance sheet	0.3	2.6	17.6	8.4	62.1	91.0
Comprises:						
Specific claims reserves including IBNR						345.5
Third-party recoveries reserve						(44.6)
Reinsurance recoveries reserve						(209.9)
Total						91.0

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.

Movements in insurance liabilities

	2018			2017		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	314.5	(183.1)	131.4	216.9	(98.2)	118.7
Notified claims recoveries	(36.8)	–	(36.8)	(34.1)	–	(34.1)
Total at beginning of year	277.7	(183.1)	94.6	182.8	(98.2)	84.6
Cash paid for claims settled						
In the year	(201.5)	16.1	(185.4)	(161.8)	7.6	(154.2)
Movement in liabilities						
Current year claims including IBNR	112.0	(103.4)	8.6	251.3	(75.1)	176.2
Prior year claims	131.0	42.2	173.2	5.4	(17.4)	(12.0)
Total at end of year	319.2	(228.2)	91.0	277.7	(183.1)	94.6
Notified claims including IBNR	363.8	(228.2)	135.6	314.5	(183.1)	131.4
Notified claims recoveries	(44.6)	–	(44.6)	(36.8)	–	(36.8)
Total at end of year	319.2	(228.2)	91.0	277.7	(183.1)	94.6

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

24. Financial liabilities

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Current				
Accrued interest and coupon	38.3	51.9	38.3	51.9
Cash in the course of transmission	41.7	10.0	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	347.3	440.8	347.3	440.8
Total current	427.3	502.7	385.6	492.7
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)	3,456.8	3,787.8	3,456.8	3,787.8
Preference shares	10.0	10.0	10.0	10.0
Total non-current	3,865.6	4,196.5	3,865.6	4,196.5
Total	4,292.9	4,699.2	4,251.2	4,689.2
The financial liabilities are repayable as follows:				
On demand or no later than one year	427.3	502.7	385.6	492.7
Later than one year and no later than two years	299.8	343.5	299.8	343.5
Later than two years and no later than five years	1,283.9	1,096.3	1,283.9	1,096.3
Later than five years	2,281.9	2,756.7	2,281.9	2,756.7
Total	4,292.9	4,699.2	4,251.2	4,689.2

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

Bank borrowings

All bank borrowings as at 30 September 2018 and 2017 are at floating rates.

As at 30 September 2018 the Group has the following principal bank loans:

- a five-year term loan of £0.4bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018; and
- a five-year revolving credit facility of £1.5bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018 (2017: five-year revolving credit facility of £1.5bn taken out on 28 September 2016 extended for one year effective 28 September 2017) of which £nil was drawn as at 30 September 2018 (2017: £nil). The facility repayment date is 28 September 2023 (2017: 28 September 2022).

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

Notes to the financial statements continued

24. Financial liabilities continued

Debt issued under the Euro Medium Term Note Programme

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

	30 September 2018 £m	30 September 2017 £m
3.750% Eurobond due 2017 (I)	–	440.8
3.250% Eurobond due 2018 (II) (V)	347.3	343.5
6.625% Sterling bond due 2019 (VI)	299.8	299.5
5.375% Sterling bond due 2022	398.4	398.0
1.625% Eurobond due 2023 (III)	486.7	481.0
0.875% Eurobond due 2025 (IV)	445.0	440.4
3.750% Sterling bond due 2026	297.7	297.5
4.375% Sterling bond due 2027	296.7	296.4
5.625% Sterling bond due 2030	298.6	298.5
2.375% Sterling bond due 2032	344.4	344.1
3.625% Sterling bond due 2036	589.5	588.9
	3,804.1	4,228.6

(I) The repayment obligation in respect of the Eurobonds of €500m was settled on the 30th November 2017 for £425.2m.
(II) The repayment obligation in respect of the Eurobonds of €389.9m (£347.4m) is hedged by cross-currency swap contracts (note 25) for the purchase of €389.9m and for the sale of £325.9m 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 (£490.0m) is hedged by cross-currency swap contracts (note 25) 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) The repayment obligation in respect of the Eurobonds of €500m (£445.5m) is hedged by cross-currency swap contracts (note 25) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(V) On 14 March 2017 the Company redeemed €160.1m (£133.8m) of the 3.250% €550m Eurobond due 2018.
(VI) On 14 March 2017 the Company redeemed £150m of the 6.625% £450m Sterling bond due 2019.

The Company has a £5bn Euro Medium Term Note Programme with denominations of EUR 100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £5bn Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

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

- a £350m Sterling bond with a rate of 2.375% issued on 14 March 2017 and expiring on 14 March 2032;
- a €500m Eurobond with a rate of 0.875% issued on 14 March 2017 and expiring on 14 March 2025; and
- a £600m Sterling bond with a rate of 3.625% issued on 10 March 2016 and expiring on 10 March 2036.

Other comprehensive income and hedging reserve

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

Under the 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 2018, the effect was to increase the Eurobond debt liability by £120.6m whereas at 30 September 2017 the effect was an increase of £123.4m. The movement of £2.8m is a result of a Eurobond being settled during the year, releasing £15.7m, offset by Sterling weakening further against the Euro by £12.9m. The associated asset relating to derivatives at 30 September 2018 was £128.4m (2017: asset of £126.1m) – an increase of £2.2m (see note 25). The net valuation difference at 30 September 2018 is therefore an asset of £7.8m which, after tax at 19.0%, leads to a hedging reserve of £6.3m.

24. Financial liabilities continued

Preference shares

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

The weighted average interest rates on borrowings as at 30 September 2018 and 30 September 2017 were as follows:

	2018 Group %	2017 Group %	2018 Company %	2017 Company %
Non-current bank loans	1.5	1.0	1.5	1.0
Non-current debt issued under the Euro Medium Term Note Programme	3.9	4.0	3.9	4.0
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2018 and 30 September 2017, the Group had the following undrawn committed borrowing facilities:

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Working capital facility	100.0	100.0	90.0*	95.0*
Revolving credit facility	1,500.0	1,500.0	1,500.0	1,500.0
Total	1,600.0	1,600.0	1,590.0	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:

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
No later than one year	10.0	5.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,590.0	1,595.0	1,590.0	1,595.0
Total	1,600.0	1,600.0	1,590.0	1,595.0

25. Derivative financial instruments

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

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25. Derivative financial instruments continued

	Group 2017		Company 2017	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	125.7	1,587.4	125.7	1,587.4
Interest rate swaps	0.4	300.0	0.4	300.0
Total	126.1	1,887.4	126.1	1,887.4
Included in current liabilities	(0.1)	100.0	(0.1)	100.0
Derivative financial instrument liabilities	(0.1)	100.0	(0.1)	100.0
Included in non-current assets	110.2	1,362.2	110.2	1,362.2
Included in current assets	16.0	425.2	16.0	425.2
Derivative financial instrument assets	126.2	1,787.4	126.2	1,787.4

Cross-currency swaps

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 14 March 2017 the Company part-redeemed its 3.25% Eurobonds and unwound the cross-currency swap arrangements to a nominal value of €389.9m.

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

On 14 March 2017, the Company issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt. The EUR coupon rate of 0.875% is fully swapped into the GBP rate of 2.061%.

Interest rate swaps

At 30 September 2018, the fixed interest rates varied from 0.409% to 0.7463% (2017: the fixed interest rates varied from 0.409% to 0.8195%) 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 2018 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.

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
No later than one year	(5.8)	(5.0)	(5.8)	(5.0)
Later than one year and no later than three years	(21.2)	(16.5)	(21.2)	(16.5)
Later than three years and no later than five years	(21.3)	(21.4)	(21.3)	(21.4)
Later than five years	(5.8)	(16.5)	(5.8)	(16.5)
Total	(54.1)	(59.4)	(54.1)	(59.4)

Further details of derivative financial instruments are provided in note 35.

26. Deferred tax liabilities

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Net at 1 October 2016	343.5	(0.9)	1.4	–	344.0
Charge to income	12.1	–	–	–	12.1
(Credit)/charge to income due to change in UK tax rate	(5.4)	0.1	–	–	(5.3)
Credit to equity	–	–	(0.9)	–	(0.9)
Adjustment in respect of prior years	(0.1)	–	–	–	(0.1)
Net at 1 October 2017	350.1	(0.8)	0.5	–	349.8
Charge to income	24.9	0.3	–	–	25.2
Credit to income due to change in UK tax rate	(10.4)	–	–	–	(10.4)
Charge to equity	–	–	0.9	–	0.9
Net at 30 September 2018	364.6	(0.5)	1.4	–	365.5

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:

	2018 £m	2017 £m
Deferred tax assets	–	–
Deferred tax liabilities	365.5	349.8
Net at 30 September	365.5	349.8

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

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

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

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 two 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 2016	–	–	1.4	–	1.4
Charge to equity	–	–	(0.9)	–	(0.9)
Controlled foreign company loss carried forward	–	–	–	–	–
At 1 October 2017	–	–	0.5	–	0.5
Charge to equity	–	–	0.9	–	0.9
Controlled foreign company loss carried forward	–	–	–	–	–
At 30 September 2018	–	–	1.4	–	1.4

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27. Ordinary share capital

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

	2018	2017
Authorised:		
100,000 (2017: 100,000) Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 (2017: 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 24.

28. Cash generated from/(used in) operations

Reconciliation of profit to net cash flow from operating activities:

	2018 Group £m	2017 Group £m	2018 Company £m	2017 Company £m
Profit before tax	131.4	258.0	82.9	16.5
Adjustments for:				
Depreciation and amortisation charge on corporate assets	10.2	6.4	–	–
Depreciation charge on operating lease assets	679.4	812.5	–	–
Inventory write-down	0.1	–	–	–
Finance costs	164.3	211.8	(80.1)	(14.9)
Gains on disposal of operating lease assets	(236.5)	(119.0)	–	–
Losses on operating lease assets written off through insurance	24.7	28.1	–	–
Gains on disposal of corporate assets	(0.2)	(0.2)	–	–
Increase/(decrease) in debt provisions	0.4	(6.8)	–	–
Operating cash flows before movements in working capital	773.8	1,190.8	2.8	1.6
Purchase of assets held for use in operating leases	(3,049.0)	(2,991.9)	–	–
Proceeds from sale of assets held for use in operating leases	2,139.5	2,179.0	–	–
Proceeds from insurance reimbursements of operating lease assets written off	29.4	30.3	–	–
Charitable donations	400.4	45.3	–	–
Increase in insurance receivables	(73.7)	(88.1)	–	–
(Increase)/decrease in other receivables	(19.8)	14.6	(0.1)	(0.1)
Decrease/(increase) in loans to and investment in subsidiaries	–	–	425.2	(499.9)
Increase in deferred rental income	80.6	14.6	–	–
Increase in general insurance provisions	73.4	85.6	–	–
Increase in insurance payables	8.8	21.9	–	–
(Decrease)/increase in payables	(52.4)	50.4	(758.1)	604.1
Cash generated from/(used in) operations	311.0	552.5	(330.2)	105.7

29. Analysis of changes in net debt

Group	At 1 October 2017 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2018 £m
Cash and bank balances	1,168.3	(840.6)	–	–	327.7
Cash in the course of transmission	(10.0)	(31.7)	–	–	(41.7)
Cash and cash equivalents	1,158.3	(872.3)	–	–	286.0
Borrowings due after one year	(398.7)	–	–	(0.1)	(398.8)
Debt issued under the Euro Medium Term Note Programme	(4228.6)	425.2	2.7	(3.4)	(3,804.1)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(4,637.3)	425.2	2.7	(3.5)	(4,212.9)
Total net debt	(3,479.0)	(447.1)	2.7	(3.5)	(3,926.9)

	At 1 October 2016 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2017 £m
Cash and bank balances	493.3	675.0	–	–	1,168.3
Cash in the course of transmission	(52.6)	42.6	–	–	(10.0)
Cash and cash equivalents	440.7	717.6	–	–	1,158.3
Borrowings due after one year	(398.8)	0.3	–	(0.2)	(398.7)
Debt issued under the Euro Medium Term Note Programme	(3,706.3)	(493.2)	(24.8)	(4.3)	(4228.6)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(4,115.1)	(492.9)	(24.8)	(4.5)	(4,637.3)
Total net debt	(3,674.4)	224.7	(24.8)	(4.5)	(3,479.0)

	2018 Group £m	2017 Group £m
Cash and bank balances	327.7	1,168.3
Current financial liabilities	(427.3)	(502.7)
Non-current financial liabilities	(3,865.6)	(4,196.5)
Total	(3,965.2)	(3,530.9)
Less interest accruals included in financial liabilities	38.3	51.9
Total net debt	(3,926.9)	(3,479.0)

30. Operating lease arrangements

The Group as lessee

	2018 Group £m	2017 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	3.0	3.1

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:

	2018 Group £m	2017 Group £m
No later than one year	3.0	3.6
Later than one year and no later than five years	12.2	13.9
Later than five years	8.4	17.3
Total	23.6	34.8

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

Notes to the financial statements continued

31. 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 2018 amounted to £4,882,316 (2017: £3,780,623). Net contributions due at the balance sheet date were £483,631 (2017: £453,882).

32. 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 32.

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

During the year the Group paid Motability £9.0m (2017: £9.2m) relating to its administration costs (the 'Motability levy').

In addition, £2.1m (2017: £2.0m) 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.

During the year the Group made a charitable donation of £400.0m (2017: £45.0m) 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; £0.5m (2017: £0.4m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2017: £0.8m) were due to the shareholder banks in proportion to their shareholdings for management services.

During the year the Company received a dividend payment of £65.0m (2017: £nil) from MO Reinsurance Limited and made preference share dividend payments of £0.7m to the shareholder banks (2017: £0.7m).

At 30 September 2018 £57.8m of cash and cash equivalents were held with shareholder banks (30 September 2017: £115.8m). During the year the Group received interest payments on these cash deposits totalling £0.5m (2017: £0.1m).

The Group's bond issuances, under the Euro Medium Note Term Programme (see note 24), are arranged by the shareholder banks. There were no fees paid during the year in relation to bond issuances (2017: £2.9m).

The Group enters into cross-currency and interest rate swap contracts (see note 25) with the shareholder banks to mitigate its exposure in interest rate risk and foreign exchange risk as part of its financial risk management policy (as described in note 35). During the year the Group made a net payment of £0.2m (2017: net payment of £1.1m) in respect of interest rate swaps, and a net payment of £5.2m (2017: net payment of £4.9m) in respect of cross-currency swaps.

In April 2018 the Group entered into a £30.0m reverse sale and repurchase agreement on a one-month term with a shareholder bank (see note 15). This agreement has rolled each month since the initial investment. During the year the Group received interest payments of £0.1m (2017: £nil).

Subsidiary, parent and ultimate controlling party

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

Remuneration of key management personnel

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

	2018 £m	2017 £m
Short-term employee benefits	4.2	4.9
Post-employment benefits	–	0.1
Other long-term benefits	1.0	2.5
Total	5.2	7.5

33. Directors' remuneration

During the year there was one Executive Director (2017: one) accruing benefits under a money purchase pension scheme.

	2018	2017
Highest-paid Director		
Salary	£564,223	£549,258
Performance-related payments	£264,120	£262,624
Payments in lieu of pension*	£141,056	£137,314
Benefits	£25,363	£25,057
Aggregate emoluments in respect of qualifying services	£994,762	£974,253
Pension contributions under money purchase pension schemes	£nil	£nil
All Directors		
Salary	£1,293,072	£1,279,533
Performance-related payments	£395,955	£383,749
Payments in lieu of pension*	£172,174	£165,564
Retention payments	£150,000	–
Benefits	£62,328	£61,996
Aggregate emoluments in respect of qualifying services	£2,073,529	£1,890,842
Pension contributions under money purchase pension schemes	£10,000	£10,000

* Payments in lieu of pension amounts relate to emoluments where the Remuneration Committee has agreed that Directors can opt to take taxable income instead of pension contribution entitlements under money purchase schemes.

Long-term incentive arrangements

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

Long Term Incentive Plan (LTIP)

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

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

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

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released. During the year to 30 September 2018 £726,617 was released to the highest-paid Director. This constituted the total amount released to the Group Executive Directors in the current year (in the prior year, £726,617 was released to the highest-paid Director).

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

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

During the reported year to September 2018, no payments have been made (2017: £nil).

Notes to the financial statements continued

34. 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 2018.

35. Funding and financial risk management

Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 24, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

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

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

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

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

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

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the adjusted Total Group Assets: Total Net Debt ratio is targeted to be no less than 1.25:1. At 30 September 2018 the ratio was 1.88:1, 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

	2018 Group carrying value £m	2017 Group carrying value £m	2018 Company carrying value £m	2017 Company carrying value £m
Non-derivative financial assets				
Held to maturity investments	232.9	102.3	30.0	–
Trade and other receivables	89.3	116.6	–	–
Loans to other Group companies	–	–	4,112.2	4,537.4
Cash and bank balances	327.7	1,168.3	243.6	965.4
Total non-derivative financial assets	649.9	1,387.2	4,385.8	5,502.8
Non-derivative financial liabilities				
Trade and other payables	(196.6)	(248.9)	(202.9)	(961.0)
Financial liabilities	(4,292.9)	(4,699.2)	(4,251.2)	(4,689.2)
Total non-derivative financial liabilities	(4,489.5)	(4,948.1)	(4,454.1)	(5,650.2)
Net non-derivative financial instruments	(3,839.6)	(3,560.9)	(68.3)	(147.4)
Derivative financial instruments				
Interest rate swaps	0.5	0.4	0.5	0.4
Cross-currency swaps	127.9	125.7	127.9	125.7
Total derivative financial instruments	128.4	126.1	128.4	126.1
Total financial instruments	(3,711.2)	(3,434.8)	60.1	(21.3)

35. Funding and financial risk management continued

Fair value of financial instruments

		2018 Group carrying value £m	2018 Group fair value £m	2017 Group carrying value £m	2017 Group fair value £m
Cash and bank balances	I	327.7	327.7	1,168.3	1,168.3
Trade and other receivables	II	89.3	89.3	116.6	116.6
Held to maturity investments	III	232.9	231.9	102.3	102.2
Trade and other payables	II	(196.6)	(196.6)	(248.9)	(248.9)
Cash in the course of transmission and accrued interest and coupon	II	(80.0)	(80.0)	(61.9)	(61.9)
Bank loans – non-current	IV	(398.8)	(398.8)	(398.7)	(398.7)
Debt issued under the Euro Medium Term Note Programme*	III	(3,804.0)	(4,154.8)	(4,228.6)	(4,692.5)
Redeemable preference share liabilities	III	(10.0)	(13.5)	(10.0)	(13.8)
Net non-derivative financial instruments		(3,839.5)	(4,194.8)	(3,560.9)	(4,028.7)
Interest rate swap – cash flow hedge		0.5	0.5	0.4	0.4
Cross-currency swap – cash flow hedge		127.9	127.9	125.7	125.7
Total		(3,711.1)	(4,066.4)	(3,434.8)	(3,902.6)

* Amounts are shown net of unamortised discount, fee and transaction costs.
I Interest-bearing portion of the cash and cash equivalents consists of overnight deposits and money market funds.
II Non-interest bearing.
III Bearing interest at fixed rate.
IV Bearing interest at floating rate.

		2018 Company carrying value £m	2018 Company fair value £m	2017 Company carrying value £m	2017 Company fair value £m
Cash and bank balances	I	243.6	243.6	965.4	965.4
Loans to other Group companies	IV	4,112.2	4,112.2	4,537.4	4,537.4
Held to maturity investments	III	30.0	30.0	–	–
Trade and other payables	II	(202.9)	(202.9)	(961.0)	(961.0)
Cash in the course of transmission and accrued interest and coupon	II	(38.3)	(38.3)	(51.9)	(51.9)
Bank loans – non-current	IV	(398.8)	(398.8)	(398.7)	(398.7)
Debt issued under the Euro Medium Term Note Programme*	III	(3,804.0)	(4,154.8)	(4,228.6)	(4,692.5)
Redeemable preference share liabilities	III	(10.0)	(13.5)	(10.0)	(13.8)
Net non-derivative financial instruments		(68.2)	(422.5)	(147.4)	(615.1)
Interest rate swap – cash flow hedge		0.5	0.5	0.4	0.4
Cross-currency swap – cash flow hedge		127.9	127.9	125.7	125.7
Total		60.2	(294.1)	(21.3)	(489.0)

* Amounts are shown net of unamortised discount, fee and transaction costs.
I Interest-bearing portion of the cash and cash equivalents consists of overnight deposits and money market funds.
II Non-interest bearing.
III Bearing interest at fixed rate.
IV Bearing interest at floating rate.

Notes to the financial statements continued

35. 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 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

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

Group

	2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Held to maturity investments	102.2	–	–	102.2
	102.2	–	–	102.2
Non-derivative financial liabilities				
Financial liabilities	–	(4,706.3)	–	(4,706.3)
	–	(4,706.3)	–	(4,706.3)
Derivative financial instruments				
Interest rate swaps	–	0.4	–	0.4
Cross-currency swaps	–	125.7	–	125.7
	–	126.1	–	126.1
Total	102.2	(4,580.2)	–	(4,478.0)

35. Funding and financial risk management continued

Fair value of financial instruments continued

Company

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

Company

	2017			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial liabilities				
Financial liabilities	–	(4,706.3)	–	(4,706.3)
	–	(4,706.3)	–	(4,706.3)
Derivative financial instruments				
Interest rate swaps	–	0.4	–	0.4
Cross-currency swaps	–	125.7	–	125.7
	–	126.1	–	126.1
Total	–	(4,580.2)	–	(4,580.2)

Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset & Liability Management Committee.

The Group's treasury function, operating under the control of the Asset & Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The treasury policy of the Group and the principles set out by the policy are endorsed by the Board and applied through delegated authority by the Chief Executive Officer operating through the Executive Committee and the Asset & Liability Management Committee. The treasury policy and treasury control framework are overseen by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's activities expose it to the financial risks of changes in interest rates. The Group enters into interest rate swaps and issues fixed-rate bonds to mitigate the risk of movements in interest rates. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

Notes to the financial statements continued

35. Funding and financial risk management continued

Interest rate risk management

The Group's revenues arise primarily from operating lease rentals and proceeds from disposal of operating lease assets – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN Programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings; variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2018 of £399m (2017: £399m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2018 of £3,804m (2017: £4,229m).

The Group and the Company have interest rate swaps of £200m maturing on 28 December 2018 and £200m maturing on 28 December 2019 (2017: £100m maturing on 29 December 2017 and £200m maturing on 28 December 2018). Under these swaps the Group and the Company pay an average fixed rate of 0.58% (2017: 0.55%).

Foreign exchange risk

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

Interest rate sensitivity analysis

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

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

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax profit decrease of approximately £1.0m as at 30 September 2018 (2017: £1.0m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

Interest rate swap contracts

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

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

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2018 Average contract fixed interest rate %	2017 Average contract fixed interest rate %	2018 Nominal principal amount £m	2017 Nominal principal amount £m	2018 Fair value £m	2017 Fair value £m
No later than one year	0.4	0.8	200.0	100.0	0.2	(0.1)
Later than one year and no later than two years	0.7	0.4	200.0	200.0	0.4	0.5
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	300.0	0.6	0.4

35. Funding and financial risk management continued

Cross-currency swap contracts

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

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

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2018 Contract fixed GBP interest rate %	2017 Contract fixed GBP interest rate %	2018 Nominal principal amount £m	2017 Nominal principal amount £m	2018 Fair value £m	2017 Fair value £m
No later than one year	3.7	4.2	326.0	425.2	21.9	16.0
Later than one year and no later than two years	–	3.7	–	326.0	–	21.4
Later than two years and no later than five years	3.0	–	402.5	–	92.7	–
Later than five years	2.1	2.5	433.8	836.2	13.3	88.3
Total			1,162.3	1,587.4	127.9	125.7

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 and the balance as at 30 September 2018 and 2017, and the highest limit and utilisation during the year attributable to banks/financial institutions.

	2018		2017	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Counterparty credit limit as at 30 September	1,140.0	397.4	1,340.0	1,167.5

	2018		2017	
	Limit £m	Utilisation £m	Limit £m	Utilisation £m
Maximum counterparty credit limit for calendar year	1,380.0	1,193.4	1,340.0	1,255.6

No counterparty credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk.

Notes to the financial statements continued

35. Funding and financial risk management continued

Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The treasury policy has an appropriate liquidity risk management framework for the management of the Group and the Company's short, medium and long-term funding.

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has a five-year bank term loan with 5.0 years until maturity and a five-year revolving credit facility with 5.0 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed-rate bonds. The bonds, with average weighted maturities of nine years, provide increased sustainability and diversity to the Group's funding profile.

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

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

Group

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial liabilities – bank loans – variable interest rate	1.5	(6.4)	(15.6)	(417.5)	–	(439.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.9	(465.7)	(537.7)	(1,008.6)	(2,845.9)	(4,857.9)
Cash in the course of transmission and accrued interest and coupon	0.0	(41.7)	–	–	–	(41.7)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(196.6)	–	–	–	(196.6)
Total		(711.1)	(554.7)	(1,427.5)	(2,857.2)	(5,550.5)

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

Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(4.1)	(8.7)	(411.2)	–	(424.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.0	(579.8)	(889.7)	(627.6)	(3,340.5)	(5,437.6)
Cash in the course of transmission and accrued interest and coupon	0.0	(10.0)	–	–	–	(10.0)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(248.9)	–	–	–	(248.9)
Total		(843.5)	(899.8)	(1,040.2)	(3,351.8)	(6,135.3)

* 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.

35. Funding and financial risk management continued

Liquidity risk management continued

Company

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Financial liabilities – bank loans – variable interest rate	1.5	(6.4)	(15.6)	(417.5)	–	(439.5)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	3.9	(465.7)	(537.7)	(1,008.6)	(2,845.9)	(4,857.9)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(202.9)	–	–	–	(202.9)
Total		(675.7)	(554.7)	(1,427.5)	(2,857.2)	(5,515.1)

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

Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(4.1)	(8.7)	(411.2)	–	(424.0)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.0	(579.8)	(889.7)	(627.6)	(3,340.5)	(5,437.6)
Financial liabilities – redeemable preference shares – fixed interest rate*	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	0.0	(961.0)	–	–	–	(961.0)
Total		(1,545.6)	(899.8)	(1,040.2)	(3,351.8)	(6,837.4)

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

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

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

Group

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

Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Interest rate swaps	0.5	0.2	0.2	–	–	0.4
Cross-currency swaps	3.2	(5.2)	(16.7)	(21.4)	(16.5)	(59.8)
Total		(5.0)	(16.5)	(21.4)	(16.5)	(59.4)

Notes to the financial statements continued

35. Funding and financial risk management continued

Liquidity risk management continued

Company

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

Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Interest rate swaps	0.5	0.2	0.2	–	–	0.4
Cross-currency swaps	3.2	(5.2)	(16.7)	(21.4)	(16.5)	(59.8)
Total		(5.0)	(16.5)	(21.4)	(16.5)	(59.4)

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets, except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from held to maturity investments and loans to Group companies, the non-derivative financial assets are anticipated to mature within one year.

Group

	2018 Weighted average interest rate %	2018 Under 1 year £m	2018 Between 1-3 years £m	2018 Between 3-5 years £m	2018 Over 5 years £m	2018 Total £m
Held to maturity investments – fixed interest rate	2.1	94.8	92.9	31.6	13.6	232.9
Trade and other receivables – non-interest bearing	–	89.3	–	–	–	89.3
Cash and bank balances – non-interest bearing	–	327.7	–	–	–	327.7
Total		511.8	92.9	31.6	13.6	649.9

Group

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Held to maturity investments – fixed interest rate	2.3	56.3	34.6	11.4	–	102.3
Trade and other receivables – non-interest bearing	–	116.6	–	–	–	116.6
Cash and bank balances – non-interest bearing	–	1,168.3	–	–	–	1,168.3
Total		1,341.2	34.6	11.4	–	1,387.2

35. Funding and financial risk management continued
Liquidity risk management continued

Company

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

Company

	2017 Weighted average interest rate %	2017 Under 1 year £m	2017 Between 1-3 years £m	2017 Between 3-5 years £m	2017 Over 5 years £m	2017 Total £m
Loans to other Group companies	3.1	184.9	349.0	335.6	4,856.2	5,725.7

Financial statements

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