Half Year Report 2023

For the six months ended
31 March 2023

Motability Operations group plc

In this report

Delivering for customers every day

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We are Motability Operations, the organisation that delivers the Motability Scheme to over 670,000 disabled people across the UK. Our purpose is to deliver smart, sustainable solutions that advance our customers' mobility in a fast-changing world.

Motability, the Charity, oversees and sets the strategic direction of the Motability Scheme and provides additional support, such as grants.

Since Motability Operations was founded over 40 years ago, we have grown to be the largest leasing company in the UK, providing over five million customers with affordable transport solutions. As a purpose-driven and customer-focussed company, any money we make from running the Motability Scheme is reinvested to create the most positive impact for disabled people.

Statement of Directors' responsibilities

The Directors confirm that, to the best of their knowledge, this condensed consolidated interim financial information has been prepared in accordance with IAS 34 as adopted for use in the UK and that the Interim Management Report includes a fair review of the information required by DTR 4.2.7, namely:

- an indication of important events that have occurred during the first six months and their impact on the condensed set of financial statements; and
- a description of the principal risks and uncertainties for the remaining six months of the financial year.

By order of the Board

Andrew Miller
Chief Executive Officer

26 May 2023

Matthew Hamilton-James
Chief Finance Officer

26 May 2023

CEO statement

We're continuing to deliver solutions for our customers

The Motability Scheme provides independence and freedom.

Andrew Miller
CEO, Motability Operations

We've been working hard to keep the Scheme accessible and affordable.

£178.6m

invested in New Vehicle Payments to date

47%

increase in models available at nil advance payment

£91m

investment in supporting customers with the transition to electric to date

Our capital reserves enable us to deliver for our customers

Our purpose is clear: " to deliver smart, sustainable solutions that improve our customers' mobility in a fast-changing world". To do that, we have a responsibility to effectively manage our capital reserves, ensuring our customers can afford to stay mobile.

The market hasn't bounced back as quickly as we expected, but our stable financial position enables us to weather the ongoing uncertainty. Used-car values have remained high for the first half of this year, which has meant our capital reserves have grown. The low supply of new vehicles also means we no longer get the discounts we used to, so we're using our capital reserves to subsidise the cost and make the Scheme more affordable for our customers.

We are proud that our leasing package is around 45% cheaper than commercial alternatives, making sure our customers can afford to stay mobile and independent in this challenging time. Supporting our customers with affordability of their vehicle, remains a key priority and we're pleased to have delivered two strong price lists so far this year. We also outlined a number of investments in our Annual Report 2022, including the £525m for New Vehicle Payments, £300m investment in electric over the next 3 years and £645m to support lease pricing.

You can see more about our progress in deploying these investments in the Interim Management Report on page 5.

> "Our customers' mobility remains our top priority. Our business model is designed to provide stability for the long term."

CEO statement continued

Lean into green

Our capital reserves are enabling us to invest in supporting our customers with the transition to electric and we are proud to be at the forefront of the country's journey to carbon-free motoring by 2030. We know that if the green transition is to succeed, it must be accessible to all and so we have ringfenced £300m to make EVs more affordable and accessible for our customers. As a result, our EV fleet is growing meaning we now buy over 7% of all new electric vehicles in the UK and our fleet now has over 23,000 EVs. In addition, so far this year we've installed over 6,000 home chargepoints.

We also need to make sure EVs are fit for purpose for our customers. This is where our innovation team comes in, piloting technologies and services to better understand and address the needs of our customer base. We're getting involved at ground level with some of the most forward-thinking tech startups and our customers are trialling their products to provide valuable feedback. We're looking for solutions to some of the most common accessibility challenges and pain points for our customers, like accessible EV charging and finding an EV charging payment solution that works for all.

The accessibility challenges of EVs are evident and nowhere is this gap more clear than electrifying Wheelchair Accessible Vehicles (WAVs). The industry has highlighted that the traditional conversion methods for WAVs are not going to work for electric WAVs and we need a solution to ensure WAV customers on the Motability Scheme remain mobile post 2030. We've recently worked with design and engineering business CALLUM to develop a prototype for an eWAV and look forward to seeing this project take shape in the second half of the year. You can find out more about this project on our website. (https://www.motabilityoperations.co.uk/news/Two-students-win-a-placement-at-CALLUM).

Continuing to make a positive impact

The first half of the year has seen us operate in a challenging time for the industry and our customers, but we're delighted that we continue to deliver our worry-free service and our customer satisfaction rates remain high. We continue to develop the Scheme offer and Direct Line Group are due to take over from RSA as insurance partner on 1st September 2023. We are confident that there will be a smooth transition for our customers. For all of us here at Motability Operations, our real measure of success is ensuring our customers remain mobile and can access the freedom the Scheme promises at an affordable price. With continued reinvestment and the commitment of our people, I am confident that as we go into the second half of this financial year, we will continue to meet and exceed our goals.

Interim management report

Delivering value for money for our customers

Matthew Hamilton-James
Chief Finance Officer

"Our robust financial position enables us to make significant investments and support affordability for our customers, against a backdrop of artificially high new vehicle prices."

Financial performance

Financial performance for the six months to March 2023 tracked ahead of target, driven by a continued buoyancy in used-car values.

Revenue in the six months to March 2023 increased 12.6% to £2,606.5m (2022: £2,313.9m). Within this:

- Rental income increased 2.1% reflecting higher average customer numbers (with an incremental 20,988 joining the Scheme) and the effect of the 3.1% uplift in mobility allowances effective from April 2022.
- Volumes of vehicles sold are up 16,482 units compared with 2022 (aided by the recovering new car supply) consequently proceeds from the disposal of operating lease assets have risen by 20.9% in the six months to March 2023 compared with the prior year. Sales values remain strong in the used-car market.

Profit for the period was £444.2m, representing a 6.8% return on assets (above our long-term target of 1.5%). This above target result is primarily driven by two effects:

- A gain of £372.0m from vehicle sales (2022: £403.9m), due to the market conditions referenced above. The strength of the used-car market can be directly linked to the new vehicle supply-side challenges faced globally. This has resulted in the significant demand for used cars. Our vehicle remarketing operation has been able to effectively capitalise on these conditions in the used-car market, with average sales values remaining consistent year on year (at £15.5k per vehicle) and 54.5% above 2019, pre-pandemic levels, not only driving increased revenue, but leading to crystallised profits versus the net book value. Whilst this upside is in part a result of used-car values exceeding our previous forecast expectations, it also reflects the realisation of a proportion of the blocked appreciation which was carried through the September 2022 year end (as signalled in the 2022 Annual Report and Accounts).
- A £328.8m depreciation credit reflecting the output of the March 2023 fleet revaluation exercise outlined below.

The result for the first six months of trading takes capital reserves on the balance sheet to £4,248.5m (March 2022: £3,480.1m), providing headroom to support our ambitious programme of customer investments.

Interim management report continued

Half year highlights 2023

£4,248.5m

capital reserves as at 31 March 2023

£178.6m

invested in New Vehicle Payments and £91.4m in EVs to date

96%

customer satisfaction (independently measured)

A1/A

credit rating with Moody's and S&P respectively

8.93 years

debt maturity profile

85%

renewal rate at end of lease

Assets and residual values

Exposure to unexpected movements in the residual value of our fleet represents the Group's single largest financial exposure and can lead to significant volatility in our results.

The sustained strength of current used-car values continues to have an impact on our assessment of future residual values. The carrying value of operating lease assets has increased 9.4% since September 2022, to £10,462.3m (March 2022: £9,100.6m). At March 2023, the estimated residual value of the fleet versus the priced position reflected a projected net gain of £2,252.9m (March 2022: £1,642.5m).

At the balance sheet date, £1,170.3m of this gain (March 2022: £748.8m) had been recognised through the income statement (with £328.8m recognised in the six months to March 2023 and £841.5m credited in prior periods), with the balance to be released across future financial periods. However, as referenced in the 2022 Annual Report, not all of the net revaluation gains can be recognised via reduced depreciation, as assets cannot be appreciated to a point above their book value at the beginning of the financial period. Therefore the positive movement in forecast values may additionally result in vehicle remarketing profitability in future periods of up to £357.6m providing that the current assessment of future value holds.

Investing to keep leases affordable for customers

As noted above, our financial position allows us to make significant investments to support our customers. We headlined these investments in the 2022 Annual Report and Accounts. As at the end of March 2023, the status of these investment programmes was as follows:

- **New Vehicle Payments (NVP):** So far, we have paid £178.6m to 251.2k customers, with a further £71.7m to be paid over the coming months as the order pipeline is fulfilled. Customers are now able to use the NVP to directly offset their Advance Payment.
- **Electric vehicle investment:** To date we have supported 30.8k electric vehicles (across vehicles delivered and the existing order bank) and installed 22.9k electric home chargepoints free-of-charge. The total investment across the live fleet and committed order bank stands at £91.4m. The live fleet composition, as at 31 March 2023, comprises 85.1% ICE, 3.5% EV and 11.4% Hybrid. Our investment to make EVs more affordable for our customers continues to enable an accelerating uptake of this new technology; 25% of applications between January and March 2023 were for electric or hybrid vehicles.
- **Vehicle affordability:** We remain committed to supporting our customers with affordability as the new vehicle supply constraints begin to unwind over the coming months. We have set aside £645m of capital to invest to support lease pricing and we expect this to be tactically deployed over the next two to three years where we see opportunities to tap into emerging pockets of new vehicle supply.

Interim management report continued

Financing and liquidity

The Group continues to pursue a strategy aimed at diversifying sources of funding, protecting structural liquidity and maintaining a well laddered debt maturity profile. We issued two bonds under our Social Bond Framework in January this year (a £350m 20-year bond and a €500m 8.5-year bond). These bonds provide us with strong liquidity headroom as we look ahead and in the context of the repayment of the €550m bond liability due in June 2023.

Of the Group's £748.7m cash and cash equivalents balance reported at 31 March 2023 (March 2022: £1,093.8m), £77.6m is ring-fenced (March 2022: £83.1m) in respect of insurance liabilities in MO Reinsurance Ltd. The Group retains a £1.5bn revolving credit facility to provide liquidity headroom which was undrawn at 31 March 2023. Our corporate credit ratings (A1/A, with Moody's (negative outlook) and S&P (stable outlook) respectively remain an important enabler of our access to financing at competitive rates from the debt capital markets.

Outlook

We anticipate the current new vehicle supply challenges to continue throughout 2023. It is clear from vehicle manufacturers that there are varying views across the industry regarding the pace at which a more normalised pattern of supply will come back on stream. Our focus remains on keeping Scheme customers mobile and we will continue to provide automatic lease extensions wherever we need to.

We continue to engage closely with vehicle manufacturers and once supply does become more readily available, we aim to provide our customers and potential new customers with access to a suitable range of affordable vehicles. The resilience of our business model and our capital position gives us scope to invest in the price list, to support customer choice and affordability as the current supply constraints unwind.

As our CEO, Andrew, has referred to in his statement, we remain committed to supporting our customers with the transition to electric vehicles by 2030. It is expected that the deployment of the £300m ring-fenced capital investment will scale up during the remainder of 2023 and into 2024 as the range, choice, suitability and availability of electric vehicles increases.

There are undoubtedly wider economic challenges including inflationary pressures and, linked to this, the prospect of rising interest rates and potential impact on economic growth. Whilst, as outlined above, we are currently experiencing unprecedented strength in used-car values, it is expected that values will fall over coming periods (a view that is reflected in our residual value forecast) linked both to the expected increase in new vehicle supply and also the potential impact of demand-side factors as a consequence of the ongoing cost of living pressures.

Notwithstanding the expectation of challenging economic headwinds, we believe that the Group is well placed from both a capital and liquidity perspective as we look ahead.

Risk

Our dynamic and robust approach

At Motability Operations, we recognise that sound risk management is fundamental to the successful and sustainable operation of the business.

It is a core commitment that our approach protects the interests of customers and seeks to ensure that risks are managed sufficiently to avoid financial, reputational and operational shocks to the business.

Our risk framework is enshrined within our day-to-day activities and our governance framework, which is overseen and managed by our Risk Management Committee.

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

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

1st line – Primary risk management

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

2nd line – Risk control

- Risk department activities
- Policies and procedures, e.g. Authorities Manual
- Executive team and Heads of Function Annual Accountability Statements
- Company Performance Report and KPIs
- Activities of the Board and Committees
- Revised Risk Management Committee – re-focused on ERM and emerging risks

3rd line – Assurance

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

Risk identification and monitoring

Risks and uncertainties in the 2022 Annual Report are those the Board considers to be the principal risks and uncertainties. Having subsequently reviewed these again the Board considers them to remain relevant. A summary of the key risks are shown below; for more detailed information, refer to MO's 2022 Annual Report and Accounts.

- **Residual Values:** We provide our customers with a fixed price over their lease term, predominantly covering a three-year period; this underpins our most significant risk as we underwrite the exposure to unforeseen and material movement in the market value of second-hand vehicles.
- **Insurance:** Insurance is a significant risk to us as we fix this cost for our customers for between three and five years, therefore our exposure is larger than is typical in the market.
- **Treasury Risk:** The availability of sustainable funding and liquidity is critical to our ongoing operation. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.
- **Credit Risk:** Customers assign their allowances to us, and this is paid directly from the DWP or Social Security Scotland. As a result, the credit risk is considered to be low. If the Government did transfer responsibility of payment to the customer, MO could be exposed to significant credit risk.
- **Operational Risk:** The efficiency of our business is key to delivering excellent customer service and also ensuring we maximise and protect the value of our assets.
- **Cyber Risk:** We have a sophisticated approach to IT security and have established controls in place. We continue to monitor the ever-changing nature of external threats faced and have well-established controls and an ongoing programme of development in this area.
- **Supplier Failure:** Our core product offering is delivered through contracts with key suppliers who provide the vehicles, the vehicle insurance services, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have financial implications as we seek alternative service providers.
- **Business Continuity:** Business operations are reliant upon people, and the systems and activities performed by our employees in conjunction with our key suppliers and partners. Any major and sustained disruption to these business activities could have a significant impact on customers and the wider business objectives.
- **Climate Risk:** Climate change and sustainability are key issues for businesses. We could experience losses and/or reputational damage as a result of climate change. This could be directly, through our customers and/or our third-party engagements. In addition, impacts could be seen through an increase in the economic disruption from extreme weather events.
- **People Risk:** People and our culture are fundamental to the continued success of the business. People risk includes, but is not limited to, risks relating to talent attraction and retention, employee engagement, MO's approach to hybrid working and diversity and inclusion.

Independent review report to Motability Operations Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half year financial report for the six months ended 31 March 2023 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 31 March 2023 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules ("the DTR") of the UK's Financial Conduct Authority ("the UK FCA").

Basis for conclusion

We conducted our review in accordance with International Standard on Review Engagements (UK) 2410 Review of Interim Financial Information Performed by the Independent Auditor of the Entity ("ISRE (UK) 2410") issued for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We read the other information contained in the half year financial report and consider whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusions relating to going concern

Based on our review procedures, which are less extensive than those performed in an audit as described in the Basis for conclusion section of this report, nothing has come to our attention that causes us to believe that the directors have inappropriately adopted the going concern basis of accounting, or that the directors have identified material uncertainties relating to going concern that have not been appropriately disclosed.

This conclusion is based on the review procedures performed in accordance with ISRE (UK) 2410. However, future events or conditions may cause the group to cease to continue as a going concern, and the above conclusions are not a guarantee that the group will continue in operation.

Directors' responsibilities

The half year financial report is the responsibility of, and has been approved by, the directors. The directors are responsible for preparing the half year financial report in accordance with the DTR of the UK FCA.

As disclosed in note 2, the annual financial statements of the group are prepared in accordance with UK-adopted international accounting standards.

The directors are responsible for preparing the condensed set of financial statements included in the half year financial report in accordance with IAS 34 as adopted for use in the UK.

In preparing the condensed set of financial statements, the directors are responsible for assessing the group'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 to cease operations, or have no realistic alternative but to do so.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half year financial report based on our review. Our conclusions, including our conclusions relating to going concern, are based on procedures that are less extensive than audit procedures, as described in the Basis for conclusion section of this report.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company for our review work, for this report, or for the conclusions we have reached.

Richard Pinks
for and on behalf of KPMG LLP
Chartered Accountants

15 Canada Square
Canary Wharf
London
E14 5GL

26 May 2023

Financial statements

Consolidated income statement

For the six months ended 31 March 2023

	Note	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Revenue	4	2,606.5	2,313.9
Net operating costs excluding charitable donations		(1,944.4)	(1,509.3)
Charitable donations		–	–
Net operating costs	6	(1,944.4)	(1,509.3)
Profit from operations		662.1	804.6
Finance costs	7	(90.5)	(86.7)
Profit before tax		571.6	717.9
Taxation			
Taxation excluding the impact of changes in the UK corporation tax rate	8	(84.8)	(89.4)
Re-measurement of deferred tax due to changes in the UK corporation tax rate	8	(42.6)	(29.8)
Profit for the period		444.2	598.7

All amounts in current and prior periods relate to continuing operations (see note 2).

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

Consolidated statement of comprehensive income

For the six months ended 31 March 2023

	Note	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Profit for the period		444.2	598.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	14	(86.3)	(22.2)
Gains on cash flow hedges reclassified to the income statement	14	0.4	37.2
Tax relating to components of other comprehensive income		18.9	(3.0)
Other comprehensive (charge)/income for the period, net of tax		(67.0)	12.0
Total comprehensive income for the period		377.2	610.7

Financial statements continued

Consolidated balance sheet

As at 31 March 2023

	Note	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Assets				
Non-current assets				
Intangible assets		61.0	73.9	87.1
Property, plant and equipment		75.6	92.2	67.0
Assets held for use in operating leases	9	10,462.3	9,564.5	9,100.6
Financial assets at amortised cost		184.9	199.6	171.5
Prepayments, trade and other receivables		124.3	17.2	15.4
Derivative financial instruments	15	6.4	46.6	64.5
		10,914.5	9,994.0	9,506.1
Current assets				
Corporation tax receivable		–	23.2	–
Inventories	10	172.9	124.0	127.7
Financial assets at amortised cost		130.1	80.6	105.0
Cash and bank balances		844.5	769.3	1,164.5
Insurance receivables		91.5	57.0	58.3
Prepayments, trade and other receivables		379.8	256.0	239.5
Reinsurers' share of insurance provisions	13	469.9	488.9	472.1
Derivative financial instruments	15	81.2	87.6	2.4
		2,169.9	1,886.6	2,169.5
Total assets		13,084.4	11,880.6	11,675.6
Liabilities				
Current liabilities				
Corporation tax payable		(22.1)	–	(24.0)
Deferred rental income	11	(236.5)	(203.1)	(185.1)
Provision for customer rebates	12	(34.7)	(136.6)	(132.7)
Insurance payables		(76.0)	(52.5)	(68.8)
Trade and other payables		(194.1)	(183.9)	(145.5)
Provision for insurance claims outstanding	13	(673.7)	(667.4)	(622.5)
Financial liabilities	14	(619.6)	(974.8)	(507.8)
Derivative financial instruments	15	–	–	–
		(1,856.7)	(2,218.3)	(1,686.4)
Net current assets/(liabilities)		313.2	(331.7)	483.1
Non-current liabilities				
Deferred rental income	11	(295.2)	(259.1)	(253.0)
Provision for customer rebates	12	(22.2)	(87.0)	(79.1)
Financial liabilities	14	(6,171.8)	(5,010.8)	(5,815.3)
Derivative financial instruments	15	(39.7)	–	(61.6)
Deferred tax liabilities		(465.0)	(448.8)	(289.0)
		(6,993.9)	(5,805.7)	(6,498.0)
Total liabilities		(8,850.6)	(8,024.0)	(8,184.4)
Net assets		4,233.8	3,856.6	3,491.2
Equity				
Ordinary share capital		0.1	0.1	0.1
Hedging reserve	14	(14.8)	52.2	11.0
Restricted reserves*		4,248.5	3,804.3	3,480.1
Total equity		4,233.8	3,856.6	3,491.2

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

These financial statements on pages 9 to 39 were approved by the Board of Directors on 26 May 2023 and signed on behalf of the Board.

Andrew Miller

Andrew Miller
Chief Executive

The notes on pages 13 to 39 form part of these financial statements

Financial statements continued

Consolidated statement of changes in equity

For the six months ended 31 March 2023

	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total £m
At 1 October 2021	0.1	(1.0)	2,881.4	2,880.5
Comprehensive income				
Profit for the period	–	–	598.7	598.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(22.2)	–	(22.2)
Gains on cash flow hedges reclassified to the income statement	–	37.2	–	37.2
Tax relating to components of other comprehensive income	–	(3.0)	–	(3.0)
Total comprehensive income	–	12.0	598.7	610.7
At 31 March 2022	0.1	11.0	3,480.1	3,491.2
At 1 October 2022	0.1	52.2	3,804.3	3,856.6
Comprehensive income				
Profit for the period	–	–	444.2	444.2
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(86.3)	–	(86.3)
Gains on cash flow hedges reclassified to the income statement	–	0.4	–	0.4
Tax relating to components of other comprehensive income	–	18.9	–	18.9
Total comprehensive income	–	(67.0)	444.2	377.2
At 31 March 2023	0.1	(14.8)	4,248.5	4,233.8

The notes on pages 13 to 39 form part of these financial statements

Financial statements continued

Consolidated statement of cash flows

For the six months ended 31 March 2023

	Note	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Cash flows from operating activities			
Cash (used in)/generated from operations	16	(565.5)	435.9
Interest paid		(82.1)	(82.8)
Income tax paid		(47.0)	(106.0)
Charitable donations		–	–
Net cash (used in)/generated from operating activities		(694.6)	247.1
Cash flows from investing activities			
Purchase of intangible assets		–	(3.7)
Disposal/(purchase) of property, plant and equipment		1.0	(0.3)
Proceeds from sale of property, plant and equipment		–	–
Net investment in financial assets at amortised cost		(34.7)	(69.1)
Net cash used in investing activities		(33.7)	(73.1)
Cash flows from financing activities			
New loans raised		–	–
Loans settled		–	–
Bonds issued		788.2	487.7
Bonds redeemed		–	–
Payments of principal portions of lease liabilities		(20.2)	(0.3)
Net cash generated from financing activities		768.0	487.4
Net increase in cash and cash equivalents		39.7	661.4
Cash and cash equivalents at beginning of period		709.0	432.4
Cash and cash equivalents at end of period	16	748.7	1,093.8

The notes on pages 13 to 39 form 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.

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

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

This condensed set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 30 September 2022 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

This condensed set of financial statements has been reviewed, not audited.

Accounting convention

The financial statements have been prepared under the historical cost convention, except the revaluation of financial assets and financial liabilities (including derivative instruments) which are valued at fair value through profit or loss apart from derivative instruments relating to cash flow hedges which are classified and measured at fair value through other comprehensive income.

2. Significant accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 March 2023 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and IAS 34 Interim Financial Reporting as adopted for use in the UK. The condensed set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2022, which were prepared in accordance with UK-adopted international accounting standards. The Group's significant accounting policies are contained within the Group's annual financial statements but an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period is set out below. The annual financial statements of the Group for the year ended 30 September 2023 will also be prepared in accordance with UK-adopted international accounting standards.

The preparation of financial statements in conformity with UK-adopted international accounting standards ("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 involved, 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 applied are consistent with those of the annual financial statements for the year ended 30 September 2022, as described in those annual financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report of the latest Annual Report on pages 3 to 58. In addition, note 36 to the annual financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The Directors continue to adopt the going concern basis in preparing the financial statements, which is deemed appropriate for the reasons described below.

The Group has considerable financial resources, with restricted reserves of £4,248.5m as at 31 March 2023 (30 September 2022: £3,804.3m), together with a long-term contract with Motability to operate the 'Motability Scheme'.

Throughout the half-year period ended 31 March 2023 new-vehicle supply shortages have continued which the Group has mitigated by providing automatic lease extensions to customers. The new-vehicle supply-side challenges faced globally has increased the demand on used cars, underpinning the continued strength in used-car values, in line with management expectations. In a period of challenging economic conditions, with inflationary pressure on new vehicles and fleet operating costs, the Group has remained profitable and issued two bonds under our Social Bond Framework in January this year (a £350m 20-year bond and a €500m 8.5-year bond).

The Directors have prepared budgets and cash flow forecasts for the period to 30 September 2024, at least 12 months from the date of approval of this Half Year Report, by means of a baseline forecast. The baseline forecast from 31 March 2023 is based on the most recent economic conditions and forecasts.

Notes to the financial statements continued

2. Significant accounting policies continued

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

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

- continue to fund the business and meet its liabilities utilising current banking facilities, detailed in note 14;
- meet the objectives of its capital and reserves management policy, detailed in note 36 of the latest Annual Report; and
- comply with the debt financing covenant, detailed in note 36 of the latest Annual Report.

The forecast headroom in the event of these severe, yet plausible, scenarios coming to fruition indicates that no mitigating action is required.

Consequently, the Directors are confident that the Group and Company will have sufficient funds to continue to meet its liabilities as they fall due for at least 12 months from the date of approval of the financial statements and therefore have prepared this Half Year Report on a going concern basis.

Taxation

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

Seasonality

Each year there is a minor dip in the volumes of new contracts in February and August as these are the months prior to the bi-annual changes of registration plates in March and September. This does not distort the half yearly reporting cycle as each occurrence is one month prior to the balance sheet reporting date. Major charitable donations are normally authorised in the second half of each reporting year as results for the full year become more certain.

Adoption of new or revised standards

The following amendments to standards have been adopted in these financial statements. Their adoption has not had any material impact on the amounts reported, nor has it altered accounting policies.

IAS 16 (Amendments)	Property, Plant and Equipment: Proceeds before Intended Use
IAS 37 (Amendments)	Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020	
IFRS 3 (Amendments)	Reference to Conceptual Framework

Future accounting developments

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

IFRS 17	Insurance Contracts
IAS 8 (Amendments)	Accounting Policies, Changes in Accounting Estimates and Errors: Definition
IAS 1 (Amendments)	Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current
IAS 1 and IFRS Practice Statement 2 (Amendments)	Making materiality judgements
IAS 12 (Amendments)	Deferred Tax related to Assets and Liabilities Arising from a Single Transaction

Notes to the financial statements continued

2. Significant accounting policies continued

IFRS 17 Insurance Contracts

IFRS 17 was issued on 18 May 2017 and following a couple of amendments currently has an implementation date of accounting periods commencing on or after 1 January 2023, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2024 (with comparative figures for the previous accounting period also affected). The Group is assessing the impact of the changes for the reporting of the fleet reinsurance segment and has no plans to apply the requirements of the standard earlier than the required date.

Aside from IFRS 17 (which is still being assessed), the Directors anticipate that the adoption of these standards, amendments and interpretations in future periods is not likely to have a material effect on the financial statements of the Group, and do not plan to apply any of the new or amended IFRSs in advance of their required dates.

Other standards, amendments and interpretations not described above are not significant in scope regarding the Group.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Judgements are made when applying significant accounting policies and disclosed below where these judgements materially affect the reported numbers. Judgements and estimates also apply when preparing for going concern analysis and disclosures (see note 2).

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 disclosed in note 9 and the impact of the change in estimates during the year is disclosed in note 6.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the operating lease assets may differ from their realisable value (see note 9).

As at 31 March 2023, if the value of the expected 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 £94.9m (30 September 2022: £87.2m; 31 March 2022: £83.2m).

Approximately 25% of this will crystallise at the end of the contracts (in particular in cases where the leases terminate early) but for the majority of the fleet a revaluation exercise is undertaken in order to prospectively adjust the depreciation expense over the remaining terms of the leases. This would be booked from the start of the current accounting year onwards. A 1% fall would increase this year's depreciation charge by approximately £20.1m (30 September 2022: £19.2m; 31 March 2022: £16.8m). A 1% rise would decrease this year's depreciation charge by approximately £17.4m (30 September 2022: £18.5m; 31 March 2022: £15.9m).

Notes to the financial statements continued

3. Critical accounting judgements and key sources of estimation uncertainty continued

Key estimates and judgements: insurance contracts

There are many factors that cause uncertainty when the Group is estimating its ultimate claims liability. Principally, the complex nature of the bodily injury claims (in particular) usually results in a lengthy legal process during which the estimated claims quantum can fluctuate, and judgements are made by actuaries in the selection of appropriate actuarial methods when estimating the claims liabilities. The methods and basis of selection are described in more detail in note 13.

Therefore, the key estimates and judgements relating to insurance contracts concern the valuation of claims liabilities.

Valuation of liabilities of insurance contracts

Claims incurred include all losses occurring during the year (reported or not), related handling costs, a reduction for the value of salvage and other recoveries and any adjustments to claims outstanding from previous years. The provision for claims outstanding is made on an individual basis plus an estimate of the cost of claims incurred but not reported ("IBNR") at the balance sheet date using statistical methods. The estimation of IBNR is generally subject to a greater degree of uncertainty than notified claims as some cases can take time to become notified and the total amount of the potential claim is not always apparent from initial information supplied to the insurer. In calculating the estimated cost of unpaid claims, the Group, in conjunction with independent actuaries, uses a variety of estimation techniques, generally based upon statistical analysis of both market data and its own historic experience.

The Group has assessed the continuing impact of repair claim inflation, along with industry-wide challenges affecting supply chains and resulting in repair delays. For these reasons the Group has determined that it is appropriate to continue to apply a higher risk margin than in a normal period.

The risk margin would normally be calibrated at the 80th percentile, but since 30 September 2020 it has been moved to a higher confidence interval (85th), giving an additional risk margin on the retained risk layer of £3.2m. The actuary has provided the Directors with a number of models and sensitivity tests to evaluate the adequacy of this risk margin. The conclusion of the analysis was that the risk margin at the 85th percentile would be adequate in a range of scenarios. This has given the Group assurance that a range of downside scenarios, including repair cost inflation and increasing delays in loss development impacts, is not expected to exceed the margin applied and therefore the reserves held in the financial statements of the Group are adequate and match the best estimates calculated by the independent actuaries. See note 13 for details of claims reserves balances.

Sensitivity analysis

A 1% change in the insurance loss ratio would impact pre-tax profits by £1.6m in the period (March 2022: £1.4m). The precise outcome of such changes would depend on the impacted layer and frequency of claims in each scenario. Note 13 describes in more detail the sources of uncertainty in the estimation of future claims payments.

Given the current high inflationary environment and uncertainty over future inflation, alternative adverse inflation scenarios have been considered which also provide an indication of the sensitivity of the Group's insurance claims reserves to this assumption. Assuming additional claims inflation of 2% would result in a £4.1m increase in liabilities in the net layer and a further £9.4m increase in the liabilities of the reinsurance layer.

Notes to the financial statements continued

4. Revenue

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

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Proceeds from disposal of operating lease assets(I)	1,473.6	1,219.3
Rentals receivable from operating lease assets	684.8	681.8
Rentals receivable from operating lease in-life services	113.9	110.9
Rentals receivable from operating lease insurance	293.2	276.8
Insurance reimbursements from disposal of operating lease assets	24.9	22.2
Finance income	15.3	2.1
Other income	0.8	0.8
Total revenue	2,606.5	2,313.9

(I) During the six months ended 31 March 2023, the Group made a gain of £372.0m on the disposal of operating lease assets (six months ended 31 March 2022: £403.9m). See note 16.

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

5. Segmental analysis

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

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

Notes to the financial statements continued

5. Segmental analysis continued

Segmental performance

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

Inter-segment revenues comprise insurance premiums from Scheme Operations to Fleet Reinsurance and insurance reimbursements from Fleet Reinsurance to Scheme Operations, and are eliminated on consolidation.

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the six months ended 31 March 2023 and 31 March 2022.

Six months ended 31 March 2023	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	684.8	–	–	684.8
Rentals receivable for operating lease in-life services	113.9	–	–	113.9
Rentals receivable for operating lease insurance	293.2	–	–	293.2
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,498.5	–	–	1,498.5
Inter-segment proceeds	33.9	–	(33.9)	–
Insurance income	–	161.4	(161.4)	–
Other revenue	12.5	3.6	–	16.1
Total revenue	2,636.8	165.0	(195.3)	2,606.5
Net book value of disposed operating lease assets	(1,140.1)	–	–	(1,140.1)
Fleet operating costs	(471.1)	–	161.4	(309.7)
Insurance claims and commission costs	–	(162.5)	33.9	(128.6)
Depreciation on assets used in operating leases	(177.8)	–	–	(177.8)
Other operating costs	(187.6)	(0.6)	–	(188.2)
Charitable donations	–	–	–	–
Net operating costs	(1,976.6)	(163.1)	195.3	(1,944.4)
Profit from operations	660.2	1.9	–	662.1
Finance costs	(90.5)	–	–	(90.5)
Profit before tax	569.7	1.9	–	571.6
Taxation	(127.0)	(0.4)	–	(127.4)
Profit for the period	442.7	1.5	–	444.2

Six months ended 31 March 2022	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	681.8	–	–	681.8
Rentals receivable for operating lease in-life services	110.9	–	–	110.9
Rentals receivable for operating lease insurance	276.8	–	–	276.8
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,241.5	–	–	1,241.5
Inter-segment proceeds	28.8	–	(28.8)	–
Insurance income	–	140.4	(140.4)	–
Other revenue	1.8	1.1	–	2.9
Total revenue	2,341.6	141.5	(169.2)	2,313.9
Net book value of disposed operating lease assets	(847.6)	–	–	(847.6)
Fleet operating costs	(406.2)	–	140.4	(265.8)
Insurance claims and commission costs	–	(138.3)	28.8	(109.5)
Depreciation on assets used in operating leases	(141.7)	–	–	(141.7)
Other operating costs	(144.1)	(0.6)	–	(144.7)
Charitable donations	–	–	–	–
Net operating costs	(1,539.6)	(138.9)	169.2	(1,509.3)
Profit from operations	802.0	2.6	–	804.6
Finance costs	(86.7)	–	–	(86.7)
Profit before tax	715.3	2.6	–	717.9
Taxation	(118.7)	(0.5)	–	(119.2)
Profit for the period	596.6	2.1	–	598.7

Notes to the financial statements continued

5. Segmental analysis continued

The following tables show certain asset and liability information as at 31 March 2023, 30 September 2022 and 31 March 2022 regarding business operating segments.

31 March 2023	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	136.6	–	–	136.6
Assets held for use in operating leases (including inventories)	10,635.2	–	–	10,635.2
Derivative financial instruments	87.6	–	–	87.6
Insurance receivables	–	91.5	–	91.5
Reinsurers' share of insurance provisions	–	409.5	60.4	469.9
Prepayments, trade and other receivables	504.1	–	–	504.1
Financial assets	868.0	392.7	(101.2)	1,159.5
Total assets	12,231.5	893.7	(40.8)	13,084.4
Deferred rental income and provisions for rebates	(588.6)	–	–	(588.6)
Insurance payables	–	(76.0)	–	(76.0)
Trade and other payables	(193.7)	(0.4)	–	(194.1)
Corporation tax payable	(22.1)	–	–	(22.1)
Financial liabilities	(6,791.4)	–	–	(6,791.4)
Deferred taxation	(465.0)	–	–	(465.0)
Provision for insurance claims outstanding	–	(613.3)	(60.4)	(673.7)
Derivative financial instruments	(39.7)	–	–	(39.7)
Total liabilities	(8,100.5)	(689.7)	(60.4)	(8,850.6)
Net assets	4,131.0	204.0	(101.2)	4,233.8
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(14.8)	–	–	(14.8)
Restricted reserves	4,145.7	102.8	–	4,248.5
Total equity	4,131.0	204.0	(101.2)	4,233.8

30 September 2022	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	166.1	–	–	166.1
Assets held for use in operating leases (including inventories)	9,688.5	–	–	9,688.5
Derivative financial instruments	134.2	–	–	134.2
Insurance receivables	–	57.0	–	57.0
Reinsurers' share of insurance provisions	–	431.1	57.8	488.9
Trade and other receivables including corporation tax	296.4	–	–	296.4
Financial assets	774.3	376.4	(101.2)	1,049.5
Total assets	11,059.5	864.5	(43.4)	11,880.6
Deferred rental income and provisions for rebates	(685.8)	–	–	(685.8)
Insurance payables	–	(52.5)	–	(52.5)
Trade and other payables	(183.6)	(0.3)	–	(183.9)
Financial liabilities	(5,985.6)	–	–	(5,985.6)
Deferred taxation	(448.8)	–	–	(448.8)
Provision for insurance claims outstanding	–	(609.6)	(57.8)	(667.4)
Derivative financial instruments	–	–	–	–
Total liabilities	(7,303.8)	(662.4)	(57.8)	(8,024.0)
Net assets	3,755.7	202.1	(101.2)	3,856.6
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	52.2	–	–	52.2
Restricted reserves	3,703.4	100.9	–	3,804.3
Total equity	3,755.7	202.1	(101.2)	3,856.6

Notes to the financial statements continued

5. Segmental analysis continued

31 March 2022	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	154.1	–	–	154.1
Assets held for use in operating leases (including inventories)	9,228.3	–	–	9,228.3
Derivative financial instruments	66.9	–	–	66.9
Insurance receivables	–	58.3	–	58.3
Reinsurers' share of insurance provisions	–	414.9	57.2	472.1
Trade and other receivables	254.9	–	–	254.9
Financial assets	1,182.6	359.6	(101.2)	1,441.0
Total assets	10,886.8	832.8	(44.0)	11,675.6
Deferred rental income and provisions for rebates	(649.9)	–	–	(649.9)
Insurance payables	–	(68.8)	–	(68.8)
Trade and other payables	(145.1)	(0.4)	–	(145.5)
Corporation tax payable	(24.0)	–	–	(24.0)
Financial liabilities	(6,323.1)	–	–	(6,323.1)
Deferred taxation	(289.0)	–	–	(289.0)
Provision for insurance claims outstanding	–	(565.3)	(57.2)	(622.5)
Derivative financial instruments	(61.6)	–	–	(61.6)
Total liabilities	(7,492.7)	(634.5)	(57.2)	(8,184.4)
Net assets	3,394.1	198.3	(101.2)	3,491.2
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	11.0	–	–	11.0
Restricted reserves	3,383.0	97.1	–	3,480.1
Total equity	3,394.1	198.3	(101.2)	3,491.2

6. Net operating costs

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

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Net book value of disposed operating lease assets	1,101.6	815.4
Net book value of operating lease assets derecognised as insurance write-offs	38.5	32.2
Fleet operating costs including insurance, maintenance and roadside assistance costs*	309.7	265.8
Insurance claims expense	128.6	109.5
Other product costs including continuous mobility costs, adaptations support and communications	67.6	46.3
Employee costs	44.3	34.0
Other operating costs	28.4	23.5
Legal and professional fees	24.7	25.2
Bad debt charges and movement in bad debt provisions	(0.9)	0.3
Management fees	0.4	0.4
Charitable donations	–	–
Net operating costs before depreciation	1,742.9	1,352.6
Depreciation on assets used in operating leases	177.8	141.7
Depreciation and amortisation on property, plant and equipment and intangible assets	23.7	15.0
Net operating costs	1,944.4	1,509.3

* These costs are presented net of insurance premium rebates.

The depreciation charge on assets used in operating leases includes a £328.8m release (six months ended 31 March 2022: £311.4m release) relating to changes in estimates during the period of future residual values (see note 9).

Notes to the financial statements continued

7. Finance costs

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Interest and charges on bank loans and overdrafts	11.9	5.0
Interest on debt issued under the Euro Medium Term Note Programme	78.1	81.0
Interest on right-of-use leased assets	0.1	0.3
Preference dividends	0.4	0.4
Total finance costs	90.5	86.7

8. Taxation

The major components of the consolidated tax charge are:

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Current tax		
Charge for the period	92.3	141.1
Total	92.3	141.1
Deferred tax		
Origination and reversal of temporary differences	(7.5)	(51.7)
Re-measurement of deferred tax due to change in rate of corporation tax	42.6	29.8
Total	35.1	(21.9)
Tax on profit	127.4	119.2

Income tax expenses have been recognised based on management's best estimate of the weighted average annual tax rate expected for the full financial year. Following the substantive enactment of legislation in Parliament on 24 May 2021 the standard rate of corporation tax in the UK changed from 19% to 25% with effect from 1 April 2023. Accordingly, profits are taxable at 22% for this year and 19% for the previous accounting year (2022: 19% for both years) but deferred tax has been re-measured at the rate at which timing differences are expected to reverse in the future.

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 14.5% (2022: 12.5%). This is different to the standard rate of tax, due primarily to non-taxable capital gains on disposals of motor vehicles for sales proceeds values exceeding the original cost of the vehicles purchased.

Tax paid

Under HMRC's quarterly instalment payments regime for corporation tax, two of the four instalments for this year are payable in the first half of the year. The Group has paid £47.0m of corporation tax relating to the current financial year (2022: £106.0m). The Group paid no tax relating to prior years during the six months to 31 March 2023 (2022: £nil).

Notes to the financial statements continued

9. Assets held for use in operating leases

Cost	Motor vehicle assets £m
At 1 October 2021	10,145.4
Additions	1,317.1
Transfer to inventory	(1,145.7)
At 31 March 2022	10,316.8
At 1 October 2022	10,646.1
Additions	2,264.6
Transfer to inventory	(1,500.5)
At 31 March 2023	**11,410.2**
Accumulated depreciation	
At 1 October 2021	1,354.7
Charge for the period	141.7
Eliminated on transfer to inventory	(280.2)
At 31 March 2022	1,216.2
At 1 October 2022	1,081.6
Charge for the period	177.8
Eliminated on transfer to inventory	(311.5)
At 31 March 2023	**947.9**
Carrying amount	
At 1 October 2021	8,790.7
Additions	1,317.1
Depreciation	(141.7)
Transfer to inventory (note 10)	(865.5)
At 31 March 2022	9,100.6
At 1 October 2022	9,564.5
Additions	2,264.6
Depreciation	(177.8)
Transfer to inventory (note 10)	(1,189.0)
At 31 March 2023	**10,462.3**

Residual values

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

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

Notes to the financial statements continued

9. Assets held for use in operating leases continued

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

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	3,566.5	3,342.2	3,247.8
Later than one year and no later than two years	2,915.7	3,040.0	2,777.4
Later than two years and no later than three years	2,896.1	2,227.4	2,188.3
Later than three years and no later than four years	59.4	62.3	52.6
Later than four years and no later than five years	49.7	48.5	50.9
Total exposure	9,487.4	8,720.4	8,317.0

The total unguaranteed residual value exposure presented above consists of the original priced residual values net of revisions in estimation (see the 'key sources of estimation uncertainty' in note 3). The amounts resulting from changes in estimates on the live fleet at the balance sheet date are detailed below, together with the timing of the effects on the income statement.

Timing of revisions to original priced residual values included in the unguaranteed residual values above

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Total adjustments to depreciation carried at 31 March/30 September*	1,170.3	994.5	748.8
Amounts to be released in future years	725.0	634.0	582.1
Total increase in estimated residual value	1,895.3	1,628.5	1,330.9

* The total adjustment to depreciation carried at 31 March 2023 of £1,170.3m (30 September 2022: £994.5m) is reflected within the accumulated depreciation balance of £947.9m (30 September 2022: £1,081.6m) on assets held for use in operating leases.

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

In terms of the leased fleet, this is done by an evaluation by tranches of leases based on their month of inception. Where the net book value at the balance sheet date is too high an impairment charge is booked to bring the carrying amount into line with the value in use. No impairment charges were required to be carried at 31 March 2023, 30 September 2022 or 31 March 2022.

Notes to the financial statements continued

9. Assets held for use in operating leases continued

The Group as lessor

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

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	1,266.9	980.4	1,001.2
Later than one year and no later than two years	637.1	523.8	535.2
Later than two years and no later than three years	200.9	186.6	164.7
Later than three years and no later than four years	10.3	11.5	12.1
Later than four years and no later than five years	2.5	2.7	3.7
Total	2,117.7	1,705.0	1,716.9

10. Inventories

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Ex-operating lease assets held for sale	172.9	124.0	127.7

Inventories represent operating lease assets previously held for rental to customers which have ceased to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £nil has been provided against irrecoverable vehicles (30 September 2022: £nil; 31 March 2022: £nil). During the period there was no change to the provision and no write-off (period to 31 March 2022: no change to the provision and no write-off).

The total value of inventories recognised as expense and included in net operating costs amounted to £1,140.1m (31 March 2022: £847.6m).

The movements of inventories in the six-month periods ended 31 March 2023 and 2022 are as follows:

	£m
At 1 October 2021	109.8
Transfer from operating lease assets (note 9)	865.5
Disposals (including insurance write-offs)	(847.6)
At 31 March 2022	127.7
At 1 October 2022	124.0
Transfer from operating lease assets (note 9)	1,189.0
Disposals (including insurance write-offs)	(1,140.1)
At 31 March 2023	172.9

Notes to the financial statements continued

11. Deferred rental income

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Current			
Customers' advance payments*	204.1	178.4	167.2
Vehicle in-life service income	28.7	18.6	13.6
Vehicle insurance income	3.7	6.1	4.3
Total current	236.5	203.1	185.1
Non-current			
Customers' advance payments*	220.1	178.7	171.6
Vehicle in-life service income	46.5	58.0	65.3
Vehicle insurance income	28.6	22.4	16.1
Total non-current	295.2	259.1	253.0
Total	531.7	462.2	438.1

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

Deferred income balances

Significant changes in the deferred income balances under IFRS 15 during the period are as follows:

	In-life services income £m	Insurance income £m	Total £m
At 1 October 2021	81.5	16.6	98.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(22.7)	(2.9)	(25.6)
Increases due to cash received, excluding amounts recognised as revenue during the period	20.1	6.7	26.8
At 31 March 2022	78.9	20.4	99.3
At 1 October 2022	76.6	28.5	105.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(21.3)	(4.8)	(26.1)
Increases due to cash received, excluding amounts recognised as revenue during the period	19.9	8.6	28.5
At 31 March 2023	75.2	32.3	107.5

Transaction price allocated to the remaining performance obligations

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

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	160.5	152.4	155.1
Later than one year and no later than two years	101.5	90.4	98.2
Later than two years and no later than three years	44.9	34.8	32.9
Later than three years and no later than four years	5.1	5.2	5.8
Later than four years and no later than five years	1.7	1.6	1.8
Total	313.7	284.4	293.8

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

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	425.0	389.0	383.0
Later than one year and no later than two years	270.6	232.3	245.5
Later than two years and no later than three years	114.0	83.4	75.0
Later than three years and no later than four years	5.5	5.6	6.3
Later than four years and no later than five years	1.8	1.7	1.9
Total	816.9	712.0	711.7

Notes to the financial statements continued

12. Provision for customer rebates

	Rental refund liability £m	Good condition payments £m	Return to dealer payments £m	WAV support £m	Total £m
At 1 October 2021	38.6	187.0	2.0	5.8	233.4
Provisions accrued during the period	–	51.4	1.4	1.3	54.1
Utilised during the period	(38.6)	(34.6)	(1.3)	(1.2)	(75.7)
At 31 March 2022	–	203.8	2.1	5.9	211.8
At 1 October 2022	–	215.8	1.9	5.9	223.6
Provisions accrued/(released) during the period	–	92.9	(0.5)	1.3	93.7
Utilised during the period	–	(258.4)	(0.7)	(1.3)	(260.4)
At 31 March 2023	–	50.3	0.7	5.9	56.9

Analysis of provisions

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Included in non-current liabilities	22.2	87.0	79.1
Included in current liabilities	34.7	136.6	132.7
Total	56.9	223.6	211.8

Customer rental rebates occur under three conditions at the end of the contract:

- Good condition payments can be earned for keeping the vehicle in good condition during the lease
- Return to dealer payments are payable in some situations when a lease terminates early and the vehicle is returned to the dealership
- WAV (Wheelchair Accessible Vehicle) support rebates may be payable at the end of a full five-year lease term

These balances are always subject to some degree of uncertainty as the Board keeps the amounts of the payments under review. Page 25 of the 2022 Annual Report explains the reduction in the provision in the current period due to the acceleration of these payments.

13. Provision for insurance claims outstanding and insurance risk management

Insurance risk management

The risk under any one insurance contract is the possibility that the insured event occurs and the uncertainty of the amount of the resulting claim. By the very nature of an insurance contract, this risk is defined although occurrence is random and therefore unpredictable. The principal risks of insurance relate to underwriting and insurance provision (reserving) risk. Underwriting risks arise out of day-to-day activities in underwriting contracts of insurance, as well as risks associated with outward reinsurance. Insurance provision (reserving) risk is the possibility that actual claims payments differ from the carrying amount of the insurance reserves. This could occur because the frequency or severity of claims is greater or less than estimated.

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

- regular Board and insurance steering committee meetings, at which the claims information is analysed together with any material changes to the risk;
- the Board recognising that it is responsible for the assessment of the total cost of risk and setting of premiums which are commensurate with the exposure, revisable on a six-monthly basis based upon actuarially forecast information;
- the purchase of reinsurance to protect against losses exceeding individual or cumulative risk tolerances;
- insurance managers' receipt of claims data on a monthly basis, the content of which is reviewed and any unexpected movements queried;
- significant individual losses being notified separately and the development of claims monitored;
- appointment of independent third-party claims handlers, selected on the basis of their ability to manage significant claims volumes whilst negotiating efficient and equitable claims settlements; and
- a system of review is in place whereby all claims in excess of £250,000 are reported separately to the Group.

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

Notes to the financial statements continued

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

Motor insurance risks

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

Sources of uncertainty in the estimation of future claim payments

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

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

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £40,000 (2022: £40,000) each and every claim. Excess of loss reinsurance protects the Group and ceding insurer against individual losses exceeding £5,000,000 (2022: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 123.00% (2022: 123.11%) of the Group's net earned premium income or £397,617,000 (2022: £392,627,000) in the aggregate, whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 131.60% (2022: 131.35%) of net premium earned or £27,799,000 (2022: £26,290,000) 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.

Provision for insurance claims outstanding

These provisions are comprised of specific claims reserves including adjustments for insurance claims incurred but not reported.

Notes to the financial statements continued

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

Claims reserves including IBNR

Claims reserves are stated gross of losses recoverable from reinsurers. Claims reserves 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	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Notified claims reserves	526.3	510.9	502.2
IBNR reserve	147.4	156.5	120.3
IBNR recoveries	(66.8)	(90.0)	(71.7)
Third-party recoveries reserve	(60.4)	(57.8)	(57.2)
Reinsurance recoveries reserve	(342.7)	(341.1)	(343.2)
Total net retained	203.8	178.5	150.4
Included in liabilities	673.7	667.4	622.5
Included in assets	(469.9)	(488.9)	(472.1)
Total net retained	203.8	178.5	150.4

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

Chain Ladder method

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

Expected Burning Cost method

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

Bornhuetter-Ferguson method

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

Average Cost per Claim method

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

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

Line items in the Group accounts

The following claims development tables flow through to note 5 (Segmental analysis) and note 6 (Net operating costs) as follows:

Insurance claims and commission costs	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Current year claims including IBNR	159.9	261.8	126.4
Prior year claims	(10.3)	(4.1)	(3.1)
Reinsurance commissions, MIB levies and administration fees	(21.0)	(27.9)	(13.8)
Insurance claims and commission costs	128.6	229.8	109.5

During the period reinsurance commissions of £27.1m were booked (2022: £19.4m) comprising a guaranteed element of £5.7m (2022: £2.5m) and a variable element of £21.4m (2022: £16.9m).

Notes to the financial statements continued

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

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting year ended 30 September 2021 £m	Underwriting year ended 30 September 2022 £m	Underwriting period ended 31 March 2023 £m	Total £m
At end of reporting period	348.5	401.3	354.8	373.8	448.0	244.3	
One year later	384.6	399.0	364.2	376.0	462.0		
Two years later	391.5	396.0	353.6	364.6			
Three years later	382.2	394.7	348.8				
Four years later	370.7	383.3					
Five years later	358.9						
Current estimate of cumulative claims	358.9	383.3	348.8	364.6	462.0	244.3	2,161.9
Cumulative payments to date	(355.4)	(349.9)	(296.4)	(289.3)	(324.6)	(64.0)	(1,679.6)
Rebates	26.4	25.9	26.4	26.7	28.0	13.2	146.6
Claims reserves in balance sheet	29.9	59.3	78.8	102.0	165.4	193.5	628.9
Claims reserves in respect of prior periods							44.8
Total liability included in the balance sheet							673.7

The above table is gross of the effects of reinsurance but net of subrogated claims recoveries. Rebates are amounts received relating to volume, referral and wholesale discounts from trade partners, which have reduced the cost of claims to the Group.

Current underwriting year

Adverse performance on repair claims in the current half year has been caused by cost inflation and continuing operational challenges in the repair network which has caused delays in claims settlements and increased the cost of claims. Combined with seasonal factors in the winter period and a more pessimistic view of non-fault recoveries, this has led to higher projected ultimate losses.

Prior underwriting years

There have been further improvements in prior year large losses and small bodily injury claims, which have been partially offset by a change in assumptions as the length of time taken to settle claims has increased. The additional inflation overlay has been removed as inflation is now implicitly included as part of projected ultimate losses.

Notes to the financial statements continued

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

Estimate of ultimate claims cost net of reinsurance	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting year ended 30 September 2021 £m	Underwriting year ended 30 September 2022 £m	Underwriting period ended 31 March 2023 £m	Total £m
At end of reporting period	227.8	247.1	209.7	220.6	289.8	173.0	
One year later	236.0	235.0	209.0	220.2	284.0		
Two years later	232.8	239.8	206.6	215.9			
Three years later	234.6	239.7	206.9				
Four years later	234.3	239.3					
Five years later	234.1						
Current estimate of cumulative claims	234.1	239.3	206.9	215.9	284.0	173.0	1,353.2
Cumulative payments to date	(258.7)	(260.3)	(222.9)	(225.6)	(262.7)	(64.5)	(1,294.7)
Rebates	26.4	25.9	26.4	26.8	28.0	13.2	146.7
Claims reserves included in balance sheet net of recoveries	1.8	4.9	10.4	17.1	49.3	121.7	205.2
Claims reserves in respect of prior periods							(1.4)
Total net liability included in the balance sheet							203.8
Comprises:							
Specific claims reserves including IBNR							673.7
Third-party recoveries reserve							(60.4)
Reinsurance recoveries reserve							(409.5)
Total							203.8

The ultimate claims costs development during the six months ended 31 March 2023 for prior underwriting years has seen minor changes with some expected savings in small bodily injury claims as a result of the Whiplash Reform Programme but offset to some extent by higher than expected inflation on accidental damage claims.

Movements in insurance liabilities

	Period ended 31 March 2023			Year ended 30 September 2022		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	667.4	(431.1)	236.3	584.0	(405.6)	178.4
Notified claims recoveries	(57.8)	–	(57.8)	(48.8)	–	(48.8)
Total at beginning of period	609.6	(431.1)	178.5	535.2	(405.6)	129.6
Cash paid for claims settled						
In the period	(155.4)	31.1	(124.3)	(244.4)	35.6	(208.8)
Movement in liabilities						
Current period claims including IBNR	208.8	(48.9)	159.9	357.1	(95.3)	261.8
Prior period claims	(49.7)	39.4	(10.3)	(38.3)	34.2	(4.1)
Total at end of period	613.3	(409.5)	203.8	609.6	(431.1)	178.5
Notified claims including IBNR	673.7	(409.5)	264.2	667.4	(431.1)	236.3
Notified claims recoveries	(60.4)	–	(60.4)	(57.8)	–	(57.8)
Total at end of period	613.3	(409.5)	203.8	609.6	(431.1)	178.5

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

Notes to the financial statements continued

14. Financial liabilities

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Current			
Accrued interest and coupon	36.4	28.5	32.7
Cash in the course of transmission	95.8	60.3	70.7
Right-of-use asset lease liabilities	4.3	4.0	4.5
Bank loans	–	399.8	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	483.1	482.2	399.9
Total current	619.6	974.8	507.8
Non-current			
Bank loans	398.9	–	399.5
Right-of-use lease liabilities	13.3	38.6	39.9
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	5,744.4	4,954.9	5,359.0
Provision for restoration works	5.2	7.3	6.9
Preference shares	10.0	10.0	10.0
Total non-current	6,171.8	5,010.8	5,815.3
Total	6,791.4	5,985.6	6,323.1
The financial liabilities are repayable as follows:			
On demand and no later than one year	619.6	974.8	507.8
Later than one year and no later than two years	441.4	4.0	866.0
Later than two years and no later than five years	1,527.4	1,572.4	1,533.8
Later than five years	4,203.0	3,434.4	3,415.5
Total	6,791.4	5,985.6	6,323.1

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

Bank borrowings

All bank borrowings as at 31 March 2023, 30 September 2022 and 31 March 2022 are at floating rates.

As at 31 March 2023 the Group has the following principal bank loans:

a) A five-year term loan of £0.4bn taken out on 31 October 2022; and

b) A five-year revolving credit facility of £1.5bn taken out on 31 October 2022, of which £nil was drawn on 31 March 2023 (30 September 2022: £nil). The facility repayment date is 31 October 2027.

All bank borrowings carry interest rates (compounded SONIA), plus bank margins at a market rate.

Notes to the financial statements continued

14. 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:

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
5.375% Sterling bond due 2022	–	–	399.9
1.625% Eurobond due 2023 (I)	483.1	482.2	462.5
0.875% Eurobond due 2025 (II)	439.2	438.6	421.0
0.375% Eurobond due 2026 (III)	526.8	526.1	505.0
3.750% Sterling bond due 2026	299.0	298.9	298.8
4.375% Sterling bond due 2027	298.5	298.3	298.1
0.125% Eurobond due 2028 (IV)	438.8	438.2	420.6
1.750% Sterling bond due 2029	395.8	395.5	395.2
5.625% Sterling bond due 2030	299.1	299.0	299.0
3.500% Eurobond due 2031 (V)	438.5	–	–
2.375% Sterling bond due 2032	346.3	346.1	345.9
3.625% Sterling bond due 2036	592.2	591.9	591.6
2.375% Sterling bond due 2039	490.3	490.0	489.7
1.500% Sterling bond due 2041	344.2	344.1	343.8
2.125% Sterling bond due 2042	488.5	488.2	487.8
4.875% Sterling bond due 2043	347.2	–	–
	6,227.5	5,437.1	5,758.9

(I) The repayment obligation in respect of the Eurobonds of €550m (£483.3m) is hedged by cross-currency swap contracts (note 15) 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.
(II) The repayment obligation in respect of the Eurobonds of €500m (£439.2m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(III) The repayment obligation in respect of the Eurobonds of €600m (£527.1m) is hedged by cross-currency swap contracts (note 15) for the purchase of €600m and for the sale of £538.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(IV) The repayment obligation in respect of the Eurobonds of €500m (£439.3m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £445.0m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(V) The repayment obligation in respect of the Eurobonds of €500m (£439.3m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £441.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

The Company has a £6.5bn Euro Medium Term Note Programme with denominations of €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 £6.5bn 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 period ended 31 March 2023 and the previous two financial years the Group has issued the following bonds:

- a £350m Sterling bond with a rate of 4.875% issued on 17 January 2023 and expiring on 17 January 2043
- a €500m Eurobond with a rate of 3.5005% issued on 17 January 2023 and expiring on 17 July 2031
- a £500m Sterling bond with a rate of 2.125% issued on 18 January 2022 and expiring on 18 January 2042
- a €500m Eurobond with a rate of 0.125% issued on 20 January 2021 and expiring on 20 July 2028
- a £350m Sterling bond with a rate of 1.500% issued on 20 January 2021 and expiring on 20 January 2041

Other comprehensive income and the hedging reserve

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

Under the cash flow hedge accounting rules outlined in IFRS 9, to the extent the hedge remains effective, any resulting net valuation difference is shown (after tax) as a hedging reserve on the balance sheet, and any movements in the hedging reserve are recognised as other comprehensive income rather than through the income statement.

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2023, the Eurobond debt liability was increased by £66.9m (30 September 2022: was increased by £67.2m). This movement of £0.3m is a result of Sterling rate changes against the Euro for the bonds in issue at both 31 March 2023 and 30 September 2022. The associated assets and liabilities relating to derivatives at 31 March 2023 were a net asset of £47.9m (30 September 2022: net asset of £134.2m). This movement of £86.3m is a result of changes to the fair value during the period and derivatives set up to cover the new Eurobond. The net valuation difference at 31 March 2023 is therefore a liability of £19.0m which, after tax at 22%, leads to a hedging reserve balance of £14.8m.

Notes to the financial statements continued

14. 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 annually, 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 31 March 2023, 30 September 2022 and 31 March 2022 were as follows:

	31 March 2023 %	30 September 2022 %	31 March 2022 %
Current debt issued under the Euro Medium Term Note Programme	3.0	–	–
Non-current bank loans and overdrafts	4.7	1.7	1.3
Non-current debt issued under the Euro Medium Term Note Programme	2.8	2.6	2.8
Non-current preference shares	7.0	7.0	7.0

At 31 March 2023, 30 September 2022 and 31 March 2022, the Group had the following undrawn committed borrowing facilities:

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Working capital facility	100.0	100.0	100.0
Revolving credit facility	1,500.0	1,500.0	1,500.0
Total	1,600.0	1,600.0	1,600.0

Undrawn committed facilities expire as follows:

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	100.0	1,600.0	10.0
Later than one year and no later than two years	–	–	1,590.0
Later than two years and no later than five years	1,500.0	–	–
Total	1,600.0	1,600.0	1,600.0

Right-of-use asset lease liabilities maturity analysis – contractual undiscounted cash flows

	31 March 2023 £m	31 March 2022 £m
No later than one year	4.5	4.5
Later than one year and no later than five years	7.0	16.9
Later than five years and no later than ten years	4.5	15.1
Later than ten years	2.7	11.9
Total undiscounted cash flows	18.7	48.4
Current	4.5	4.5
Non-current	14.2	43.9

The total cash outflow for leases during the period was £20.3m including £18.0m to exit the lease on City Gate House.

Amounts recognised in the income statement

	Period to 31 March 2023 £m	Period to 31 March 2022 £m
Depreciation on the right-of-use assets	9.1	2.6
Interest expense	0.1	0.3
Total	9.2	2.9

Notes to the financial statements continued

15. Derivative financial instruments

	31 March 2023		30 September 2022		31 March 2022	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges						
Cross-currency swaps	46.2	2,261.3	130.6	1,819.4	2.9	1,819.4
Interest rate swaps	1.7	400.0	3.6	400.0	2.4	400.0
Total	47.9	2,661.3	134.2	2,219.4	5.3	2,219.4
Included in non-current liabilities	(39.7)	1,425.1	–	–	(61.6)	1,417.0
Included in current liabilities	–	–	–	–	–	–
Derivative financial instrument liabilities	(39.7)	1,425.1	–	–	(61.6)	1,417.0
Included in non-current assets	6.4	633.8	46.6	1,417.0	64.5	–
Included in current assets	81.2	602.4	87.6	802.4	2.4	802.4
Derivative financial instrument assets	87.6	1,236.2	134.2	2,219.4	66.9	802.4

Cross-currency swaps

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

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

On 3 July 2019, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €600m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt and the EUR coupon rate of 0.375% is fully swapped into the GBP rate of 1.770%.

On 20 January 2021, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt and the EUR coupon rate of 0.125% is fully swapped into the GBP rate of 1.083%.

On 17 January 2023, the Group issued fixed-rate Eurobonds under its Euro Medium Term Note Programme at a nominal value of €500m. The Company entered into cross-currency swap arrangements to hedge its currency rate risk on this Eurobond debt and the EUR coupon rate of 3.500% is fully swapped into the GBP rate of 4.7373%.

Interest rate swaps

At 31 March 2023, the fixed interest rate varied from 3.901% to 4.19% (2022: the fixed interest rate was 0.7425%) and the main floating rates are SONIA. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31 March 2023 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.

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
No later than one year	(28.2)	(18.7)	(20.0)
Later than one year and no later than three years	(39.7)	(29.4)	(33.4)
Later than three years and no later than five years	(19.3)	(11.4)	(16.1)
Later than five years	(13.2)	(4.3)	(6.1)
Total	(100.4)	(63.8)	(75.6)

Further details of derivative financial instruments are provided in note 20.

Notes to the financial statements continued

16. Cash (used in)/generated from operations

Reconciliation of profit to net cash flow from operating activities:

	Six months ended 31 March 2023 £m	Six months ended 31 March 2022 £m
Profit before tax	571.6	717.9
Adjustments for:		
Depreciation and amortisation charge on corporate assets	23.7	15.0
Depreciation charge on operating lease assets	177.8	141.7
Impairment release for assets used in operating leases	–	–
Impairment charge for financial assets at amortised cost	–	–
Finance costs	90.5	86.7
Gains on disposal of operating lease assets	(372.0)	(403.9)
Losses on operating lease assets written off through insurance	13.6	9.9
Gains on disposal of corporate assets	–	–
Decrease in provision for restoration works	(2.0)	–
Decrease in bad debt provisions	(0.7)	(0.1)
Operating cash flows before movements in working capital	502.5	567.2
Purchase of assets held for use in operating leases	(2,264.6)	(1,317.1)
Proceeds from sale of assets held for use in operating leases	1,473.6	1,219.3
Proceeds from insurance reimbursements of operating lease assets written off	24.9	22.2
Charitable donations paid	–	–
Increase in insurance receivables	(34.5)	(12.0)
Increase in other receivables	(229.2)	(24.1)
Increase/(decrease) in deferred rental income	69.5	(5.6)
Decrease in provision for customer rebates	(166.7)	(21.6)
Increase in provision for net insurance claims	25.3	20.9
Increase/(decrease) in insurance payables	23.5	(2.7)
Increase/(decrease) in payables	10.2	(10.6)
Cash (used in)/generated from operations	(565.5)	435.9

Cash and cash equivalents

Cash and cash equivalents are presented in the consolidated statement of cash flows as the net of cash and bank balances. Cash and bank balances comprise cash held by the Group and short-term bank deposits with an original maturity of three months or less. The carrying amounts of these assets approximate to their fair value. Cash in the course of transmission is included within financial liabilities and represents committed transactions that have not cleared the bank at the reporting date and are not therefore shown in bank overdrafts.

Notes to the financial statements continued

17. Analysis of changes in net debt

	At 1 October 2022 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 31 March 2023 £m
Cash and bank balances	769.3	75.2	–	–	–	844.5
Bank overdrafts and cash in the course of transmission	(60.3)	(35.5)	–	–	–	(95.8)
Cash and cash equivalents	709.0	39.7	–	–	–	748.7
Borrowings due after one year	(399.8)	–	–	–	0.9	(398.9)
Debt issued under the Euro Medium Term Note Programme	(5,437.1)	(788.2)	0.3	–	(2.5)	(6,227.5)
Derivative financial instruments	134.2	–	–	(86.3)	–	47.9
Preference shares	(10.0)	–	–	–	–	(10.0)
Provision for restoration works	(7.3)	–	–	2.1	–	(5.2)
Right-of-use asset lease liabilities	(42.6)	20.3	–	4.8	(0.1)	(17.6)
Financing activities	(5,762.6)	(767.9)	0.3	(79.4)	(1.7)	(6,611.3)
Total net debt	(5,053.6)	(728.2)	0.3	(79.4)	(1.7)	(5,862.6)

	At 1 October 2021 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 31 March 2022 £m
Cash and bank balances	484.8	679.7	–	–	–	1,164.5
Bank overdrafts and cash in the course of transmission	(52.4)	(18.3)	–	–	–	(70.7)
Cash and cash equivalents	432.4	661.4	–	–	–	1,093.8
Borrowings due after one year	(399.5)	–	–	–	–	(399.5)
Debt issued under the Euro Medium Term Note Programme	(5,305.8)	(487.7)	37.2	–	(2.6)	(5,758.9)
Derivative financial instruments	27.5	–	–	(22.2)	–	5.3
Preference shares	(10.0)	–	–	–	–	(10.0)
Provision for restoration works	(6.9)	–	–	–	–	(6.9)
Right-of-use asset lease liabilities	(41.5)	0.5	–	(3.1)	(0.3)	(44.4)
Financing activities	(5,736.2)	(487.2)	37.2	(25.3)	(2.9)	(6,214.4)
Total net debt	(5,303.8)	174.2	37.2	(25.3)	(2.9)	(5,120.6)

	31 March 2023 £m	30 September 2022 £m	31 March 2022 £m
Cash and bank balances	844.5	769.3	1,164.5
Derivative financial instruments	47.9	134.2	5.3
Current financial liabilities	(619.6)	(974.8)	(507.8)
Non-current financial liabilities	(6,171.8)	(5,010.8)	(5,815.3)
Total	(5,899.0)	(5,082.1)	(5,153.3)
Less interest accruals included in financial liabilities	36.4	28.5	32.7
Total net debt	(5,862.6)	(5,053.6)	(5,120.6)

Notes to the financial statements continued

18. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2023 amounted to £4,539,290 (six months ended 31 March 2022: £4,145,553). Net contributions due at the balance sheet date were £936,900 (31 March 2022: £703).

19. 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 2022 Annual Report on pages 3 to 89.

Related parties comprise Directors (and their close families and service companies), the Motability Charity ("Motability") and the shareholder banks. Transactions entered into with related parties are in the normal course of business.

The relationship of the Company to the Motability Charity is set out on pages 27 to 28 of the 2022 Annual Report.

Transactions

During the six months ended 31 March 2023, the Group paid £nil in donations to Motability (six months ended 31 March 2022: £nil).

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans); £0.2m of bank charges were also paid in the period (six months ended 31 March 2022: £0.2m). Additionally, total fees of £0.8m (six months ended 31 March 2022: £0.8m) were paid to the shareholder banks in proportion to their shareholdings for management services.

During the period, the Group made preference share dividend payments of £0.7m to the shareholder banks (six months ended 31 March 2022: £0.7m).

At 31 March 2023, £161.7m of cash and cash equivalents were held with shareholder banks (30 September 2022: £65.8m; 31 March 2022: £235.8m). During the six months ended 31 March 2023, the Group received interest payments on these cash deposits totalling £2.9m (six months ended 31 March 2022: £0.2m).

The Group's bond issuances under the Euro Medium Note Term Programme (see note 14) are arranged by the shareholder banks. During the six months ended 31 March 2023, the Group has paid fees of £3.0m (six months ended 31 March 2022: £2.3m) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 15) with the shareholder banks to mitigate its exposure to interest rate risk and foreign exchange risk as part of its financial risk management policy. During the six months ended 31 March 2023, the Group had a net receipt of £2.8m (six months ended 31 March 2022: net payment of £0.5m) in respect of interest rate swaps, and a net payment of £7.3m (six months ended 31 March 2022: made a net payment of £11.9m) in respect of cross-currency swaps.

Notes to the financial statements continued

20. Fair value of financial instruments

The fair value of financial instruments traded in active markets (debt issued under the Euro Medium Note Term Programme) is based on quoted market prices at the balance sheet date. The fair value of financial instruments that are not traded in active markets is determined by using valuation techniques. The following methods and assumptions were used to estimate the fair values of the financial instruments for disclosure purposes:

- the carrying value of cash and cash equivalents approximates to fair value due to its short-term nature;
- the carrying values less impairment provisions of trade and other receivables and payables are also 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.

Categories of financial instruments

	31 March 2023 carrying value £m	31 March 2023 fair value £m	30 September 2022 carrying value £m	30 September 2022 fair value £m	31 March 2022 carrying value £m	31 March 2022 fair value £m
Cash and bank balances (I)	844.5	844.5	769.3	769.3	1,164.5	1,164.5
Trade receivables (II)	129.0	129.0	69.3	69.3	77.2	77.2
Financial assets at amortised cost (III)	315.3	303.1	280.6	261.6	276.9	275.6
Trade and other payables (II)	(191.6)	(191.6)	(181.8)	(181.8)	(143.7)	(143.7)
Bank overdrafts (IV)	–	–	–	–	–	–
Cash in the course of transmission and accrued interest and coupon (II)	(132.2)	(132.2)	(88.8)	(88.8)	(103.4)	(103.4)
Bank loans – current (IV)	–	–	(399.8)	(399.8)	–	–
Bank loans – non-current (IV)	(398.9)	(398.9)	–	–	(399.6)	(399.6)
Debt issued under the Euro Medium Term Note Programme* (III)	(6,227.5)	(5,514.6)	(5,437.1)	(4,475.4)	(5,758.9)	(5,775.4)
Redeemable preference share liabilities (III)	(10.0)	(12.3)	(10.0)	(10.8)	(10.0)	(13.4)
Provision for restoration works (II)	(5.2)	(5.2)	(7.3)	(7.3)	(6.9)	(6.9)
Net non-derivative financial instruments	(5,676.6)	(4,978.2)	(5,005.6)	(4,063.7)	(4,903.9)	(4,925.1)
Interest rate swap – cash flow hedge	1.7	1.7	3.6	3.6	2.4	2.4
Cross-currency swap – cash flow hedge	46.2	46.2	130.6	130.6	2.9	2.9
Total financial instruments requiring fair value disclosure	(5,628.7)	(4,930.3)	(4,871.4)	(3,929.5)	(4,898.6)	(4,919.8)
Right-of-use asset lease liabilities (V)	(17.6)	n/a	(42.6)	n/a	(44.4)	n/a
Total	(5,646.3)	(4,930.3)	(4,914.0)	(3,929.5)	(4,943.0)	(4,919.8)

* Amounts are shown net of unamortised discounts, fees and transaction costs.

(I) Interest bearing portion of the cash and cash equivalents consists of overnight deposits and money market funds.
(II) Non-interest bearing.
(III) Bearing interest at fixed rate.
(IV) Bearing interest at floating rate.
(V) Exempt from fair value disclosure under IFRS 7 paragraph 29(d).

Fair value measurements

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).

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the period no transfers were made (30 September 2022: no transfers).

Cash and bank balances, trade and other receivables, trade and other payables, cash in the course of transmission and accrued interest and coupon, and bank loans are not included in the table below as their carrying amount is a reasonable approximation of fair value.

Notes to the financial statements continued

20. Fair value of financial instruments continued

	31 March 2023 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	303.1	–	–	303.1
	303.1	–	–	303.1
Non-derivative financial liabilities				
Financial liabilities	(5,514.6)	(12.3)	–	(5,526.9)
	(5,514.6)	(12.3)	–	(5,526.9)
Derivative financial instruments				
Interest rate swaps	–	1.7	–	1.7
Cross-currency swaps	–	46.2	–	46.2
	–	47.9	–	47.9
Total	(5,211.5)	35.6	–	(5,175.9)

	30 September 2022 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	261.6	–	–	261.6
	261.6	–	–	261.6
Non-derivative financial liabilities				
Financial liabilities	(4,475.4)	(10.8)	–	(4,486.2)
	(4,475.4)	(10.8)	–	(4,486.2)
Derivative financial instruments				
Interest rate swaps	–	3.6	–	3.6
Cross-currency swaps	–	130.6	–	130.6
	–	134.2	–	134.2
Total	(4,213.8)	123.4	–	(4,090.4)

	31 March 2022 Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	275.6	–	–	275.6
	275.6	–	–	275.6
Non-derivative financial liabilities				
Financial liabilities	(5,775.3)	(13.4)	–	(5,788.7)
	(5,775.3)	(13.4)	–	(5,788.7)
Derivative financial instruments				
Interest rate swaps	–	2.4	–	2.4
Cross-currency swaps	–	2.9	–	2.9
	–	5.3	–	5.3
Total	(5,499.7)	(8.1)	–	(5,507.8)

Nature and characteristics of financial instruments in the fair value tables

The fair values of cash and bank balances, trade receivables and payables, bank loans and overdrafts, and cash in the course of transmission are considered to not be materially different from their book values. Market inputs to these values are considered, but because all of the assets mature within three months of the year end, the payables, overdrafts and cash in the course of transmission are also short term in nature, and the interest rates charged on the bank loans are reset to market rates on a monthly basis, minimal difference arises. The nature and characteristics of the fair valued items, i.e. issued debt, preference shares and swaps, are as described in note 2 and note 25 of the Annual Report. Financial assets held at amortised cost are investments held by MO Reinsurance Ltd. These have quoted prices and so are classified as Level 1.

Motability Operations group plc

City Gate House

22 Southwark Bridge
Road London SE1 9HB

Registered in England &
Wales Company Number
6541091