Motability Operations | Group plc

Annual Report and Accounts 2015

Through our unique insights and understanding of customers' needs, the Scheme offers universally available, affordable, 'worry-free' mobility and independence to those who qualify.

The Scheme provides value to our customers by offering a wide choice of vehicles, powered wheelchairs and scooters, at affordable prices.

Our people deliver first-class customer service, and understand how disability affects customers' needs.

All profit is retained in the Scheme for the benefit of customers.

We have a clearly defined strategy to meet the requirements of Scheme customers and our people, which will ensure the long-term sustainability of the Scheme.

Open the flap to see how we are delivering 'worry-free' mobility

Our customers are at the heart of everything we do

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

1.9m

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

Overall customer satisfaction independently measured at

98%

for five consecutive years

Key customer statistics

658k

customers currently choose us

>4m

vehicles supplied since the Motability Scheme was launched

92%

customer renewal rate

Delivering the Scheme

We work with

18,000

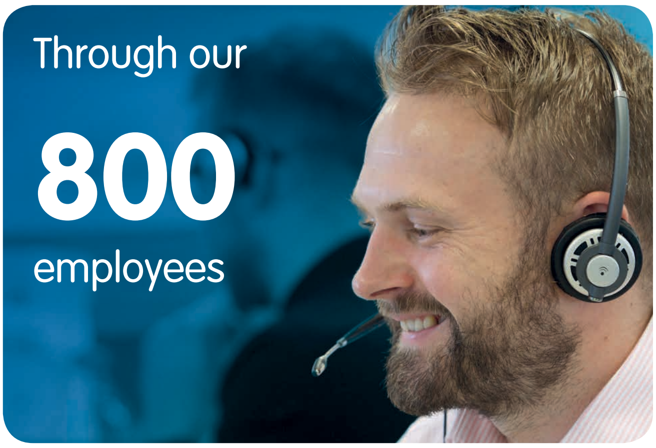
Motability Dealer Specialists across a national network of over 4,800 approved Motability dealers

With our

34

Vehicle manufacturers

Representing **96%** of the UK brand availability



Through our

800

employees

UK-wide

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

We buy over **220,000** new cars each year, and sell over **600** per day, seven days a week, into the used-car market as vehicles are returned to us at the end of lease

Contents

2015 Highlights

98%
overall customer satisfaction (independently measured)

92%
customer renewal rate at the end of lease

94%
employee engagement: 15pts higher than 'High-Performing Organisations' benchmark (independently measured)

>82%
of customer calls answered within 20 seconds (achieved >80% for the last eight years)

A+/A1
rating upgrade from Moody's in September 2015 from A2 to A1, bringing rating in line with Standard & Poor's A+ rating

77%
of vehicles sold online via mfldirect at the end of lease compared with 66% in 2010

What we do

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

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

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

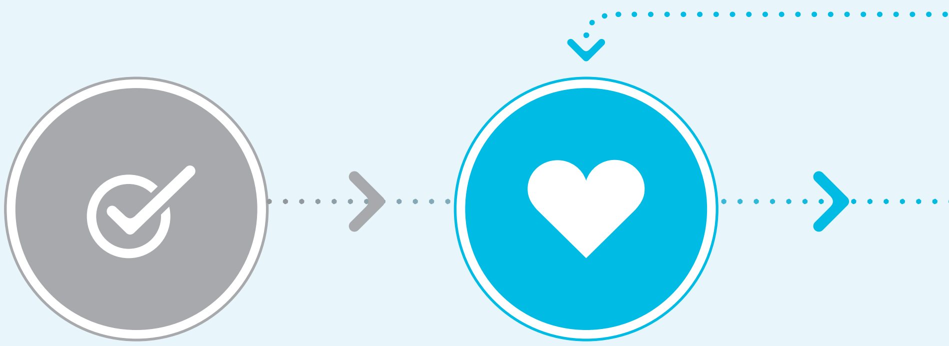
To access a vehicle, powered wheelchair or scooter on the Motability Scheme a disabled person must receive the qualifying mobility allowance (see below). Neither Motability Operations nor Motability plays any role in deciding who is eligible for this allowance. The 1.9 million people who are currently in receipt of this allowance can choose to lease one of these products from Motability Operations. At present, just over one third of allowance recipients choose to use their allowance to participate in the Scheme.

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

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

How we do it

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



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

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

Mobility allowance

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

Motability Operations

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

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

Nearly 658,000 customers currently choose to access the Scheme (consisting of 643,000 Car Scheme customers and nearly 14,900 Powered Wheelchair & Scooter Scheme customers). We aim to offer customers a comprehensive and affordable solution. Currently, 34 vehicle manufacturers (representing 96% UK brand availability) and 13 powered wheelchair and scooter manufacturers are represented on the Scheme.

We aim to provide sustained value and choice, combined with first-class customer service. To this end, we continually review and develop our business model to ensure that we optimise the value that we provide to customers. The key elements of this business model are set out on pages 4 and 5.

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

Motability

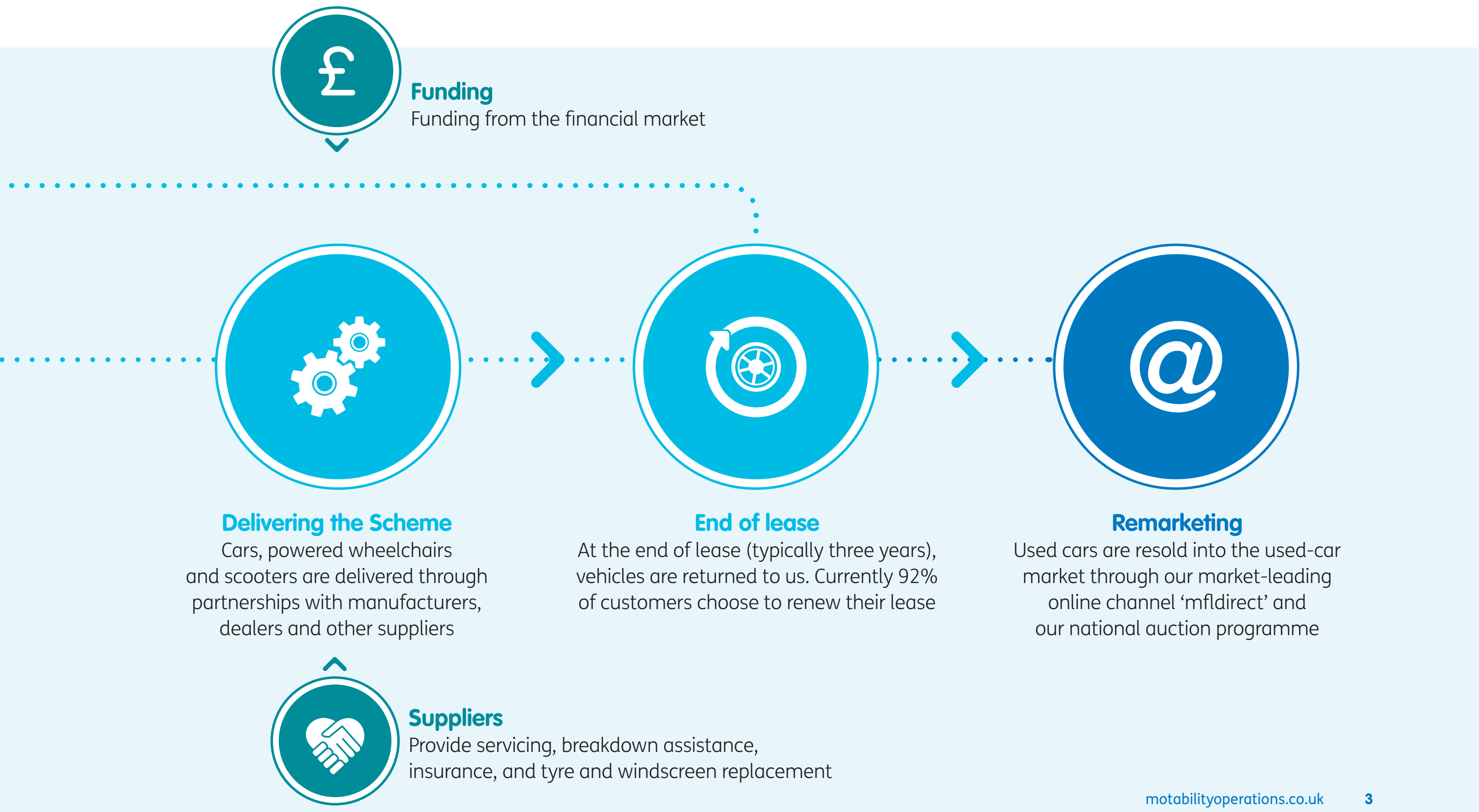
Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. Motability directs and oversees the Motability Scheme – with its prime purpose being to ensure that those disabled people who want to use their mobility allowance to obtain a vehicle, scooter or powered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

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

The Motability Scheme

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

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



Delivering value for our customers

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

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

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

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

Our revenues

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

We do not receive any grant or funding from Government.

Nearly half of our revenue is derived from the resale of the vehicles that are returned to Motability Operations at the end of lease each year – we sold over 220,000 vehicles in the year to September 2015, generating over £1.9 billion in revenue. The effective management and deployment of our vehicle remarketing activities, and the subsequent realisation of asset values, is critical in underpinning ongoing affordability and providing stable lease prices to customers.

Our financing

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

Our current financing comprises a blend of borrowing from the Sterling and European Debt Capital Markets (bonds), combined with facilities negotiated with the major UK banks to provide liquidity headroom. We currently have £3.335 billion of bonds in issue and a £2 billion bank facility. In order to access these markets on competitive terms it is necessary to maintain an investment-grade credit rating. Our A+/A1 credit rating from Standard & Poor's and Moody's respectively underpins our ability to fund the Scheme in a sustainable and cost-effective manner.

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

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

Our suppliers

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

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

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

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

£1.9bn
in revenue generated during 2015

A+/A1
credit rating

18,000
trained Motability Dealer Specialists

Our insurance

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

Our vehicle remarketing

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

Our people

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

Our insurance

We have recently reconfigured our insurance arrangements to ensure that they continue to provide value for money and are sustainable in the long term. Whilst customers continue to benefit from fully comprehensive insurance provided by RSA, since 1 October 2013 Motability Operations has retained a proportion of premium exposure through its A+ rated reinsurance captive MO Reinsurance Ltd (MORL).

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

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

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

Our vehicle remarketing

Unexpected volatility in the used-car market may impact our ability to realise the predicted value of our vehicles. This is our single largest risk. We are currently required to sell over 220,000 cars into the used-car market each year (over 600 per day, seven days a week), as these are returned to us at the end of lease.

The effective deployment of this activity, and therefore the realisation of the optimal value for these assets, is fundamental to protecting the affordability and sustainability of the Scheme. To achieve this we operate a market-leading online trade sales channel 'mfldirect', through which we sell to an actively managed buying base of over 3,200 dealers. During the year ended September 2015 we sold over 173,000 vehicles (over 77%) through this online channel. Vehicles that are not sold online are routed through our national auction programme, with over 550 branded events held across 19 auction centres last year.

Our people

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

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

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

Through our customer call centre we handle approximately 950,000 calls every year, with over 80% of calls being answered within 20 seconds.

Each year we participate in an independently measured employee culture survey which measures employee views across a range of topics such as engagement, customer focus and leadership. The 2015 survey results once again showed that Motability Operations continues to significantly outperform the UK 'High-Performing Organisations' benchmark across all categories.

443,200
vehicles now on cover under the revised insurance arrangements

>600
used cars sold every day, seven days a week

94%
employee engagement

Another successful year for Motability Operations

"I am very pleased to report that this has been another outstanding year for Motability Operations and the Scheme"

Neil Johnson OBE
Chairman

Overview

I am very pleased to report that this has been another outstanding year for Motability Operations and the Scheme. The business maintained the highest levels of customer satisfaction at 9.8 out of 10, while also delivering a solid financial performance. This not only underpins our sustainability but also enables continued investment in significant customer support initiatives, including a further charitable donation to Motability to assist in the provision of transitional support for customers leaving the Scheme as a result of Personal Independence Payment (PIP) assessments.

These excellent results were delivered against the backdrop of a year of economic and political uncertainty, and given this context, it was particularly pleasing to receive a credit rating upgrade from Moody's to A1, alongside the continuation of our A+ rating from Standard and Poor's.

Review of service delivery model & remuneration structure

In the 2014 Chairman's Statement I announced a periodic review of our business model, its fitness for purpose, and linkage to future remuneration policy and practice across the business. This review, which was overseen by myself, Chris Lendrum (as Senior Independent Director & Chair of Audit Committee), and Neill Thomas (Chair of Remuneration Committee), is now complete and I would particularly like to thank Neill and his external independent advisors for an outstanding piece of work. Taken together with last year's E&Y audit of the efficiency and value-for-money of the business, commissioned by the Charity, it is pleasing to note that our stakeholders, shareholders and customers continue to unanimously support the view that Motability Operations plc is a dynamic, efficient and overwhelmingly customer focussed business, well managed and constantly seeking to find new and better ways of serving Motability Scheme customers. Indeed, the most consistent request for change was to ask if the model could not be further expanded to leverage our resources (cultural, human and financial) in adjacent areas, to provide or enable wider benefit to disabled people.

Against this background of operational success, brought about by a world class executive team over the past decade of change, the second phase of the review was related to forward remuneration policy. This is covered more fully in the Remuneration Report on pages 43-46, but a few words of explanation around the proposed changes here are necessary.

Our policy is to be able to attract and retain an executive team capable of successfully managing a complex business now with an annual turnover of £3.9 billion, an asset base of over £7 billion and over 650,000 individual customers with varying needs and disabilities. In 2015 we accounted for over 10% of the total UK new car market. We successfully disposed of 225,000 ex-scheme used vehicles in the intensely competitive used car market (over 77% on-line through our proprietary system) and we have further added to overall efficiency by establishing our own 'captive' motor insurance business which is now one of the largest in the UK.

Over the past decade of transformational change for the business the former reward and retention policies were both appropriate and successful in maintaining cultural stability during periods of sometimes significant upheaval. There remain challenges, not least the design, testing and implementation of a completely new systems base for the business and further fund raising in increasingly turbulent bond markets, but the fundamental culture of customer focus and continuous improvement are now firmly established foundations. The new remuneration policy recognises that and is benchmarked externally to continue to retain, and attract, world class senior executives to this very special business.

Delivering positive customer outcomes

Our fundamental objective is satisfying Scheme customers, and in addition to our regular surveys, this year also saw the Institute of Customer Service rate Motability Operations as the highest performing organisation in the UK. Motability Operations' score exceeded its rivals by over eight percentage points. These extraordinary levels of customer feedback were also reflected in the 98% of customers who would recommend the Motability Scheme to others; renewals continued at 92%.

Our robust financial performance enabled us to continue delivering affordable pricing across a range of vehicles, with more than 500 cars currently available at no more than the allowance, including many automatics and MPVs, and with more than 150 at less than the value of the full disability allowance, providing money back to customers.

Our revised insurance arrangements continue to bed in, with nearly two thirds of our fleet now covered by the new structure, in which a proportion of insurance risk is underwritten by our A+ rated reinsurance captive, MO Reinsurance Ltd (MORL). This provides us with a sustainable and financially efficient structure for the on-going delivery of the Scheme's fleet insurance arrangements – providing a stable and cost-effective outcome for customers.

During the year, we also saw strong performance in vehicle remarketing, reflecting the buoyant market conditions and sustained online demand. We continued to sell around 600 used cars every day to the motor trade.

The effective delivery of our vehicle remarketing operation is fundamental to our financial sustainability, and enables us to make further investments into the customer proposition. During the year we invested over £156m into areas such as adaptations and wheelchair accessible vehicles.

We also made a £25m charitable donation to assist Motability in providing transitional support for customers leaving the Scheme as a result of PIP assessments.

With the Government's rollout of PIP assessments now reaching those with lifetime or indefinite awards, which accounts for over 75% of the working age customer base, the next year is likely to see larger numbers affected. Key processes for managing the outcomes of those reassessments which result in the early termination of leases are now well established and we are confident we will meet the challenges of additional volumes.

Long-term sustainability

During the year we also saw the first outcomes of our investment programme to update our IT infrastructure, with powered wheelchair and scooter records transferring to the new system platform. Work continues to extend the platform to support the car fleet.

We have always regarded tight governance and control as a fundamental underpinning of our sustainability and success. With this in mind, we introduced a number of enhancements to our governance processes last year including the appointment of a Senior Independent Director and a director with responsibility for risk, alongside the establishment of a new risk function.

Building on these developments we have further strengthened our approach and practices this year, empowering the risk director with an independent reporting line and the power of veto, and by embedding a best-practice Risk Appetite Framework into our risk management processes. We have also taken the opportunity to rationalise our Group board composition, with a move towards a more conventional plc structure.

During the year it was also agreed that, after 12 years' service on the Board, David Gilman would stand down as Group Finance Director of Motability Operations Group plc in September 2016. Given the emphasis we place on long-term sustainability, it will be no surprise that succession planning is a key area of focus for MO, and as part of our planning process, Matthew Hamilton-James had previously been identified as David's likely successor.

Matthew, who joined MO in 2001, has worked for David in a number of senior financial management roles and has held the position of Head of Financial Control since 2008. I am pleased to announce that in June 2015, the Nomination Committee ratified the decision to appoint Matthew as Group Finance Director when David steps down in September 2016. As part of this progression, Matthew was appointed as Finance Director of Motability Operations Ltd on 1 June 2015.

I am also pleased to confirm the reappointment of MO Reinsurance Ltd's three Non-Executive Directors for a second three-year term. Having diligently supported us through the transition to our new insurance arrangements, I am delighted to retain their services and expertise as we continue to reinsure a large proportion of our fleet insurance risk through our wholly-owned reinsurance subsidiary.

Looking ahead

While we can reflect on an excellent year, we do also face a number of challenges going forward. The exceptional buoyancy of the car market has acted in our favour, but won't last for ever. We also face challenges through changing market environments for new business, as well as the impact of disability benefit changes on the existing fleet.

I am confident that, having reviewed the service delivery model, it is clear that the business is fundamentally strong and we are in good shape to meet these challenges head on.

None of the year's achievements happened by chance, and they reflect the highest levels of dedication to service and a culture focused on energetic pursuit of solutions. I'd like to thank all our employees, whose excellent ethic and engagement are reflected across the business. We continue to have a very good working relationship with the Charity, Motability, on whose behalf we operate the Scheme.

Finally, I'd like to show my appreciation to Mike Betts and his Executive team for their continued dedication to delivering such an outstanding set of results. This sustained performance enables us to look ahead with confidence in providing Scheme customers with many years of worry-free motoring.

Neil Johnson OBE
Chairman

Delivering a consistently excellent customer proposition

Mike Betts
Chief Executive

Our core objective

Our objective is to ensure that customers who choose to use their disability allowance to lease through the Motability Scheme receive the best possible value, choice and service. We work with a range of partners to deliver a worry-free lease proposition covering insurance, breakdown cover, maintenance and servicing.

I am pleased to report another successful year, with objectives met across the full range of customer and financial targets. Underpinning this is our strong business culture, which remains key to delivering a consistently excellent customer proposition.

Customer focus

During the year, overall customer satisfaction remained at its record level of 98%, with 98% of customers also saying they would recommend the Scheme to others, and 92% choosing to renew. I am delighted to say that these levels were also strongly reflected in independent feedback from the professional body the Institute of Customer Service (ICS). Following their exacting review of our customer service provision over the summer, the ICS reported that Motability Operations was the top organisation for customer service in the UK, a clear 8% points above our nearest financial services rival, and exceeding the scores of many familiar household retailers.

These levels are achieved through a culture and approach which seeks continuous improvement and focus on customer needs. For example we aim to resolve customer queries in one contact, which we successfully delivered for 88% of customer calls. We also know that customers regard the speed at which they can speak to an adviser on the telephone as important, so it is pleasing that, for the eighth year running, 80% of customer calls were answered in less than 20 seconds.

Every touchpoint is important, and for many customers this means their contact with their local dealership. Early in the year, we held a UK-wide series of dealer business briefings attended by a record 3,300 dealers. This roadshow programme ensures dealers hear directly about changes to the Scheme, benefit from an update on customer service and performance, and re-engage on some of the inspiring differences that the Scheme can bring to customers' lives. We operate through a network of over 4,800 dealers, trained by us to ensure that customers experience a consistent quality of service in the showroom, through sales and aftersales. We continue to work closely with our partner organisations, including RSA, RAC and KwikFit, to deliver these high standards through every touchpoint during the lease experience.

Satisfaction among our powered wheelchair and scooter customers is also rising, with all customer contact points rated at least 8.5 out of 10. We have introduced several new elements to improve this proposition, with over 80% of these customers renewing their leases, and the fleet now standing close to 15,000.

Improvements in our support for customers needing adaptations were delivered through our managed adaptation programme. Adapted vehicles now make up around 8.5% of the Scheme, reflecting an increase in choice and value. Customers are also better informed with the introduction of new digital and printed information; over 300 drive from wheelchair vehicles were handed over this year, and our wheelchair-accessible vehicle (WAV) numbers are now at 27,200.

In order to enable customers to discover more about what the Scheme can offer, we hold a series of open events over the summer, known as One Big Days. The five shows across the UK this year attracted more than 19,000 visitors, a 13% increase year on year. The events also enabled visitors to test-drive adapted cars, with nearly 1,500 test drives facilitated across the five events. Feedback remains strong from customers and potential customers, who find the events a good opportunity to view a variety of cars, and find out more about adaptations, scooters and wheelchairs, or meet Scheme representatives.

Although the rollout of the Personal Independence Payment (PIP) continues to gather momentum, customer numbers continued to increase during the year, with 1.9% growth in the year to now stand at nearly 658,000. This year nearly 76,000 brand-new customers chose to use their disability allowance to lease a Motability product, of which 40% are recipients of the new disability allowance, Personal Independence Payment (PIP). At the same time, however, some 8,254 existing customers lost eligibility for the Scheme following PIP assessment. As previously signalled, supporting these customers through this transition has been a key priority.

Financial sustainability

Our revenue comes from customers' mobility allowances, assigned to us when they choose to join the Motability Scheme, and proceeds from the sale of used vehicles at the end of the lease. This income is used to deliver the best possible service to customers, with all profits being reinvested for their benefit. It is through the efficient delivery of the Scheme that we are able to provide an affordable proposition and stable lease prices for customers.

The delivery of a robust performance allows us to maintain target capital levels and also affords sustained investment in customer support including subsidised adaptations, wheelchair-accessible vehicles, and mobility support for customers in hospital. During the year we invested over £202m in direct and indirect customer support initiatives. This solid financial platform also enabled us to provide over 460 cars at no more than the allowance throughout the year, while more than 150 cars were actually available at less than the full allowance, enabling customers to keep some money back. We are supported in this objective through excellent relationships with the major car manufacturers. I am very pleased to report that, after having made these investments, we delivered an excellent financial performance with post-tax profit of £210m.

As our fleet continues to migrate onto our new insurance arrangements, I am pleased to report that our reinsurance structure, managed through our wholly owned subsidiary MO Reinsurance Ltd (MORL), is operating effectively, and delivering a stable, sustainable and cost-effective insurance solution for customers.

Our vehicle remarketing operation continued to perform well during the year, selling over 225,000 cars into a highly competitive market-place. The year saw record online conversion rates with 77% of vehicles sold through our web-based sales channel, mfldirect. With a sales turnover of £1.9 billion, used car sales account for nearly half of our revenue.

Structural liquidity remains strong, supported by the issue of a €550m eight-year Euro bond and partial redemption of our £500m 2016 Sterling bond during the year. Our corporate credit rating remains an important enabler of our access to financing from the debt capital markets. During the year it was pleasing to see the sustainability of our business model externally validated with a one-notch increase in Moody's credit rating to A1, bringing this in line with Standard & Poor's A+ rating – both ratings having stable outlooks.

This year's successful performance has afforded us the headroom to provide an exceptional donation to Motability of £25m. This sum, in addition to the £150m donated last year, will be used to provide transition support payments for customers expected to leave the Scheme as a result of PIP reassessment.

Sustainability into the long-term

The excellent series of results for the year are founded on a strong culture and high level of engagement. Our annual employee survey, carried out for us by Towers Watson, benchmarks Motability Operations against the UK's highest-performing companies. This year saw all divisions again ahead of the 'High-Performing Organisations' benchmark in all 11 categories. Our employees remain passionate and focused, demonstrating above all their huge commitment to ever better customer service.

Through the recruitment and retention of the right people we are able to ensure that this strong performance is sustained for the long term. We plan for the future by investing in the training and development of our people, and also through a comprehensive approach to succession planning. This helps to ensure we have the right people and skill-sets to underpin our long-term success and sustainability.

As outlined in the Chairman's report, after 12 years of service on MO's Board, it was agreed that David Gilman will stand down as Group Finance Director in September 2016. During his tenure David has been instrumental in MO's financial transformation and the delivery of the financially robust and sustainable platform in place today. He has played the lead role in a number of key strategic initiatives including the corporate restructure and subsequent refinancing in 2008, and more recently the design and implementation of the Group's revised insurance arrangements.

As a result of this change, and as previously anticipated through our succession planning, Matthew Hamilton-James has been confirmed as David's successor as Group Finance Director from October 2016. Matthew joined MO in 2001, before becoming Head of Financial Control in 2008. He joined the Executive Committee in May 2014 and most recently was appointed Finance Director of Motability Operations Ltd in June 2015. Having worked closely with David for over ten years Matthew's succession is regarded as a natural progression, providing us with continuity in terms of knowledge and experience. David and Matthew will continue to work closely over the coming year to ensure a thorough and orderly transition.

I am also pleased to announce the appointment of Jo Pentland to the position of Corporate Services Director of Motability Operations Ltd on 1 June this year. Jo was already a member of the Executive Committee, and in addition to her continued responsibilities for the Legal and Executive Support Teams, and as Company Secretary to Motability Operations Group plc, this appointment recognises her additional responsibilities for the work being undertaken to meet the regulatory requirements of the Financial Conduct Authority (FCA).

Our long-term sustainability is also underpinned by a robust infrastructure. It is recognised that, going forward, both service and efficiency can be enhanced through greater use of technology, and therefore we continue to invest in the development of our core IT systems. We successfully transferred our powered wheelchair and scooter fleet onto a new platform in the summer, and this will be rolled out for the car fleet over the coming 24 months.

Careful and structured governance and control helped make sure that financial and operational risks were carefully managed throughout the year. The new risk function, alongside the appointment of a Board Director with responsibility for risk, is now well established and a best-practice Risk Appetite Framework embedded in our risk management processes. We are also working on compliance with the new Financial Conduct Authority rules; interim FCA permissions have been received.

Looking ahead

Undoubtedly we will see more challenges through the next year, with uncertainty surrounding market conditions in the used car market, in particular in relation to diesel cars, and also as the rollout of PIP gathers momentum.

The achievements of this year demonstrate that we are well placed to handle these challenges. I'd like to thank everyone who has worked hard to deliver this outstanding set of results.

Mike Betts
Chief Executive

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

Q&A

Mike Betts, Chief Executive

To what extent does Motability Operations operate in a competitive environment?

The Motability Scheme has functioned as a successful public-private partnership for more than 39 years. Its unique arrangement through Motability with the Department for Work and Pensions means that disability allowances can be diverted directly to Motability Operations, avoiding credit risk; this enables the Scheme to be offered universally, regardless of an individual's circumstances. However, as a standalone company delivering the Scheme, Motability Operations operates in a very competitive context. MO is financed through commercial market-based funding, sourced through the highly competitive Sterling and European bond markets. We are also the largest supplier of used

cars to the motor trade in the UK, selling around 220,000 cars each year. It's critical to the success of the Scheme that we maximise the values obtained for the vehicles, and around half our operating income is drawn from this challenging market-place. However, perhaps the best indicator of the competitiveness of the Scheme is that so many customers choose to use their allowance to lease one of our cars, wheelchairs or scooters. There is no obligation on them to do so, and people can use their disability allowance in any way they wish. We aim to win custom through offering the optimal package of affordable, worry-free motoring. In fact, over the last ten years we have seen numbers on the Scheme double, as more eligible recipients get a better understanding of what the Motability Scheme can offer. It's also pleasing to note that so many of these customers have come to us on the recommendation of others.

How does Motability Operations evaluate and benchmark its customer service?

We aim to offer our customers the highest levels of customer service. To this end, we commission an independent, comprehensive customer satisfaction survey every six months, gathering feedback on all the key touchpoints: from how we handle enquiries to perceptions of value and affordability. This extends to feedback on the business partners who carry out many of our frontline services, including dealers, RSA, RAC and KwikFit. The scores are assembled into a dashboard which is carefully scrutinised by the Board, and at all levels of the business; if we detect any concerns, we immediately take steps to investigate and address them as appropriate. We carry out a parallel survey with powered wheelchair and scooter customers, and, once a year, dig more deeply into the experience of those with wheelchair-accessible vehicles. It's also important to see how our customer satisfaction compares externally with that of comparable organisations. With this in mind, two years ago we invited the Institute of Customer Services (ICS) to survey our activities with a view to achieving accreditation under their exacting criteria. It was very pleasing that this year, having achieved full ServiceMark accreditation, the ICS announced Motability Operations to be the highest performing customer service organisation in the UK. The scores put Motability Operations firmly ahead of other financial services companies, but also many points above a number of familiar household names such as John Lewis and Marks & Spencer. It was also notable that Motability Operations was not allocated a 'Complaints Index' score, as not enough complaints were lodged in relation to the company's performance.

We are delighted with the ICS scores, which comes about through the hard work of many teams across the business; it really does reflect the true passion and enthusiasm felt by our employees for delivering the best service to our customers.

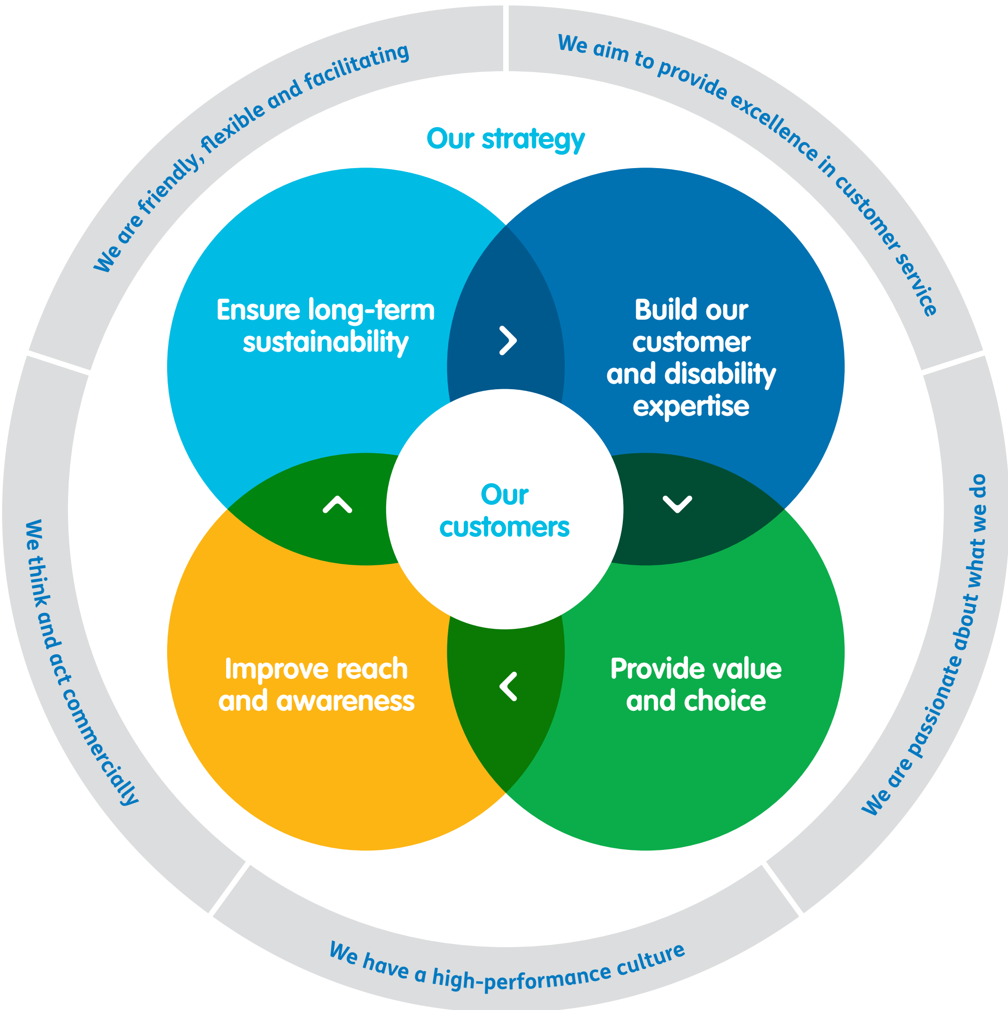
What are some of the major challenges for the business going forward?

The current climate does have its challenges, with welfare changes such as the transition to Personal Independence Payments (PIPs) continuing to affect both our customers and potential customers. Some people are likely to lose their vehicle, if DWP assessments mean they don't qualify for the Enhanced Rate of PIP. We have set out to support these customers through the process, providing both financial and practical support. In terms of the market, we identify a need to improve understanding of the Scheme among non-customers. Recent research suggests that around a third of potential customers are either unaware of Motability, or only know the name; customers sometimes feel they only found out about the Scheme by chance. We continue to work closely with Motability (Charity) to improve awareness and understanding of what the Scheme offers, making sure that people have enough knowledge to make an informed decision. In revenue terms, the used car market has been buoyant for a number of years. However, we can't expect this to last for ever. We have worked to further strengthen our successful used car operation, and with over 77% of cars now sold online direct to dealers, are confident we can handle anticipated swings in the market. These are real challenges for us as a business, and we must also focus on maintaining our excellent record for customer service and efficiency. However, I remain certain that, after one of the most successful years on record, we are in a great position to meet head on anything which the next year brings us.

Our strategic framework

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

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



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

Turn to page 34 for more information on our people

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

Turn to pages 12-20 for more information on our performance

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

Turn to page 29 for more information on our risk management

Build our customer and disability expertise

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

Goals

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

Objectives

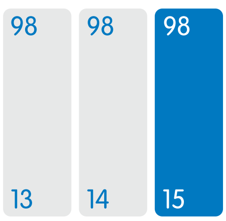
- Deliver best-practice customer service through our call centre
- Ensure that the standard of services deployed through our key suppliers is commensurate with our internal targets
- Build our adaptation and conversion expertise to ensure that customers have a seamless experience and that we are recognised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

KPIs

Overall customer satisfaction

98%

Target of >92%

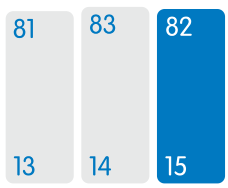


We deliver by listening to our customers and ensuring that we meet their requirements.

Calls answered within 20 seconds

82%

Target of >80%

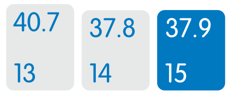


We have successfully met our target of answering 80% of calls within 20 seconds for eight consecutive years. The removal of Interactive Voice Recognition in 2010 means that customers quickly reach a real person.

Roadside assistance average response time

37.9min

Target of <42 min



Mobility is a priority to our customers. In the event of a breakdown our customers receive priority assistance, and with an average response time of 37.9 minutes during the year (compared with a KPI target of < 42 minutes), customers are quickly attended to and are mobile again.

"From start to finish I have had the best customer service, the pleasure of dealing with professionals and knowing that they listened and took on board my physical disability"

Provide value and choice

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

Goals

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

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

Objectives

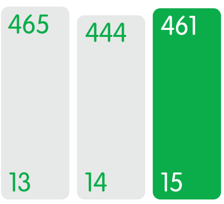
- Maintain a range of at least 200 cars at 'nil advance payment'
- Provide a wide selection of vehicle models and brands
- Ensure that our residual value-setting and forecasting is the best in the industry
- Provide stability in pricing and choice throughout the economic cycle
- Retain our market leadership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

KPIs

Affordable vehicle choice at 'nil advance payment'

>461

Target of >200

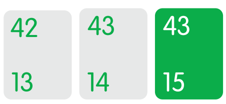


We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the year to September 2015 we exceeded this target with at least 461 models at any one time.

Relative affordability – % cheaper than alternative

>43%

cheaper

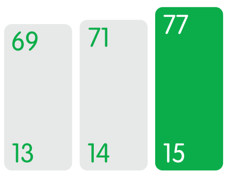


We benchmark ourselves using commercial contract hire quotations. These are usually unavailable to the general public and are likely to be less expensive than personal contract purchase quotations. Our economies of scale, operational efficiencies and a VAT concession (which is passed onto customers in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

% of vehicles sold online at the end of lease

77%

Target of >70%



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

"You can choose from a wide range of vehicles, and only pay for your fuel. It gives me freedom and reliable motoring at an affordable price"

Improve reach and awareness

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

Goals

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

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

Objectives

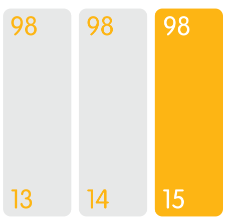
- Raise understanding of Scheme elements and confidence and trust in the Scheme
- Maximise effectiveness of multimedia channels to increase understanding within the eligible customer base
- Identify and, where appropriate, remove any barriers for potential customers
- Continue to encourage dealers to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

KPIs

Trust in Motability

98%

Trust in the Scheme

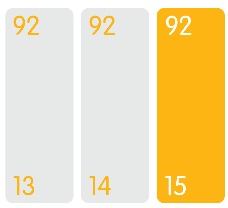


Since 2012 we have measured customers' trust in the Motability 'brand'. Trust is considered to be key in enabling current and potential customers to make an informed and confident choice of a mobility solution that meets their disability needs and, in turn, strengthens customer advocacy of the Scheme.

Customer renewal rate at the end of lease

92%

Target of >85%

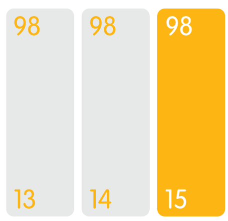


Whether customers decide to renew their business at the end of the lease is a key measure of our success in delivering affordability, choice and customer service. During the year to September 2015 this was maintained at 92%, compared with a KPI target of 85%.

Customer advocacy

98%

Target of 85%



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

The 'Big Event' and 'One Big Day' events, held in accessible locations, provide great opportunities for potential customers to find out more about the Motability Scheme. The events attracted more than 19,000 visitors in 2015.

Ensure long-term sustainability

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

Goals

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

Objectives

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

KPIs

Credit rating

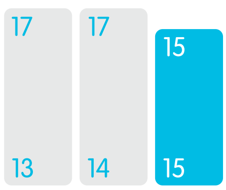
A+/A1

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

Capital adequacy

+15%

Above Minimum Capital Requirements



The Group targets capital levels to be at least 15% above its Minimum Capital Requirement (MCR) providing us with confidence that we have a sufficiently robust financial platform to protect the Scheme through the economic cycle.

Employee engagement

94%

Target to exceed HPO benchmark (79%)

We participate in an independent annual review of business culture, where we have significantly outperformed the 'High-Performing Organisations' benchmark. Employee engagement is 15pts higher than the benchmark.

We believe that by retaining an engaged and motivated workforce we can ensure that we deliver excellent service to our customers.

Cost efficient and financially robust

David Gilman
Finance Director

We work hard to ensure that our costs are tightly controlled and to deliver a financially resilient business model, whilst simultaneously providing the best value and an exceptional level of service for our customers. Results are measured against a stretching Key Performance Indicator framework which is structured to ensure that we consistently meet these objectives.

Performance overview

The business continued to perform at a consistently high standard during the year to September 2015, with targets exceeded across the full range of both financial and non-financial measures. Whilst it is of course pleasing to deliver against our robust internal performance framework, it is always reassuring to obtain independent verification of our progress:

- During the year the Institute of Customer Services, an independent professional body for customer service, rated the customer service provided by the Motability Scheme as exceptional and ahead of all other accredited organisations in the UK
- As noted in the 2014 Annual Report & Accounts, an independent study by EY concluded that, at the same time as improvements in customer service had been achieved over the last decade or so, the Scheme had also succeeded in reducing its overhead costs per customer by 28% in real terms
- As regards financial resilience, our corporate credit ratings provide a useful independent perspective. It was pleasing therefore to receive a rating upgrade to A1 (stable outlook) from Moody's in September 2015, bringing the rating into line with Standard & Poor's A+ (stable outlook) rating, providing external validation of the sustainability of our approach.

Financial performance

Targets met

Total customer numbers continued to increase during the year, with a closing fleet of 657,900, representing 1.8% growth year on year. Within this, the closing Car Scheme fleet stood at 643,000 whilst the Powered Wheelchair & Scooter Scheme customer numbers increased to 14,900. Whilst there has been some slow-down in brand-new customer numbers joining the Scheme during the year – not unexpected given the uncertainties created by the rollout of the PIP – renewal rates for existing customers have remained in excess of 92%.

Revenue increased to £3,920m – up 3.1% year on year. This reflects both an increase in rental income – up 2.8% to £2,007m (a product of the growth in customer numbers combined with the 1.2% uplift in the mobility allowances from April 2015), and an increase in vehicle resale proceeds – with over 225,000 vehicles sold during the year and overall disposal proceeds up 3.4% to £1,896m.

Financial performance continues to benefit from the buoyancy in the used-car market, with strong demand for high-quality used vehicles continuing through the year. Motability Operations has been able to capitalise on this positive market – with over 75% of ex-lease vehicles being sold via our online channel 'mfldirect' – enabling the realisation of remarketing gains through the period.

As outlined in the 2013 Annual Report & Accounts, we have worked closely with Lord Sterling and our colleagues at Motability to devise a package of transitional support (see page 25 – Government Welfare Reform changes for details) for those customers who lose their eligibility for the Scheme through the rollout of the PIP over the coming years. This support package takes the form of transitional grants from Motability, which is funded via periodic charitable donations from Motability Operations. As reported in last year's Annual Report & Accounts, Motability Operations donated an initial payment of £150m in September 2014.

Given the Group's robust financial performance during the reported year, the Board of Motability Operations Group plc authorised and paid a further £25m donation to Motability in September 2015 in support of this commitment to fund the PIP transitional support package. This donation is considered to be affordable without compromising either our financial sustainability or ability to provide stable and affordable pricing for customers who remain on the Scheme.

After this donation, post-tax profit, which is retained in the business for the benefit of our customers, was £210m (representing a Return on Gross Assets of 3.0%). Our corporation tax charge for the year was £52m (at an underlying rate of 20.5%).This result takes restricted reserves on the balance sheet to £2,089m. The restricted reserves provide us with a capital base to meet the dual objectives of ensuring a stable and sustainable Scheme, and of supporting the financing of the fleet.

> "The Group has a demonstrable track record of successfully managing residual values through the economic cycle. The prudent and effective management of the asset base remains a top priority for management."

As regards financing activity, the Group issued a €550m eight-year Euro bond in June 2015, increasing liquidity headroom and extending the Group's average debt maturity to over 6.51 years (see 'Cash and funding' section on page 23 for more detail). Balance sheet ratios further evidence the robust nature of the Group's financial position, with the ratio of Adjusted Total Group Assets: Total Net Debt, which is targeted to be no less than 1.25:1, at 1.80:1 in September 2015. The Group's credit rating was reaffirmed as A+ (stable outlook) by Standard & Poor's, whilst Moody's increased the Company's rating by one notch to A1 (stable outlook) in September 2015.

Cost management

We continue to focus on tightly managing our £1.8 billion cost base. We continuously review our processes and approach, searching for ways to refine and innovate in the way in which we manage and deliver the Scheme.

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

Whilst tight cost management remains a priority, we also recognise the need to invest in the long-term sustainability of our infrastructure. With this in mind, we continue to invest in our core IT systems to enhance efficiency and support service levels. During the year we invested £15m to implement a new leasing system for our Powered Wheelchair & Scooter fleet, and also to establish the technology platform to enable this infrastructure to be rolled out to the car fleet over the next two years.

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

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

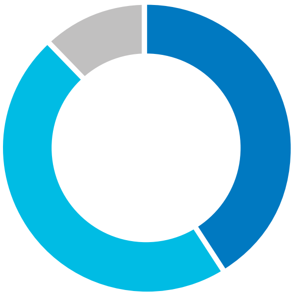
Use of earnings

The chart below shows how our underlying earnings of £443m are utilised:

- Investment in the customer proposition: 41% of 2015 underlying earnings were reinvested in customer-focused initiatives, such as pricing support for adaptations and heavily adapted vehicles, ensuring continuous mobility for customers, a good-condition bonus for customers who return their vehicle in appropriate condition at the end of lease, and investment to ensure that our dealer network provides customers with a first-class customer experience. In 2015 this direct and indirect investment totalled £181m, including the £25m donation to support the programme of PIP transitional support payments
- Tax charge: after allowing for the investments outlined above, we delivered a pre-tax profit of £262m in 2015, incurring a £51.6m tax charge at an underlying tax rate of 20.5%
- Capital requirements and financing of fleet growth: Our post-tax profit of £210m, representing 47% of underlying earnings, was retained to ensure that the Group maintains an adequate capital base to provide resilience given the risks that it faces (see Risk management section, pages 29-33). The retained earnings contribute to financing the purchase of new vehicles, thereby also reducing future borrowing requirements.

Use of earnings
%

Investment in customer proposition	41
Retained to underpin capital requirements and finance fleet growth	47
Tax charge	12



Insurance performance

Our revised insurance arrangements commenced on 1 October 2013. Under this structure, Motability Operations participates in a proportion of premium exposure via our A+ rated reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme. The introduction of the new arrangements not only secures the long-term supply of insurance, but brings greater efficiency and financial benefits which will be passed to customers.

During the year to September 2015 our fleet continued to migrate to the new arrangements as new and renewing business falls under this cover. At the end of September 2015, 443,200 vehicles were 'on-cover' under the new arrangements (see page 27 for further detail, and also page 31 in the Risk management section).

The 2015 Group financial statements include the consolidated results of MORL. It is reassuring to report that from a Group perspective the insurance results are ahead of expectations with actual inflation in claims costs tracking below priced expectations. Whilst MORL has recorded a marginal £2.6m loss for the year to September 2015, this position excludes the release of c.£5.4m in contingent reinsurance commission in respect of the quota-share reinsurance structure which, based on the latest actuarial projection, is anticipated will flow back to MORL. However, due to the relative immaturity of the claims data, and reflecting the fact that the quota-share reinsurance structure spans multiple years, the commission has not been recognised in the financial statements at this time.

Assets and residual values

Operating Lease Assets increased by £339m during the year to £6,255m – reflecting the increase in customer numbers and also an increase in the average value of vehicles on the Scheme.

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

This revaluation allows us to be agile and adjust residual values as appropriate to reflect market trends. This enables us to mitigate the risk of potential market volatility. At each financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease.

Our in-house model, which is regularly externally validated, has consistently outperformed alternative external benchmarks and remains less volatile and typically more conservative in outlook than other market views.

In arriving at the September 2015 fleet revaluation, consideration has been given in particular to the current focus on diesel emissions, with Euro 5 technology being replaced with cleaner Euro 6 in new registrations from September 2015, and also the emerging picture with regard to the integrity of published emissions statistics.

At September 2015, the projected gross revaluation of the fleet versus the priced position reflected an anticipated gross exposure of £38.3m which, after adjusting for selling costs, lease extensions, and early-terminating leases, results in a net exposure of £292m. This projected exposure is charged to the income statement over the remaining term of the respective leases. Just over £110m of this exposure had been recognised through the income statement during the financial year to September 2015 or in prior periods, with the balance to be charged across the next three financial years.

As regards vehicle resale performance, the Group realised significant gains on disposal during the year ended September 2015, recognising an aggregate gain of £124.1m (or 7%) against the adjusted residual value. This result not only demonstrates the increasing effectiveness of our remarketing operation – with over 173,000 (77%) of vehicles sold via our online channel (mfldirect) – but also reflects a sustained period of stability in the used car market.

Financing

Capital management

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

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

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

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

The Group continues to target a capital position at such a level that the Scheme could withstand at least a 'normalised' market shock without capital being eroded below the calculated Minimum Capital Requirement (MCR). In order to simulate a 'normalised 'market shock, the Group runs a comprehensive range of stress-test scenarios to validate the MCR and targeted capital position. By running a series of hypothetical market-specific and wider economic extreme stress scenarios, we can objectively scrutinise the efficacy of the Group's capital base. The conclusion of this stress-testing is to affirm the adequacy of the Group's capital position, so providing management with confidence and assurance as we look to the future. At the financial year end the Group's closing capital position was 15% above the MCR.

Cash and funding

During the year the Group successfully issued a €550m eight-year Euro bond in July 2015, with a proportion of the proceeds used to complete the early redemption of £200m of the £500m September 2016 bond. This strategy allowed the Group to lock in liquidity, reduce future refinancing risk and to also extend its average debt maturity. The net effect of these transactions was to take the Group's net debt capital market issuance to £3.35 billion, which, when combined with our bank facility, takes the Group's average debt maturity to 6.51 years at 30 September 2015.

The Group aims to retain significant liquidity headroom - the policy being to ensure that it has sufficient committed financing facilities to provide for at least 12 months' projected growth plus 20%. This target was met throughout the year, with £1.5 billion of the Revolving Credit Facility remaining undrawn at the financial year end. The Group intends to maintain this strong liquidity headroom through a phased refinancing programme as existing borrowings mature over the coming years. The Group targets a ratio of Total Group Assets: Total Net Debt of not less than 1.25:1. At the Balance Sheet date this ratio was 1.80:1.

Treasury policy

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

We have established hedge accounting, and, under accounting rules, derivative financial instruments are 'marked to market' in accordance with IAS 39 – their value being shown on the face of the balance sheet. The fair value of the hedging reserve at 30 September 2015 was £5.3m post-tax.

Looking ahead

After 12 years' service on the Motability Operations Group plc Board, it has been agreed with our Chairman, Neil Johnson, that I will stand down as Group Finance Director in September 2016. As noted in the Chairman's statement, Matthew Hamilton-James, who is currently Finance Director of Motability Operations Ltd, has been confirmed as my successor. Having worked closely with Matthew for over ten years it is reassuring to know that I will leave the business's finances in experienced hands. I will continue to work closely with Matthew over the coming year to ensure an orderly handover and succession.

David Gilman
Finance Director

Excellent service levels and a consistent proposition

Overview

As outlined in the 'Strategy in action and performance' section (pages 11-19), the year ended September 2015 saw the Group continue to deliver high levels of performance across a range of targets.

Customer measures in terms of choice, affordability and satisfaction were all exceeded throughout the period, with overall customer satisfaction continuing at 98%. Renewal rates continued to track at 92% and total customer numbers increased 1.8% to 657,900.

Customer awareness and advocacy of the Scheme

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

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

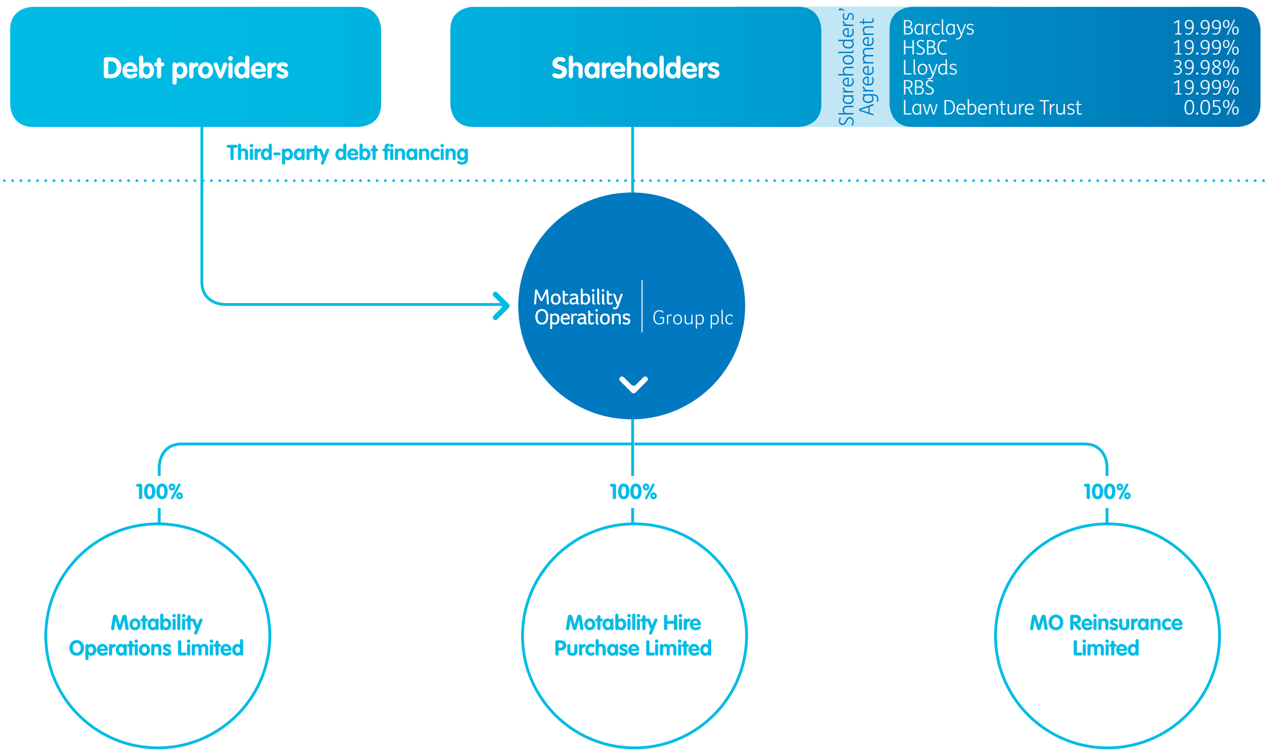
One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that 98% would recommend the Scheme.

In addition, a number of promotional programmes have enhanced customers' awareness, including our successful 'One Big Day' regional open days, which provide an opportunity for both existing and potential customers to see a range of cars, adaptations, scooters and wheelchairs, all in one accessible venue. These events continue to prove to be very popular, with over 19,000 people taking the opportunity to visit and find out more.

A measure of our success in building greater understanding is the growth in the number of new customers. During the year nearly 76,000 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme. This, combined with continued excellent renewal rates of 92% among existing customers (a product of high customer satisfaction and sustained affordability), has precipitated continued growth during the financial year.

Corporate structure

The diagram below sets out the Group's corporate structure



Government Welfare Reform changes

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

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

Transitional support

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

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

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

Customers will be able to retain their cars for up to three weeks after their final DLA payment. The DWP has already announced they will allow DLA payments to continue for four weeks from their initial decision. This gives the customer up to seven weeks to find alternative solutions.

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

- Customers who entered into their first lease agreement with the Scheme before January 2013 and therefore could not have been aware of PIP and the associated risks when they joined (the vast majority of customers), are eligible for transitional support of £2,000. For many customers, this enables them to continue to have mobility by purchasing a used car
- Customers who entered into their first lease agreement with the Scheme with an awareness of PIP being introduced and of the risk that they could lose eligibility following a future PIP reassessment, i.e. after January 2013 and up to December 2013, are being provided with £1,000 of transitional support
- Customers who have made an 'advance payment' (an additional upfront payment to lease a larger or more complex vehicle on the Scheme) are having their 'advance payment' refunded on a pro-rata basis. No further costs are being applied to customers whose leases end early as a result of a PIP reassessment
- To help departing customers plan their next step, we are providing general information on motoring, insurance and other services outside the Scheme. This includes information, for example, on buying a new or used car, and arranging insurance. We are working with a leading UK insurance broker who offers insurance quotations to former Scheme customers that recognises their no-claims history on the Scheme.

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

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

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

At Motability Operations, given the strong financial performance during the year, we were pleased to be in a position to make a further donation of £25m (2014: £150m) to Motability as part of our commitment to fund this transitional support package. This payment was made in September 2015.

As of September 2015, 8,254 Scheme customers had lost their entitlement to the higher-rate allowance following their PIP reassessment, and consequently have also lost their eligibility to continue leasing a product on the Motability Scheme. To date Motability has made 4,666 transitional support payments totalling £8.4m to customers who have returned their vehicles and have met the criteria set out above, with a further 1,402 potential payments in the pipeline pending vehicle hand-backs by the customers.

Product offering

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

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

Product range and choice are important to both our existing and potential customers, and we compare the variety of vehicles and brands available on the Scheme with those available in the retail market. During the financial year, we offered vehicles from 34 manufacturers with over 2,400 vehicle derivatives on the price list. Our approach to the PWS Scheme is also to provide customers with a wide and representative choice.

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

During the year the decision was taken to wind up the remaining Hire Purchase fleet. The Group ceased writing new Hire Purchase agreements in July 2014, and with this product now in run-off (accounting for less than 0.2% of the year-end fleet), it is no longer possible to efficiently deliver the administrative and system infrastructure required for this product. The decision to early-terminate the remaining agreements also enables us to focus on the delivery of our core Contract Hire product, which we believe provides customers with the most affordable way to benefit from a full 'worry-free' package. Any customer with a live Hire Purchase agreement will be contacted and we will ensure that no customer is adversely financially impacted by this change to our business structure. The wind-up of the Hire Purchase fleet will be completed by 31 December 2015, enabling us to progress with our FCA application for limited permissions early in the new year.

Protecting the Scheme from abuse

Motability Operations does not play any role in deciding who is entitled to receive the higher-rate mobility allowances. However, if customers choose to use their allowance to lease a vehicle on the Motability Scheme we have a responsibility to ensure that the vehicle is used appropriately. It is a fundamental principle of the Motability Scheme that cars must be used for the benefit of disabled people. Motability Operations has taken steps to remind customers and business partners of their obligations in this respect. This includes asking all customers, drivers and car dealers to sign a Statement of Responsibilities at car handover to confirm they understand these terms of use. These tightened guidelines are designed to ensure that Motability cars are used for the benefit of the disabled customer.

Like any organisation with more than 645,000 customers, there is a small minority of customers who may try to abuse the Scheme. We work with all stakeholders, including Motability, the DVLA, as well as the police, to ensure that effective procedures are in place to protect the Scheme, and to respond appropriately to allegations of Scheme misuse.

During the past year, we dealt with more than 13,000 allegations relating to fraud or abuse of the Scheme. These included cases of uninsured driving, unauthorised use of Scheme cars, drink-driving, and even criminal activity, many of which led to prosecution.

Around 4,250 cases resulted in enforcement action, including 2,280 customers who had their agreements terminated and their cars withdrawn. We now invest close to £1 million a year in Scheme protection activities both to safeguard the reputation of the Scheme and to protect the proposition for our customers.

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

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

Customer experience

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

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

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

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

Initiatives designed to support and enhance the customer experience include:

- Improvements made to customer communications and the website, creating a more welcoming impact, and more than doubling the information available
- Removal of Interactive Voice Recognition (IVR), to enable customers to reach a real person more quickly
- Availability of an online 'car search', which gives customers a user-friendly and readily navigable tool to find the vehicle that best meets their needs

- Building flexibility into our systems to ensure that 99.9% of customers take delivery of their new vehicle on the day they hand back their old one
- Providing a full range of adaptations and conversions as options at the point of vehicle selection.

Excellent service helps drive up renewal rates at the end of lease, and increases the likelihood of customers recommending the Scheme to someone else. In fact, 98% of customers say they would recommend Motability to friends or family.

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

- The use of a Specialised Mobility Team to support the delivery of the Powered Wheelchair & Scooter Scheme proposition
- Displaying vehicle accessibility information on our website
- The availability of targeted specialist publications including the wheelchair-accessible Vehicle (WAV) Guide
- The Car Price Guide includes images of cars with accessibility considerations, an 'automatics' column and images to help customers visualise the types of cars available.

Fleet insurance arrangements

As reported in previous annual reports, the Group implemented revised insurance arrangements which commenced on 1 October 2013. Under the new arrangements RSA continue as insurer, but premium exposure is shared with Motability Operations via its reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme (see the Risk Management report on page 31 for more detail).

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

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

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

MO Reinsurance Ltd (MORL) – Overview

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

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

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

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

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

After two years of operation, approximately two thirds of the fleet (over 443,200 vehicles) is insured under the new arrangements (as new and renewing leases come on cover). In line with the migration of the fleet to the new structure, the Group injected additional capital into MORL during the year to appropriately reflect its evolving risk profile. The new structure continues to operate effectively, with expertise, processes and data flows now all successfully embedded into the business. MORL's reinsurance programme was successfully renewed during the year, thereby continuing to limit the Group's potential financial exposure. Detail of the reinsurance structure is elaborated within the Risk Management section on page 31. From a Group perspective financial performance is ahead of expectations, as outlined in the Finance Director's review on page 22.

Our suppliers

By developing strategic relationships with all leading car manufacturers, we have achieved 96% brand availability based on market share, with 34 manufacturers currently on the Scheme. This now provides our customers with access to 2,400 vehicle derivatives, delivered through a network of over 4,800 car dealerships. During the year we accounted for over 10% of UK car registrations.

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

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

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

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

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

Remarketing

At the end of contract, we sell our returning fleet into the used market. During the financial year ended September 2015, we sold over 225,000 cars to the used trade. We have developed an innovative multi-channel disposal strategy to manage these volumes. This is centred on a market-leading online process which is augmented by a proactive auction programme. Our online sales channel, 'mfldirect', is available to certified trade subscribers, through which they may buy vehicles online 24 hours a day, seven days a week. This route to market has a number of advantages over physical channels, including its lower cost, and it allows a more targeted approach. This system platform was upgraded during 2011 to ensure its future capability and scalability.

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

Through 'mfldirect' we have established an efficient and competitive sales environment which ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for over 77% of all disposals during 2015. Cars that do not sell online are usually routed to auction and sold at one of our branded events. We have progressively routed more of our early-terminating stock via the online channel, with an 23% increase in volumes over the last three years.

Through the versatility of our remarketing strategies, the proactive management of stock, and an increased buyer base, the remarketing team has delivered an excellent performance in 2015, contributing to a £124.1m gain recognised across aggregate sales.

Environment

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

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

Our approach to meeting our environmental responsibilities also extends to the management of our internal infrastructure. In terms of premises, we run a continuing programme of capital investment to ensure that our plant and equipment remain energy-efficient and we actively aim to recycle an increasing proportion of our waste. We recently refurbished our premises to ensure that our buildings are exemplary from a disability accessibility perspective and also meet the highest environmental standards. The Bristol phase of this refurbishment was awarded a 'Ska Gold Accreditation' based on an assessment of the approach to energy and CO_2 emissions, waste, water, materials, pollution, wellbeing and transport.

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

Our dynamic and robust approach

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

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

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

Following the changes introduced to our risk processes last year, including the appointment of a Board Director with specific responsibility for risk and a strengthened risk function, we have taken the opportunity to further enhance our approach and practices. Amongst other things we have now embedded a formal Risk Appetite Framework into our risk management processes.

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

Risk identification and monitoring

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

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

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

Risk management framework

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

1st line of defence

Primary risk management

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

2nd line of defence

Risk control

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

3rd line of defence

Assurance

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

Key risks and mitigations

1 Residual values

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

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

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

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

2 Supplier failure

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

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

3 Credit risk

Our rental income is received from the DWP, through the allowances assigned to us by our customers, hence the credit risk is considered to be very low. Where the total cost of the lease exceeds the value of the customers' allowance, then the customer is required to make an upfront balancing payment – the 'advance payment' – prior to taking possession of the vehicle.

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

4 Treasury risk

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

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

5 Operational

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

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

The Risk function operates with a business partnering approach which ensures consistency and co-ordination across the business. We actively monitor our key controls through the Control Risk Self-Assessment process. Assurance over the effectiveness of our controls is given via our internal audit function that uses a risk based approach to determine areas of focus. Furthermore, information security controls are validated by external specialists.

6 Insurance risk

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

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

This reinsurance cover was successfully renewed ahead of 1 October 2015, and continues to be placed with a panel of 16 highly-rated (at least A rated and predominantly AA rated) reinsurers, thereby diversifying the Group's exposure to any single supplier.

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

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

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

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

Capital adequacy and economic capital

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

The Group uses Economic Capital (EC) principles to determine the appropriate level of capital. The EC process involves undertaking a comprehensive assessment of the material risks and evaluated potential impacts the Group faces given its core activities. The key risks are outlined in the table on page 32.

This enables us to calculate our Minimum Capital Requirement (MCR), using a model to aggregate potential losses at the required confidence level and determine a 'per vehicle' requirement. The EC methodology we use is conservative, and encompasses all material risks, delivering an outcome that management views as reasonable and prudent.

We then apply the estimated MCR per vehicle to our current and projected contract hire fleet size. This gives us an overall current and projected MCR for the full contract hire fleet.

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

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

The review noted that the way in which the wider market is applying EC methodology as a tool for capital management is evolving, with current approaches to capital management being more flexible and fluid, with prudent management overlays, over and above the calculated EC requirement, now becoming the norm. The Group's capital management policy was revised accordingly, with capital being targeted to remain at such a level that the Scheme could withstand at least a 'normalised' market shock without capital being eroded below the calculated MCR.

In order to simulate a 'normalised' market shock, the Group runs a comprehensive range of stress-test scenarios to validate the MCR and targeted capital position. By running a series of hypothetical market-specific and wider economic extreme stress scenarios, we can objectively scrutinise the efficacy of the Group's capital base. Based on this stress-testing, capital is currently targeted to be at least 15% above the MCR. At financial year end the Group's closing capital position was in line with this target position.

Summary of our key risks and mitigations

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

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

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

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

2 Supplier failure
Failure of key manufacturer or other key Scheme supplier

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

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

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

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

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

Mitigation
- Principal income stream directly from DWP – therefore minimal credit risk
- Residual credit risks are managed through credit assessments and an effective credit control function

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

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

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

Mitigation
- Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps
- Balanced portfolio of funding maturities and diversification into bond market
- Maintenance of strong credit rating
- Good treasury system, controls and governance

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

5 Operational
Risk of failure of key systems, controls or processes

Potential impact
- Potential financial and reputational risk
- Risk of business disruption

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

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

6 Insurance
Exposure to insurance claims that exceed expectations or supplier failure

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

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

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

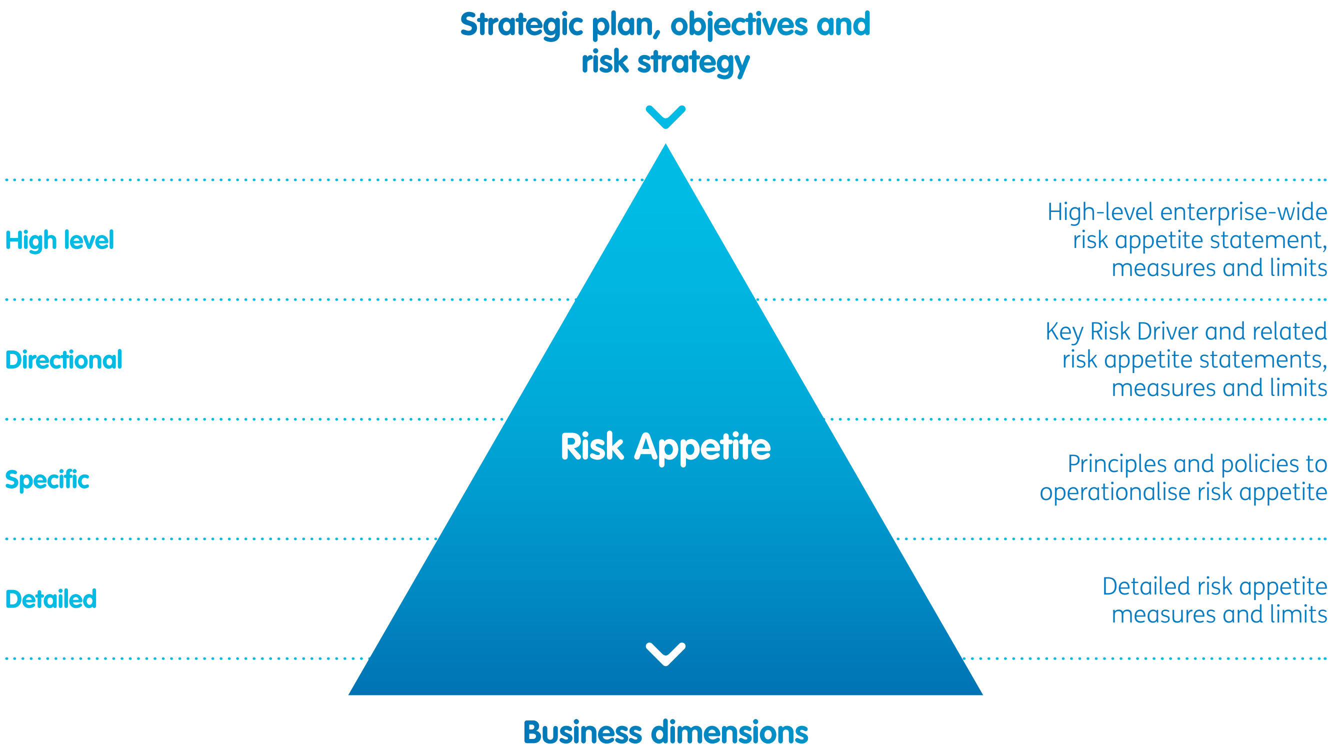
Risk Appetite Framework

During the course of the year we have enhanced our risk management approach through the development of a Risk Appetite Framework (RAF). Developing more formalised risk reporting, the framework builds on our strong risk management culture and aligns our strategic planning and risk management activities.

The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which includes over 140 risk metrics.

The development of this framework drew on best practice and has been independently assessed. The responsibility for monitoring and review of the RAF has been included within our governance framework.

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



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

Our people are fundamental to our success

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

Business culture

We promote a positive business culture aligned to our core values and principles, described below.

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

Employee engagement was 94%, measured using the culture survey. In addition, in a separate survey undertaken by the Institute of Customer Service (ICS), the employee engagement score of 91.6% was the highest ever recorded by the ICS in the UK.

The Company won a number of awards during the year, including one for its Dealer Contact Centre and the quality of its communication programmes.

Motability Operations is an equal opportunities employer. It embraces diversity, which it believes is fundamental to attracting and retaining the most talented people and making the organisation more effective in providing an exceptional service to its customers. The Company has a diversity policy where diversity is defined as including disability, race, sexual orientation, gender, ethnicity, culture, religion, age, nationality, education and experience.

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

Principles

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

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

Recruitment and induction

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

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

Our values

We strive for excellence in customer service

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

We are passionate about what we do

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

We have a high-performance culture

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

We think and act commercially

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

We are friendly, flexible and facilitating

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

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

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

Employment of disabled people

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

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

Performance management and assessment

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

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

Reward

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

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

Performance-related pay is discretionary and is dependent on Company and individual performance. Further details of our remuneration policy can be found on pages 43 to 46.

Our people are fundamental to our success and we are committed to recruiting and retaining an engaged and motivated workforce.

Training, development and succession planning

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

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

Employee communication

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

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

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

Working environment

We believe that the quality of our working environment has a major impact on employee engagement and contribution. We have recently completed a programme of refurbishment of our offices to create a productive workspace with excellent disability and environment credentials.

Committed to high standards of governance

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

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

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

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

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

Risk continues to be an important focus and notably during the year we established a comprehensive Risk Appetite Framework to reinforce the systematic management of risk throughout the business. A review and reorganisation of governance committees was completed to support this structure, and company policies were also reviewed and re-launched. We periodically review and assess the performance of our governance committees, and it is of course reassuring to be able to confirm that all committees continue to operate effectively.

We comply with the relevant provisions of the Companies Act 2006, the FCA's Disclosure and Transparency Rules and with its Listing Rules applicable to a company with wholesale debt admitted to trading on the London Stock Exchange's regulated market. Our subsidiary, Motability Operations Limited, is governed by and complies with the requirements of the Financial Conduct Authority (FCA) for Consumer Credit. Having acquired interim permissions, we will submit our application to the FCA for Limited Permissions in January 2016.

During the year, I met with the Group's shareholders to provide an update on performance and strategy, and to discuss future plans and developments. Through this interaction, and also via their nominated Board Non-Executive Directors, shareholders remain well-informed of the Group's plans, and their views can be incorporated into our thinking.

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

There have been a number of changes to Board Membership during the year. I would like to welcome any new representative nominee Directors from our Shareholder Banks and to thank those who have departed, for their advice and support during their tenure. We have also adopted a new structure for senior executive membership of the Group Board. Going forward only the Chief Executive and the Group Finance Director will be members of the Group Board. I would particularly like to thank Anne Downey, Ian Goswell and Ashley Sylvester for their outstanding contribution at Group Board level over many years. They will all continue as members of the Executive Committee and Directors of Motability Operations Ltd, and their advice will continue to be available to the Group Board.

Neil Johnson OBE
Chairman

Motability Operations Group plc Board

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

The Board's responsibilities

Matters reserved for the Board include:

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

Roles of the Chairman and Chief Executive

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

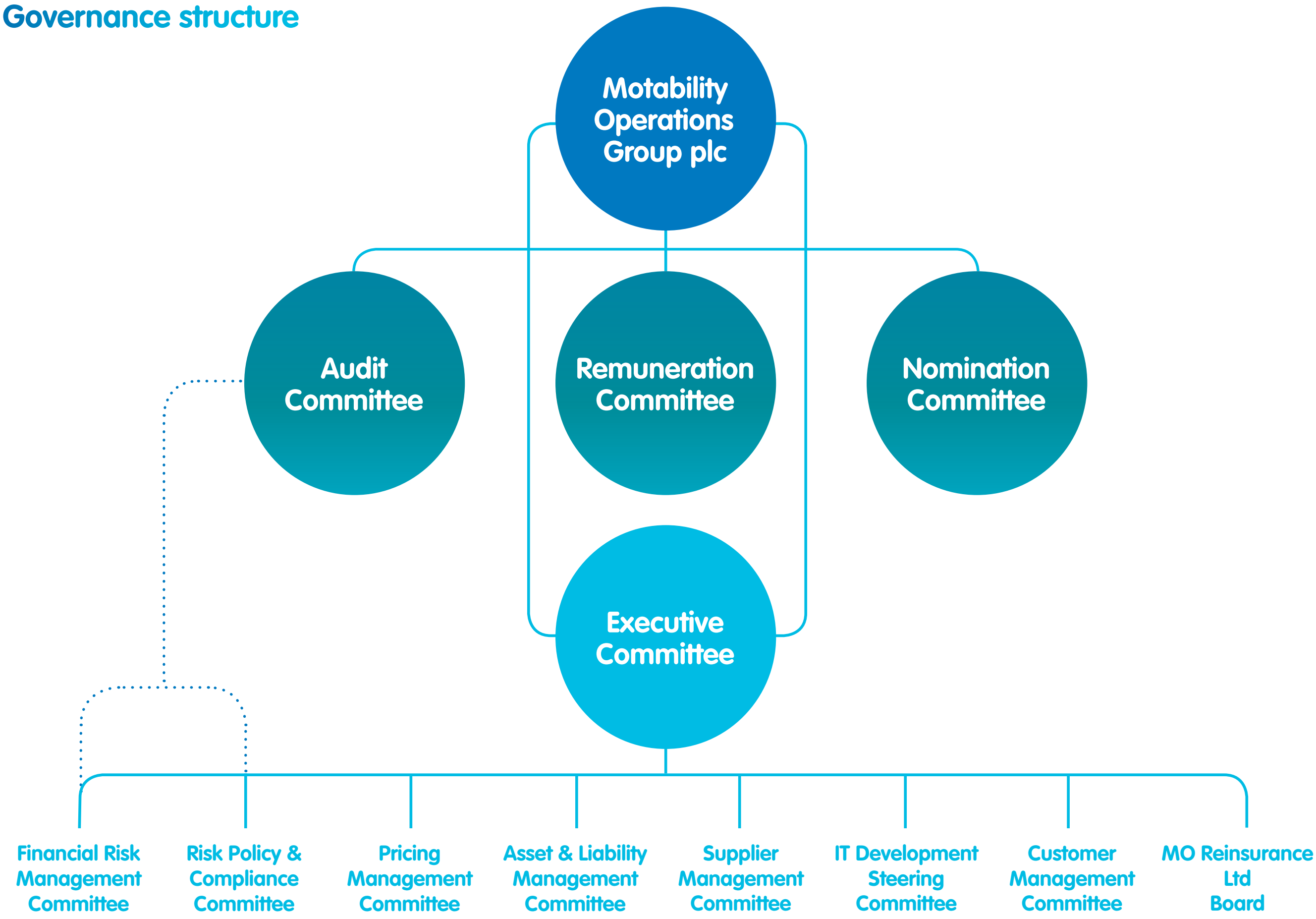
The Chief Executive is responsible for leading and managing the business on a day-to-day basis with authorities delegated by the Board, and is accountable to the Board for the financial and operational performance of the Group. This day-to-day management is effected through the Executive Committee, with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

Non-Executive Directors

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

In recognition of the importance of evaluating its own effectiveness, in 2014 the Board undertook a review of its performance the results of which were both reassuring and useful in preparing for future challenges.

Governance structure



Our Board

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

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

Executive Directors

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

David Gilman
Finance Director
David was appointed as Finance Director of Motability Operations Group plc on 30 June 2008.

Non-Executive Directors

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

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

Robert Carver
Non-Executive Director
Robert was appointed as a Non-Executive Director of Motability Operations Group plc on 1 January 2015 (alternate – Martin Lord, appointed 1 January 2015).

Ian Cowie
Non-Executive Director
Ian was appointed as a Non-Executive Director of Motability Operations Group plc on 1 September 2015 (alternate – Peter Lord, appointed 1 September 2015).

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

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

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

David Oldfield
Non-Executive Director
David was appointed as a Non-Executive Director of Motability Operations Group plc on 14 September 2011 (alternate – Jakob Pfaudler, appointed 1 August 2014).

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

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

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

EXECUTIVE COMMITTEE

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

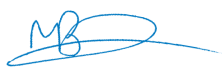
The Executive Committee is chaired by Mike Betts, Group Chief Executive, and includes David Gilman, Group Finance Director, and the other members of the Motability Operations Ltd Board (Anne Downey, HR Director; Ian Goswell, Commercial Director; Matthew Hamilton-James, Motability Operations Limited Finance Director; Jo Pentland, Corporate Services Director; and Ashley Sylvester, Risk & Business Systems Director).

The Executive Committee, which is made up of the Motability Operations Ltd Board members, met 12 times during the financial year and it has delegated authority from the Board to:

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

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

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



Mike Betts
Chief Executive

AUDIT COMMITTEE

The Audit Committee comprises four Independent Non-Executive Directors and four Non-Executive Directors. The Committee is chaired by Christopher Lendrum, and other members being John Callender, Robert Carver, Ian Cowie, Anna Cross, David Oldfield, David Smith and Neill Thomas. Executive Directors and members of senior management are in attendance where appropriate.

The Committee has delegated authority from the Board to:

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

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

- The Company's capital position, incorporating the evolution and quantification of major risks, including those set out in the Independent Auditors' Report, and their implication for capital requirements as recorded and measured through the risk register, to ensure capital adequacy at all times within the parameters agreed by the Board
- A treasury report covering policy and factors affecting liquidity (including ongoing Group financial performance, bank finance availability and bond market access) to ensure that satisfactory liquidity is maintained at all times
- Progress reports from the responsible Executive Director on all key aspects of the business, including current major change programmes and projects. During the year these included the development and implementation of the new IT platform, preparation for Financial Conduct Authority authorisation, and oversight of the performance, governance and reporting of MORL
- Review of the implementation of the Group's Risk Appetite Framework
- Internal Audit reports and issue resolution on a quarterly basis, together with the appropriate resourcing of the function. No significant issues were encountered
- Reports on any significant control failures or incidents over the previous quarter, and resolution to the satisfaction of the committee
- The financial statements for the half year and full year which are considered in depth at the Committee's May and December meetings respectively, with the benefit of a detailed report on the findings of the external auditors, PwC, who are in attendance to present their report and respond to questions. In issuing unqualified reports in the year ended 30 September 2015 the auditors provided appropriate assurance and identified no matters of material concern to the Committee.

Significant financial reporting/judgements and changes in relation to the Group's Financial Statements considered by the Committee are set out on page 41.

The Committee is satisfied that PwC complies with UK regulatory and professional requirements and that its objectivity is not compromised. PwC has held the audit contract for the Company since 2008, and it is envisaged that it will be put out to tender in 2018 in conformance with EU Mandatory Audit Firm legislation.

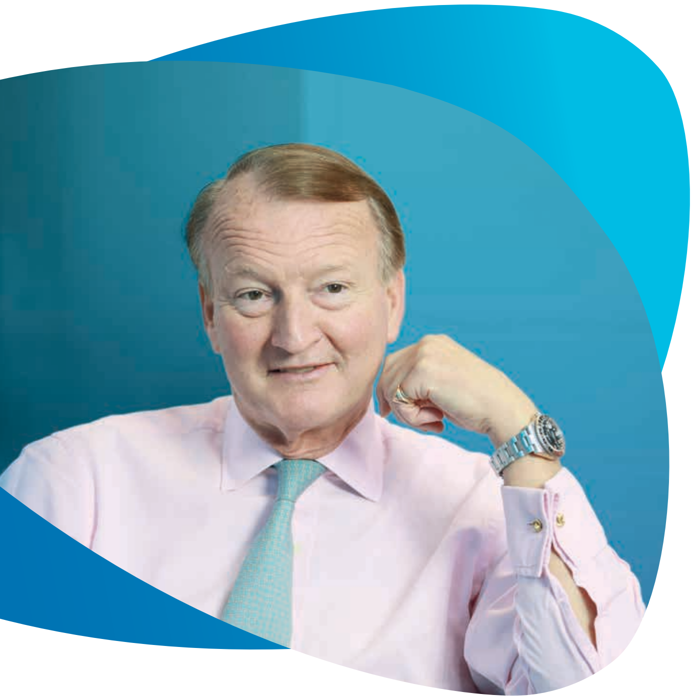
In recognition of the importance of evaluating its own effectiveness, in 2014 the Committee undertook a review covering members' experience and knowledge in the context of the key aspects of its work, the results of which were both reassuring and useful in preparing for future challenges. It will be repeated in 2016.

Christopher Lendrum CBE
Audit Committee Chairman

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

Key judgements in financial reporting	Audit Committee review and conclusions
Residual values	
The estimation of the residual values of the vehicle fleet is subject to a number of economic, industry and portfolio specific factors. Volatility and/or inaccuracy in estimating residual values could have a material impact on the Group's reported financial position.	The estimation of residual values is identified as a key business risk and was subject to regular scrutiny and review by the Audit Committee during the year. The Audit Committee reviewed management's accounting estimates of residual values as part of the financial reporting cycle to understand and evaluate assumptions and estimates. Internal audit provided assurance to the Audit Committee that the residual value forecasting process was undertaken in a controlled manner. The Audit Committee was satisfied that residual value estimations were appropriate and processes well controlled.
Insurance reserves	
Insurance reserves are set aside in anticipation of insurance claims where accidents in the Group's cars have occurred but are yet to be reported. The assessment of these claims results in a provision being recognised, which will affect the reported financial result. The Group's assessment of insurance reserves is based on a detailed independent actuarial assessment.	The Group's assessment of insurance reserves was initially reviewed by the MORL Underwriting Committee and MORL Board to consider the appropriateness of the methodology and assumptions applied. The approach adopted was discussed and subsequently validated by the Audit Committee. The Audit Committee was satisfied that estimate of insurance reserves was appropriate and processes well controlled.
Other accounting estimates	
Other areas of accounting estimate include maintenance accrual and end-of-contract payments. Changes in estimate of future expenditure or payout rates may affect the reported financial result.	The Committee assessed accounting estimates as part of the review process for the financial statements. The Committee discussed the work and findings of internal audit to assess the appropriateness and robustness of estimates. On this basis the Committee was satisfied that estimates of other accounting estimates were appropriate and processes well controlled.
IT systems replacement	
During the year the Group completed the first phase of its systems upgrade programme, with the implementation of the new processing and accounting system for the Powered Wheelchair & Scooter fleet. The effectiveness of data migration processes and the ability to reconcile balances in the new system being essential to the integrity of the Group's financial statements.	The Committee received quarterly progress reports from management on the progress of the systems implementation, with particular focus on data migration, testing and reconciliation processes. The Committee received an independent progress & assurance report from Deloitte. The Committee also reviewed the plan and results of the work of the external auditors for a number of key elements of the implementation including controls, general ledger mapping & reconciliation, automated processes and system functionality. The Committee was satisfied that financial control was maintained through this first phase of implementation.

NOMINATION COMMITTEE



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

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

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

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

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

- The reappointment of Christopher Lendrum as Senior Independent Director for a further three-year term effective 1 June 2015 was approved by the Board
- Agreement to the responsibilities of Ashley Sylvester as the Director responsible for Risk
- The move to a more conventional Group Board structure with just the CEO and CFO as members, effective 9 September 2015
- Succession plans for Directors and senior managers were reviewed and the Committee was satisfied that these were appropriate and met current needs
- The succession plan following David Gilman stepping down from Group Board in September 2016. Matthew Hamilton-James was identified as Mr Gilman's successor
- The appointment of Matthew Hamilton-James and Jo Pentland as Directors of Motability Operations Limited, with effect from 1 June 2015
- Mike Betts stepped down as a Director of MO Reinsurance Limited, effective 1 June 2015
- Ashley Sylvester was appointed as a Director of MO Reinsurance Limited, effective 1 June 2015
- The Non-Executive Directors of MO Reinsurance Limited would be reappointed for a further three-year term, effective 1 February 2016.

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

- Nigel Clibbens, Shareholder Non-Executive Director from RBS resigned from the Board and was succeeded by Andrew Barnard
- Andrew Barnard, Shareholder Non-Executive Director from RBS resigned from the Board and was succeeded by Ian Cowie
- Mike Russell-Brown, Shareholder Non-Executive Director from HSBC resigned from the Board and was succeeded by Rob Carver.

An exercise to evaluate the effectiveness of the Committee was carried out in October 2014 with the conclusion being that it was well run and met the Board's requirements.

Neil Johnson OBE
Chairman

REMUNERATION COMMITTEE

This report has been prepared by the Remuneration Committee and approved by the Group Board. The report this year is divided into two sections: a report of the main activities of the Remuneration Committee and a report of the review of remuneration structures.

Remuneration report

Membership of the Remuneration Committee

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

During the year, the Remuneration Committee was chaired by John Callender until 31 March 2015 who, upon completion of his second three year term as Chair, passed the chairmanship of the Committee to Neill Thomas with effect from 1 April 2015. The other members of the committee are Neil Johnson (Non-Executive Chairman of the Group Board), Chris Lendrum (Senior Independent Director), David Smith and Joe Hennessy (both Independent Non-Executive Directors) and Anna Cross (Non-Executive Director).

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

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

Responsibilities of the Remuneration Committee

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

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

The Committee reports bi-annually to the Group Board and works closely with the Audit and Nomination Committees. The Terms of Reference of the Remuneration Committee are reviewed annually and approved by the Group Board. The effectiveness of the Committee is evaluated at least every three years and was last undertaken during the financial year ending September 2014.

Advisers

The Group takes advice on aspects of remuneration policy and levels of remuneration from external independent consultants. During the second half of the year, a review was conducted of the Committee's remuneration advisers and following a formal tender process, New Bridge Street (which is part of Aon plc) were appointed as independent advisers to the Committee with effect from October 2015. Prior to this, Towers Watson were the advisers.

Activities of the Committee during the year

The Committee met twice in the financial year ending 30 September 2015 and its main activities during the year in respect of the remuneration of the Executive Directors were to:

- Review and agree any changes to base salaries
- Review and agree the annual performance-related pay targets and the resulting payments
- Review and agree the units allocated under the Long Term Incentive Plan
- Assess performance criteria in relation to vesting units under the Long Term Incentive Plan and the application of any decrease or increase in value

In addition, after the financial year end, at its October 2015 meeting the Committee considered and approved the recommendations arising from the review of remuneration structures as set out on pages 45-46.

REMUNERATION COMMITTEE CONTINUED

Executive Director Remuneration Policy

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

Remuneration is linked very clearly to Group and individual performance targets. Individual objectives are aligned to the achievement of the Group's annual objectives, both financial and non-financial, and the demonstration of core values.

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

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

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

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

Executive Directors' Remuneration

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

Base Salary

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

Annual performance-related pay

Annual performance-related payments are not guaranteed and are overtly linked to clear and sustainable measures of business and individual performance, both financial and non-financial. Targets and individual objectives are set annually and the Remuneration Committee considers the performance of each Executive Director against such targets and objectives. During the financial year, the fixed upper limit for discretionary annual performance-related payments for all Executive Directors was 50% of salary.

Long Term Incentive Arrangements

A Long Term Incentive Plan (LTIP) is currently in place for all Executive Directors. Due to its ownership structure, the Group is unable to provide shares or share option schemes. Instead, it provides a deferred cash incentive scheme with returns linked to performance criteria in order to derive similar characteristics to an equity-based plan.

Amounts paid under the LTIP are based on the achievement of long-term objectives relating to the Group's financial results, customer service, product affordability and business culture, and are also linked to the movements in the Group's long term credit ratings.

Payments are made in December following the end of the three year period, subject to the performance criteria being met. Depending on performance, the value of the units can decrease as well as increase. Details of units allocated and payments made under the LTIP can be found in Note 34 - Directors' Remuneration on page 86.

A five-year long term incentive scheme for the current Chief Executive Officer was introduced in 2010. Any potential benefit has now been deferred for seven years, during which period no additional allocations will be made into the Scheme and any potential benefit will continue to be linked to stretching financial performance targets.

Malus and claw-back clauses apply to the variable pay elements of remuneration (annual performance-related pay and long-term incentive arrangements). In the event of a serious defect in the individual's performance coming to light after an allocation has been made, the Company has the right to adjust or withhold part or all payment or, in the event that payment has already been made, to claw-back part or all of the payment.

Core Benefits

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

Pension

The Group provides a Defined Contribution scheme for Executive Directors which is non-contributory for the employee. The Group makes contributions equivalent to 15% of base salary (other than for some individuals who are grandfathered under a previous policy of contributions at 25% of base salary).

In light of the annual and life-time limits to tax-relievable pension contributions which the Government introduced in 2010, Executive Directors can reduce or cease contributions being made to the Company's pension scheme and, instead, receive a pension allowance. Where an allowance is paid, normal tax and National Insurance deductions are made.

Details of the Executive Directors' remuneration are set out in Note 34 on page 86 of the Financial Statements.

Leaving and Joining Arrangements for Executive Directors

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

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

Non-Executive Directors' Remuneration

The level of fees for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors of Motability Operations Group plc and its subsidiaries are set to attract individuals with an appropriate range of skills and experience, reflecting the complexity of the role and the time commitment required. Their fees are reviewed from time to time based on the market and their level of responsibility, including whether they are a member or chair of a Board Committee. The Non-Executive Directors from the Shareholder banks are not remunerated by, and are not eligible for, any benefits from the Group.

The Non-Executive Chairman receives an annual fee, private medical insurance, travel insurance and a company car (or cash allowance in lieu). Details of the Non-Executive Chairman's remuneration are set out in Note 34 on page 86 of the Financial Statements.

Remuneration for the Senior Independent Director and the Independent Non-Executive Directors comprises a basic fee with additional fees being paid if they are a member of, or chair, one or more Board Committees. The Senior Independent Director and the Independent Non-Executive Directors are not eligible for any benefits from the Group.

A review of the remuneration for the Non-Executive Chairman, the Senior Independent Director and the Independent Non-Executive Directors will be undertaken with advice from New Bridge Street during the first half of the next financial year.

Other Matters

The Group's remuneration policy promotes Equal Pay. The Group is also committed to paying at least at the level of the current Living Wage (as calculated by the Living Wage Foundation) for an individual's base location.

Review of Remuneration Structures

As outlined in the Chairman's statement, during the year a review was conducted to evaluate the service delivery model against the Scheme's key objectives and to determine the nature, roles and responsibilities of the Executive Director positions required by the business model. The review was overseen by a Steering Committee comprising the Chairman, the Senior Independent Director and the Chairman of the Remuneration Committee. In concluding that the service delivery model is currently "fit for purpose", the review identified the following key positions as continuing to be the major Executive Director roles required by the business:

- Chief Executive Officer
- Finance Director
- Risk & Business Systems Director
- Commercial Director
- Human Resources Director
- Corporate Services Director & Group Company Secretary

In order for the review to align these roles to effective remuneration structures, a set of principles was established and a rigorous process followed to derive a set of recommendations.

Principles

The following principles were applied throughout the review to determine an approach to remuneration which is:

- clear and transparent
- representative of current and evolving best practice
- founded on robust methodology
- benchmarked to publicly available comparative information
- representative of the component elements and levels required to attract and retain individuals with the skills and calibre to carry out the roles identified.

Process

The key steps which were followed to develop a set of recommendations were:

- the Steering Committee undertook a formal tender process and evaluation to identify an appropriate independent external remuneration adviser to the review. Three parties were invited to participate and New Bridge Street was chosen as adviser to the Steering Committee
- the Steering Committee worked with New Bridge Street to consider current remuneration structures and to develop a set of proposals which it recommended for consideration by the Remuneration Committee
- the Remuneration Committee considered the proposals at its October 2015 meeting and unanimously agreed with the recommendations
- the proposals and recommendations were shared with the bank nominated Non-Executive Directors (to the extent such individuals are not members of the Remuneration Committee) and the Independent Non-Executive Directors.

The recommendations below are reflective of the output of the above process which at no stage sought or received the input of the Executive Directors.

REMUNERATION COMMITTEE CONTINUED

Recommendations

Use of benchmark data

It is recommended that benchmark data continues to be used reflecting as it does current and evolving market practice in relation to the remuneration of the type of individuals that the business must be able to attract, compete for and retain in a competitive market for talent. Motability Operations is however, a unique business and in the absence of direct comparators, remuneration data from a range of companies including private entities, mutual organisations and FTSE 250 companies will continue to be used.

Remuneration components

It is recommended that in relation to the components of remuneration applicable to the Executive Director roles as described in the Remuneration Report above, the following changes in methodology are applied:

Base Salary: No change

Annual Performance-Related Pay: Awards will continue to be linked to clear and sustainable measures of business and individual performance, both financial and non-financial, with further and additional levels of stretch incorporated to encourage and reward outstanding performance. The fixed upper limit for discretionary performance-related payments will be amended to 100% of salary for the roles of Chief Executive Officer, Finance Director, Risk & Business Systems Director and Commercial Director and to 60% of salary for the roles of Human Resources Director and Corporate Services Director and Company Secretary. Targets and individual objectives will be set annually at the beginning of each year and individual performance will be evaluated against these criteria when determining annual awards.

Long Term Incentive Arrangements: The current LTIP will no longer apply. Instead as a mechanism to both retain Executive Directors and to incentivise sustainable longer term performance and behaviours, 50% of the Annual Performance-Related Pay which is awarded will be deferred for a period of three years. Performance criteria will apply to the release of such deferred amounts in each year and there will be no opportunity to earn an incremental return on deferred cash sums prior to their release.

Core Benefits and Pensions: No change

Effective Date

These recommendations have been approved by the Board and will be applied to remuneration for the Executive Directors with effect from 1 October 2015. Whilst the LTIP scheme will no longer apply from that date with respect to the award of additional units, existing awards will continue to vest over the next three financial years in accordance with the conditions of the plan provided both company and individual performance criteria are met as set out in the plan rules.

Neill Thomas
Remuneration Committee Chairman

Corporate Social Responsibility

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

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

Other environmental, social and governance policies

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

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

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

Charitable and political donations

During the year the Company made charitable donations of £66,211 (2014: £76,746) to support and sponsor local initiatives through our 'mycommunity' programme. In addition, the Group made a £25m charitable donation to Motability as part of our commitment to support the PIP transitional support package (2014: £150m donation).

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

Proposed dividend

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

Directors' indemnity

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

Statement of Directors' responsibilities

Statement of Directors' responsibilities

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

In preparing these financial statements the Directors are required to:

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

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

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

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

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

Each of the Directors, whose names and functions are listed on page 38, confirm that, to the best of their knowledge:

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

Going concern

The Directors are satisfied that the Group has adequate resources to continue in operational existence for the foreseeable future, and for this reason the financial statements continue to be prepared on the going concern basis.

Independent auditors

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

Directors

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

Martin Lord, Peter Lord and Jakob Pfaulder served as alternate Directors throughout the year.

Robert Carver was appointed as a Non-Executive Director on 1 January 2015.

Ian Cowie was appointed as a Non-Executive Director on 1 September 2015.

Andrew Barnard was appointed as a Non-Executive Director on 1 March 2015 and resigned on 31 July 2015.

Mike Russell-Brown resigned as Non-Executive Director on 31 December 2014.

Nigel Clibbens resigned as Non-Executive Director on 28 February 2015.

Anne Downey, Ian Goswell and Ashley Sylvester resigned as Executive Directors on 9 September 2015.

Directors' interests

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

Signed by order of the Board

Jo Pentland
Company Secretary

9 December 2015

Report on the financial statements

Our opinion

In our opinion:

- Motability Operations Group plc's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 30 September 2015 and of the Group's profit and the Group's and the Company's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with International Financial Reporting Standards ("IFRSs") as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

What we have audited

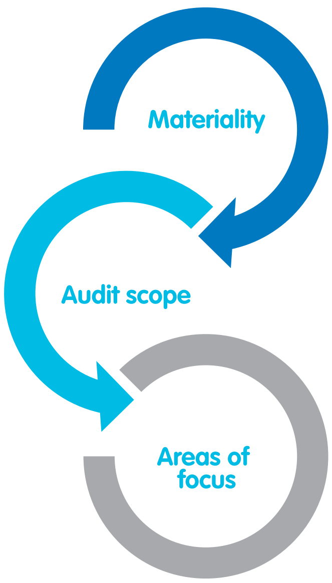
Motability Operations Group plc's financial statements comprise:

- the Group and Company balance sheets as at 30 September 2015;
- the Group income statement and Group statement of comprehensive income for the year then ended;
- the Group and Company statements of cash flows for the year then ended;
- the Group and Company statements of changes in equity for the year then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union and, as regards the Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Our audit approach

Overview



Materiality

Overall Group materiality: £20.4 million, which represents 1% of adjusted revenue (2014: £19.2 million).

Audit scope

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

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

Areas of focus

Our areas of focus comprised:

- Residual values of used cars
- Deferred income
- Valuation and completeness of the incurred but not reported (IBNR) insurance reserves
- The implementation of a new system for the Powered Wheelchair and Scooter Scheme (PWS)

The scope of our audit and our areas of focus

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

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

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

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

Area of focus	How our audit addressed the area of focus
Deferred income Vehicle lease prices incorporate an estimate of the future costs of maintenance over the lease period. The Group defers a portion of revenues and releases amounts in the period in which maintenance activity takes place in order to match revenues to costs incurred. In order to calculate the amount of revenue to be deferred and released, management estimates projected maintenance expenditure prior to the commencement of leases and monitors actual expenditure. Actual costs are used to update forecasts of maintenance expenditure for each vehicle tranche. Inaccurate estimates of forecast total maintenance expense could result in revenues being over or under reported in a given reporting period. Errors in the computation would also lead to inaccurate deferred revenue balances being recorded at the period end. Estimating the maintenance expenditure and related deferral of revenue is highly judgemental and dependent on a number of factors including vehicle mileage and usage, part costs, servicing costs and servicing schedules. As such, this was an area of focus for our audit.	We reviewed the maintenance budgeting and maintenance cost evaluation processes to understand how revenue is deferred and subsequently released in the period in which maintenance activity takes place. We assessed estimated maintenance costs and the review and challenge by senior management on a quarterly basis at the Service, Maintenance and Repair forum. We attended a number of these forum meetings to observe the level of challenge offered by senior management and check that maintenance budgets, actual expenditure and forecast remaining cost are accurately updated in the calculation of deferred revenue. We tested the key inputs into the computation of deferred maintenance revenue balances, namely actual costs to date, forecast maintenance costs and the length of leases by testing data inputs, assumptions and calculations, including agreeing part costs and servicing costs to invoices received. Based on the audit evidence obtained through the combination of controls and substantive testing outlined above, we concluded that the assumptions used by management in the calculation of deferred income were reasonable and supportable.
Valuation and completeness of the incurred but not reported (IBNR) insurance reserves IBNR reserves are set aside for insurance claims where accidents in the Group's cars have occurred but are yet to be reported. At the period end, the Group estimates the number and severity of these claims to determine the level of provisions to be recognised. The calculation of the IBNR insurance reserves requires management to estimate potential levels and amounts of claims which have been incurred but not yet reported. Management uses an independent actuary to undertake a study using a combination of actuarial methods to determine the projected liability at the period end. Given the level of judgement and uncertainty involved, there is a risk that the methodology adopted for claims IBNR reserving may not be appropriate, resulting in an under or over provided amount, and, as such, this is an area of focus for us.	We evaluated the methods of reserving and the appropriateness of the methodology used by management's actuary to calculate the IBNR reserves. We performed a detailed review of the actuarial report, reviewing underlying assumptions and agreeing the source data to the year-end audited claims information. Based on the audit evidence we concluded that the assumptions used by management's actuary in the calculation of the IBNR insurance reserves were reasonable and supportable.
New system implementation During the year, the Group implemented a new processing and accounting system for the Powered Wheelchair and Scooter (PWS) business. Incorrect or incomplete data migration from the legacy system to the new system or inappropriate new system functionality could have resulted in account balances being misstated. As such, this was an area of focus for us.	We understood and evaluated the implementation approach and the controls in place to ensure the completeness and accuracy of data transferred to the new system, general ledger mapping and new system functionality. We re-performed the data and general ledger reconciliations to ensure that the data transferred from the legacy system to the new system was complete and accurate. We tested the automated business controls of the new processing and accounting system that we rely on for the purposes of our audit, including the automated depreciation and deferred income calculations. Also, we tested the automated data interfaces between the underlying operating platform and the general ledger to ascertain complete and accurate transfer of information. We found that based on the audit evidence obtained that we were satisfied that the data migration for the PWS business was performed completely and accurately and that based on the testing completed there were no issues noted with the functionality of the new system.

How we tailored the audit scope

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

The Group's operations and supporting accounting functions are based in London, Bristol and the Isle of Man. Further details of how the Motability Car and Powered Wheelchair & Scooter Scheme operate are detailed on pages 2 to 5.

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

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

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

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

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

Materiality

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

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

Overall Group materiality	£20.4 million (2014: £19.2 million).
How we determined it	This represents 1% of adjusted revenue. Adjusted revenue is current year revenues, excluding proceeds from the disposal of operating lease assets of £1,896 million.
Rationale for benchmark applied	We believe that revenue, adjusted to exclude proceeds from the disposal of operating lease assets, provides a consistent year-on-year basis for determining materiality as proceeds from disposal of operating lease assets are likely to fluctuate and management assesses core business revenue performance excluding these proceeds.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1.0 million (2014: £1.0 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the information given in the Corporate Governance Statement set out on pages 36 to 48 with respect to internal control and risk management systems and about share capital structure is consistent with the financial statements.

Other matters on which we are required to report by exception

Adequacy of accounting records and information and explanations received

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

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

We have no exceptions to report arising from this responsibility.

Directors' remuneration

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

Corporate governance statement

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

Responsibilities for the financial statements and the audit

Our responsibilities and those of the Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 48, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

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

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

What an audit of financial statements involves

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

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

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

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

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

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

9 December 2015

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

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

Income statement

For the year ended 30 September 2015

	Note	2015 Group £m	2014 Group £m
Revenue	4	3,920.0	3,802.9
Net operating costs excluding charitable donations		(3,450.1)	(3,232.3)
Charitable donations		(25.0)	(150.0)
Net operating costs	6	(3,475.1)	(3,382.3)
Profit from operations		444.9	420.6
Finance costs	9	(183.3)	(169.3)
Profit before tax		261.6	251.3
Taxation (*)	10	(51.6)	(46.6)
Profit for the financial year		210.0	204.7

(*) The taxation charge for the year of £51.6m comprises a tax charge of £53.5m and a deferred tax release of £1.9m which is a result of the reduction of the corporation tax rate to 20% with effect from April 2015 (2014: taxation charge for the year of £46.6m comprising a tax charge of £55.7m and a deferred tax release of £9.1m).

Under section 408 of the Companies Act 2006, the Group has elected to take the exemption with regard to disclosing the company income statement and statement of comprehensive income. The Company's profit for the year was £12.3m (2014: £3.6m).

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

Statement of comprehensive income

For the year ended 30 September 2015

	Note	2015 Group £m	2014 Group £m
Profit for the financial year		210.0	204.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	25	(62.1)	(38.2)
Gains on foreign currency translation	25	38.5	59.4
Tax relating to components of other comprehensive income		4.9	(4.2)
Other comprehensive income for the year, net of tax		(18.7)	17.0
Total comprehensive income for the year		191.3	221.7

The notes on pages 58 to 96 form part of these financial statements

Balance sheets

As at 30 September 2015

	Note	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Assets					
Non-current assets					
Intangible assets	11	17.2	9.0	–	–
Property, plant and equipment	12	19.6	22.6	–	–
Assets held for use in operating leases	13	6,254.9	5,916.3	–	–
Held to maturity investments	15	23.5	–	–	–
Investment in subsidiaries	16	–	–	113.8	68.8
Loans to Group companies	16	–	–	3,737.5	3,585.0
Hire purchase receivables	18	–	7.2	–	–
Trade and other receivables	20	25.9	18.3	9.9	2.6
Derivative financial instruments	26	1.8	0.1	1.8	0.1
Deferred tax asset	27	–	2.8	–	–
		6,342.9	5,976.3	3,863.0	3,656.5
Current assets					
Inventories	14	109.9	98.8	–	–
Held to maturity investments	15	1.4	–	–	–
Cash and bank balances	17	267.2	206.9	114.4	113.2
Hire purchase receivables	18	0.9	5.6	–	–
Insurance receivables	19	75.7	20.9	–	–
Trade and other receivables	20	237.2	272.3	2.0	12.9
		692.3	604.5	116.4	126.1
Total assets		7,035.2	6,580.8	3,979.4	3,782.6
Liabilities					
Current liabilities					
Corporation tax payable		(13.0)	(27.8)	–	(0.1)
Deferred rental income	21	(170.9)	(160.1)	–	–
Insurance payables	22	(30.8)	(10.0)	–	–
Trade and other payables	23	(163.4)	(153.6)	(148.6)	(116.9)
General insurance provisions	24	(106.8)	(27.1)	–	–
Financial liabilities	25	(419.3)	(130.1)	(350.2)	(49.7)
Derivative financial instruments	26	(0.1)	–	(0.1)	–
		(904.3)	(508.7)	(498.9)	(166.7)
Net current (liabilities)/assets		(212.0)	95.8	(382.5)	(40.6)
Non-current liabilities					
Deferred rental income	21	(211.8)	(192.7)	–	–
Financial liabilities	25	(3,319.7)	(3,507.0)	(3,319.7)	(3,507.0)
Derivative financial instruments	26	(100.5)	(36.8)	(100.5)	(36.8)
Deferred tax liabilities	27	(404.9)	(432.9)	(0.8)	(6.2)
		(4,036.9)	(4,169.4)	(3,421.0)	(3,550.0)
Total liabilities		(4,941.2)	(4,678.1)	(3,919.9)	(3,716.7)
Net assets		2,094.0	1,902.7	59.5	65.9
Equity					
Ordinary share capital	28	0.1	0.1	0.1	0.1
Hedging reserve		5.3	24.0	5.3	24.0
Restricted reserves (*)		2,088.6	1,878.6	54.1	41.8
Total equity		2,094.0	1,902.7	59.5	65.9

(*) 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 54 to 96 were approved by the Board of Directors on 09 December 2015.

Mike Betts
Chief Executive

Motability Operations Group plc
Registered number 6541091

The notes on pages 58 to 96 form part of these financial statements

Statements of changes in equity

For the year ended 30 September 2015

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2013	0.1	7.0	1,673.9	1,681.0
Comprehensive income				
Profit for the year	–	–	204.7	204.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(38.2)	–	(38.2)
Gains on foreign currency translation	–	59.4	–	59.4
Tax relating to components of other comprehensive income	–	(4.2)	–	(4.2)
Total comprehensive income	–	17.0	204.7	221.7
At 1 October 2014	0.1	24.0	1,878.6	1,902.7
Comprehensive income				
Profit for the year	–	–	210.0	210.0
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(62.1)	–	(62.1)
Gains on foreign currency translation	–	38.5	–	38.5
Tax relating to components of other comprehensive income	–	4.9	–	4.9
Total comprehensive income	–	(18.7)	210.0	191.3
At 30 September 2015	0.1	5.3	2,088.6	2,094.0

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2013	0.1	7.0	38.2	45.3
Comprehensive income				
Profit for the year	–	–	3.6	3.6
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(38.2)	–	(38.2)
Gains on foreign currency translation	–	59.4	–	59.4
Tax relating to components of other comprehensive income	–	(4.2)	–	(4.2)
Total comprehensive income	–	17.0	3.6	20.6
At 1 October 2014	0.1	24.0	41.8	65.9
Comprehensive income				
Profit for the year	–	–	12.3	12.3
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(62.1)	–	(62.1)
Gains on foreign currency translation	–	38.5	–	38.5
Tax relating to components of other comprehensive income	–	4.9	–	4.9
Total comprehensive income	–	(18.7)	12.3	(6.4)
At 30 September 2015	0.1	5.3	54.1	59.5

The notes on pages 58 to 96 form part of these financial statements

Statements of cash flows

For the year ended 30 September 2015

	Note	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	29	223.5	97.4	(119.7)	(160.5)
Interest (paid)/received		(175.6)	(163.6)	19.0	52.2
Income tax paid		(86.8)	(32.2)	–	–
Net cash used in operating activities		(38.9)	(98.4)	(100.7)	(108.3)
Cash flows from investing activities					
Investment in subsidiary	16	–	–	(45.0)	(25.0)
Purchase of corporate property, plant and equipment and intangible assets	11,12	(12.1)	(12.1)	–	–
Proceeds from sale of corporate property, plant and equipment	11,12	0.6	0.4	–	–
Investment in held to maturity financial assets	15	(24.9)	–	–	–
Net cash used in investing activities		(36.4)	(11.7)	(45.0)	(25.0)
Cash flows from financing activities					
Bank loans raised	25	–	400.0	–	400.0
Bank loans repaid		(50.0)	(500.0)	(50.0)	(500.0)
Bonds issued	25	396.9	294.5	396.9	294.5
Bonds redeemed		(200.0)	–	(200.0)	–
Net cash generated from financing activities		146.9	194.5	146.9	194.5
Net increase in cash and cash equivalents		71.6	84.4	1.2	61.2
Cash and cash equivalents at beginning of year		126.5	42.1	113.2	52.0
Cash and cash equivalents at end of year	17	198.1	126.5	114.4	113.2

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 to 3 and the Group's Shareholders are detailed in the Operational review on page 24.

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

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

Accounting convention

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

2. Significant accounting policies

Basis of preparation

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

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

Except as described below, the accounting policies have been applied consistently to the years 2015 and 2014.

Adoption of new or revised standards

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

IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
Amendment to IAS 19	*Employee Contributions*
IAS 27 (reissued)	*Consolidated and Separate Financial Statements*
IAS 28 (reissued)	*Investments in Associates*
Amendments to IAS 32	*Financial Instruments: Presentation*
Amendments to IAS 36	*Impairment of Assets*
Amendments to IAS 39	*Financial Instruments: Recognition and Measurement*
Annual improvements to IFRSs	*2010-2012 Cycle*
Annual improvements to IFRSs	*2011-2013 Cycle*

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

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

2. Significant accounting policies continued

Adoption of new or revised standards continued

IFRS 15

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

IFRS 16

IFRS 16 will be the new standard on Leasing to replace IAS 17, with a likely implementation date of accounting periods commencing on or after 1 January 2019, so that for the Group the first accounting period in which adoption is required is that for the year ending 30 September 2020 (with comparative figures for the previous accounting period also affected). In view of the direct link between this standard and the Group's business, the Group has been following the development of this standard and has undertaken initial assessments of the impact of adoption of this standard. The standard expected to be published does not make any significant changes to accounting for lessors compared with the requirements of IAS 17. If IFRS 16 had been applied to the Group's financial statements for the year ended 30 September 2015:

- there would have been no impact on the Group's accounting as a lessor;
- the change in accounting by the Group as lessee would have resulted in an immaterial reduction in the reported profit for the year and in the Group's restricted reserves as at 30 September 2015;
- there would have been an increase in the Group's property, plant and equipment and financial liabilities as at 30 September 2015, with the increase in each of these items being substantially identical;
- there would have been no impact on Motability Operations Group plc's individual company financial statements.

With the exception of IFRS 15 and IFRS 16, the Directors anticipate that the adoption of these standards, amendments and interpretations in future periods will have no material effect on the financial statements of the Group.

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

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report on pages 11 to 19. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 20 to 23. In addition, note 36 to the financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk.

The Group has considerable financial resources together with a long-term contract with Motability to operate the 'Motability Scheme'. As a consequence, the Directors believe that the Group is well placed to manage its business risks.

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

Basis of consolidation

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

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

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

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

Investment in subsidiaries

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

Intangible assets

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

2. Significant accounting policies continued

Property, plant and equipment

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

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

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

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

Assets held for use in operating leases

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

Inventories

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

Revenue recognition

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

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

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

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

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

Deferred income – maintenance

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

Deferred income – vehicle condition

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

Leasing obligations

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

Net operating costs

Net operating costs comprise net book value of disposed operating lease assets, depreciation, insurance, maintenance, dealer supply and service payments, roadside assistance, charitable donations and other Scheme-related costs including the Motability levy (see note 33) and overheads. An analysis is provided in note 6.

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

Finance costs

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

Retirement benefit costs

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

2. Significant accounting policies continued

Taxation

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

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

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

Long Term Incentive Arrangements

Payments falling due under Long Term Incentive Arrangements depend upon length of service and performance criteria (see note 34). The cost is recognised during the years in which services are rendered subject to meeting specific performance requirements.

Share capital

Ordinary share capital is classified as equity. The Group's preference shares are classified as debt, with the associated dividend being recognised on an amortised cost basis in the income statement as a finance cost.

Financial instruments

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

Foreign currency translation

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

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

Financial assets

Trade and other receivables

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

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

Hire purchase receivables

Under IAS 17, hire purchase agreements, which transfer substantially all the risks and rewards of ownership to the customer, are treated in the same way as finance leases.

Assets purchased by customers under hire purchase contracts are included in hire purchase receivables at gross amount receivable, less unearned finance charges. Finance income is recognised over the lease term using a net investment method so as to reflect a constant periodic rate of return on the Group's net investment in the contract. Hire purchase receivable balances also include an allowance for estimated irrecoverable amounts by reference to past default experience.

Insurance receivables

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

Cash and cash equivalents

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

Notes to the financial statements continued

2. Significant accounting policies continued

Financial assets continued

Held to maturity investments

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

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

Financial liabilities including trade and other payables

Trade and other payables

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

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

Financial liabilities

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

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

Insurance payables

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

Derivative financial instruments

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

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

Insurance contracts

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

Recognition and measurement

Insurance and reinsurance claims and loss adjustment expenses are charged and credited to the income statement as incurred based on the estimated liability for compensation owed to contract holders. They include direct and indirect claims settlement costs and arise from events that have occurred up to the balance sheet date even if they have not yet been reported to the Group. The measurement of insurance liabilities and reinsurance recoveries is described in more detail in note 24.

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

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

2. Significant accounting policies continued

Hedge accounting

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

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

Note 26 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the fair value reserve (net of tax effects) are also detailed in the statement of changes in equity.

Cash flow hedge

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

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

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

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

Critical judgements in applying the Group's accounting policies:

Residual values of operating lease assets

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

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the residual values of the operating lease assets may differ from their realisable value (see note 13). As at 30 September 2015, if the future value of the net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used car market), the effect would be to decrease/increase the depreciation on these vehicles by £47.4m (2014: £45.5m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases, from the start of the current accounting year, so that the net investment in operating leases at the end of the lease term for these vehicles is equal to the revised expected residual value.

Insurance contracts

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

4. Revenue

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

	2015 £m	2014 £m
Rentals receivable from operating leases	2,007.2	1,952.9
Proceeds from disposal of operating lease assets	1,896.2	1,830.6
Insurance reimbursements from disposal of operating lease assets	12.9	15.0
Other income	1.2	1.9
Hire purchase earnings	0.9	1.6
Finance income	0.9	0.3
Contingent rentals	0.7	0.6
Total revenue	3,920.0	3,802.9

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

Reinsurance premiums earned by the Group's insurance captive of £128.1m (2014: £44.8m) relate to the Group's fleet. Therefore, on consolidation, they are recognised as a reduction of insurance premiums paid as part of the Group's fleet operating costs.

5. Segmental analysis

The Group is organised into two main operating segments: Scheme Operations and Fleet Reinsurance. Fleet Reinsurance is not a reportable segment as it does not yet exceed any of the quantitative thresholds in IFRS 8. Accordingly, no segmental analysis is presented.

6. Net operating costs

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

	2015 £m	2014 £m
Net book value of disposed operating lease assets	1,790.5	1,719.5
Fleet operating costs including insurance, maintenance and roadside assistance costs	512.0	560.2
Insurance claims expense	125.1	40.9
Other operating costs	58.8	58.3
Employee costs	47.1	43.5
Other product costs including continuous mobility costs, adaptations support, communications	39.1	31.1
Charitable donations	25.0	150.0
Legal and professional fees	16.1	11.6
Bad debt charges and movement in bad debt provisions	12.3	4.4
Motability levy and rebates	10.9	10.8
Management fees	0.8	0.8
Net operating costs before depreciation and amortisation	2,637.7	2,631.1
Depreciation on assets used in operating leases	831.0	743.6
Depreciation and amortisation of property, plant and equipment and intangible assets	6.4	7.6
Net operating costs	3,475.1	3,382.3

The depreciation charge on assets used in operating leases includes a £63.0m charge (2014: £3.0m release) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditors' remuneration

		2015	2014
Auditors' remuneration:	Audit fees for Group and Parent Company financial statements	£170,000	£169,247
Total audit fees		£170,000	£169,247
	Audit fees paid on behalf of subsidiaries	£139,250	£108,713
	Audit-related assurance services	£64,750	£64,925
	Tax compliance services	£0	£0
	Tax advisory services	£0	£0
	Internal audit services	£0	£0
	Other assurance services	£40,800	£39,450
	Corporate finance services	£0	£0
Total other fees payable to auditors		£244,800	£213,088

8. Employee costs

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

Group

	2015	2014
Administrative staff	830	807

	2015 £m	2014 £m
The breakdown of staff costs is as follows:		
Wages and salaries	39.5	36.4
Social security costs	4.4	4.1
Other pension costs	3.2	3.0
Total employee costs	47.1	43.5

9. Finance costs

	2015 £m	2014 £m
Interest and charges on bank loans and overdrafts	11.7	20.4
Interest on debt issued under the Euro Medium Term Note Programme	170.9	148.2
Preference dividends	0.7	0.7
Total finance costs	183.3	169.3

10. Taxation

The major components of the Group tax expense are:

	2015 £m	2014 £m
Current tax		
Charge for the year	72.1	55.8
Adjustment in respect of prior years	(0.2)	(0.4)
Total	71.9	55.4
Deferred tax		
Origination and reversal of temporary differences	(17.6)	(0.2)
Adjustment in respect of prior years	(0.3)	0.4
Utilisation of pre-trading losses brought forward	(0.5)	0.1
Impact of change in UK tax rate	(1.9)	(9.1)
Total	(20.3)	(8.8)
Tax on profit	51.6	46.6

Notes to the financial statements continued

10. Taxation continued

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

	2015 £m	2014 £m
Profit before taxation	261.6	251.3
Tax calculated at appropriate tax rates applicable to profit	53.6	55.3
Expenses not deductible for tax purposes	0.4	0.4
Adjustment relating to prior year's deferred tax	(0.3)	0.4
Adjustments recognised in the current year in relation to the current tax of prior years	(0.2)	(0.4)
Remeasurement of deferred tax due to change in the UK corporation tax rate	(1.9)	(9.1)
Total tax on profit	51.6	46.6

The standard rate of corporation tax in the UK changed from 21% to 20% with effect from 1 April 2014. Accordingly, profits are taxed at 20.5% for this accounting year (2014: 22.0%).

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

11. Intangible assets

Group

Cost	Total £m
At 1 October 2013	16.3
Additions	7.0
At 1 October 2014	23.3
Additions	10.5
At 30 September 2015	33.8

Accumulated amortisation and impairment	
At 1 October 2013	11.4
Amortisation charge for the year	2.9
At 1 October 2014	14.3
Amortisation charge for the year	2.3
At 30 September 2015	16.6

Carrying amount	
At 1 October 2013	4.9
Additions	7.0
Amortisation	(2.9)
At 1 October 2014	9.0
Additions	10.5
Amortisation	(2.3)
At 30 September 2015	17.2

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

At 30 September 2015, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £nil (2014: £6.1m). These amounts relate to the IT system replacement project.

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2013	2.1	22.6	14.4	39.1
Additions	0.9	3.1	1.1	5.1
Disposals	(0.8)	–	–	(0.8)
At 1 October 2014	2.2	25.7	15.5	43.4
Additions	1.1	–	0.5	1.6
Disposals	(1.0)	–	–	(1.0)
At 30 September 2015	2.3	25.7	16.0	44.0

Accumulated depreciation				
At 1 October 2013	0.7	6.1	9.7	16.5
Charge for the year	0.5	1.5	2.7	4.7
Eliminated on disposals	(0.4)	–	–	(0.4)
At 1 October 2014	0.8	7.6	12.4	20.8
Charge for the year	0.5	1.6	2.0	4.1
Eliminated on disposals	(0.5)	–	–	(0.5)
At 30 September 2015	0.8	9.2	14.4	24.4

Carrying amount				
At 1 October 2013	1.4	16.5	4.7	22.6
Additions	0.9	3.1	1.1	5.1
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.5)	(1.5)	(2.7)	(4.7)
At 1 October 2014	1.4	18.1	3.1	22.6
Additions	1.1	–	0.5	1.6
Disposals	(0.5)	–	–	(0.5)
Depreciation	(0.5)	(1.6)	(2.0)	(4.1)
At 30 September 2015	1.5	16.5	1.6	19.6

At 30 September 2015, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £nil (2014: £nil).

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2013	6,978.0
Additions	2,817.9
Transfer to inventory	(2,536.0)
At 1 October 2014	7,259.9
Additions	2,971.0
Transfer to inventory	(2,571.1)
At 30 September 2015	7,659.8

Accumulated depreciation	
At 1 October 2013	1,405.4
Charge for the year	743.6
Eliminated on transfer to inventory	(805.4)
At 1 October 2014	1,343.6
Charge for the year	831.0
Eliminated on transfer to inventory	(769.7)
At 30 September 2015	1,404.9

Carrying amount	
At 1 October 2013	5,572.6
Additions	2,817.9
Depreciation	(743.6)
Transfer to inventory (note 14)	(1,730.6)
At 1 October 2014	5,916.3
Additions	2,971.0
Depreciation	(831.0)
Transfer to inventory (note 14)	(1,801.4)
At 30 September 2015	6,254.9

Residual values

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

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

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

Years in which unguaranteed residual values are recovered

	2015 £m	2014 £m
No later than one year	1,449.8	1,366.6
Later than one year and not later than two years	1,473.1	1,378.5
Later than two years and not later than five years	1,820.8	1,804.0
Total exposure	4,743.7	4,549.1

13. Assets held for use in operating leases continued

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

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

	2015 £m	2014 £m
Prior years	(47.4)	(31.8)
Current year	(63.0)	3.0
Amounts carried at 30 September	(110.4)	(28.8)
Amounts to be charged in future years	(181.2)	(87.6)
Total effect of changes in estimated residual value	(291.6)	(116.4)

The Group and Company as lessor

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

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
No later than one year	1,580.4	1,532.6	–	–
Later than one year and not later than two years	935.8	942.0	–	–
Later than two years and not later than five years	364.4	382.5	–	–
Total	2,880.6	2,857.1	–	–

14. Inventories

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Ex-operating lease assets held for sale	109.9	99.0	–	–
Provisions	–	(0.2)	–	–
Ex-operating lease assets held for sale (net)	109.9	98.8	–	–

Inventories represent the operating lease assets previously held for rental to others and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £nil has been provided against irrecoverable vehicles (2014: £0.2m). During the year there was a £0.2m release of provision and £nil written off (2014: £0.2m release in provision and £nil written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £1,790.5m (2014: £1,719.5m).

The movements of the inventories in 2015 and 2014 are as follows:

	£m
At 1 October 2013	87.9
Transfer from operating lease assets (note 13)	1,730.6
Disposals	(1,719.5)
At 1 October 2014	99.0
Transfer from operating lease assets (note 13)	1,801.4
Disposals	(1,790.5)
At 30 September 2015	109.9

15. Held to maturity investments

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Current	1.4	–	–	–
Non-current	23.5	–	–	–
Total held to maturity investments	24.9	–	–	–

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

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
On demand or no later than one year	1.4	–	–	–
Later than one year and no later than two years	7.6	–	–	–
Later than two years and no later than five years	15.9	–	–	–
Later than five years	–	–	–	–
Total	24.9	–	–	–

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

The Group's held to maturity investments comprise investments in quoted debt securities (fixed-income bonds). The average effective interest rate of the quoted debt securities is 1.14% per annum (2014: 0.00%), with coupon rates ranging from 0.00% to 6.25% per annum (2014: 0.00% to 0.00%). The held to maturity investments are denominated in Sterling, which is the functional currency of the Group.

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

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

	2014 Group carrying amount £m	2014 Group fair value £m	2014 Company carrying amount £m	2014 Company fair value £m
Current held to maturity investments	–	–	–	–
Non-current held to maturity investments	–	–	–	–
Total	–	–	–	–

16. Investment in subsidiaries

	2015 £m	2014 £m
Investment in subsidiaries at 30 September	113.8	68.8

The Company's subsidiaries are set out below:

Directly owned	Proportion of all classes of issued share capital owned by the Company	Principal activity
Motability Operations Limited	100%	Operation of the Scheme
Motability Hire Purchase Limited	100%	Financing of Scheme hire purchase agreements
Route2mobility Limited	100%	Dormant
MO Reinsurance Limited	100%	Provision of Scheme reinsurance arrangements
Indirectly owned		
Motability Leasing Limited (*)	100%	Financing of Scheme contract hire agreements

(*) This company has ceased trading.

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

During the year Motability Operations Group plc subscribed for 95,000,000 MO Reinsurance Limited shares partly paid at 31.640625 pence per £1 share. In addition, Motability Operations Group plc paid up 6.640625 pence per £1 share on 225,000,000 ordinary shares of £1 each.

Also during the year the structure of the Group was simplified – Motability Operations Group plc transferred its ownership of Motability Leasing Limited to Motability Operations Limited by the sale of 9,679,000 shares of £1 per share. In addition, Motability Operations Group plc subscribed for 9,679,000 Motability Operations Limited shares fully paid at £1 per share. Subsequently, Motability Leasing Limited transferred its trade to Motability Operations Limited whose activities have expanded to include financing of Scheme contract hire agreements. As a result Motability Leasing Limited has now ceased trading and Motability Operations Limited is now funded directly by Motability Operations Group plc rather than via Motability Leasing Limited.

Loans to Group companies

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Motability Operations Limited	–	–	3,737.5	–
Motability Leasing Limited	–	–	–	3,585.0
Total	–	–	3,737.5	3,585.0

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Loans to Group companies – current	–	–	–	–
Loans to Group companies – non-current	–	–	3,737.5	3,585.0
Total	–	–	3,737.5	3,585.0

The loans to Group companies do not have a defined maturity.

During the year the Company received interest payments of £194.4m (2014: £215.8m) in respect of loans to Group companies.

17. Cash and cash equivalents

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Cleared balances	251.3	186.5	114.4	113.2
Cash in the course of collection	15.9	20.4	–	–
Cash and bank balances	267.2	206.9	114.4	113.2

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Cleared balances	–	–	–	–
Cash in the course of transmission	(69.1)	(80.4)	–	–
Bank overdrafts	(69.1)	(80.4)	–	–

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

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

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Cash and bank balances	267.2	206.9	114.4	113.2
Bank overdrafts	(69.1)	(80.4)	–	–
Cash and cash equivalents	198.1	126.5	114.4	113.2

18. Hire purchase receivables

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Gross repayments receivable				
No later than one year	1.0	6.5	–	–
Later than one year and not later than five years	–	8.0	–	–
Total	1.0	14.5	–	–
Unearned income receivable				
No later than one year	(0.1)	(0.9)	–	–
Later than one year and not later than five years	–	(0.8)	–	–
Total	(0.1)	(1.7)	–	–
Net total due within one year	0.9	5.6	–	–
Net total due in the second to fifth years inclusive	–	7.2	–	–
Present value of minimum hire purchase receivables	0.9	12.8	–	–

The average term of hire purchase agreements entered into is five years.

Hire purchase receivable balances are secured over the vehicles subject to hire purchase contracts. The Group is not permitted to sell or re-pledge the collateral in the absence of default by the customer.

The interest rate inherent in hire purchase agreements is fixed at the contract date. The effective interest rate ranges between 8% and 9% per annum, and reflects provision for early termination losses and other costs (2014: between 8% and 10%).

Following the decision made in July 2014 to stop writing new hire purchase contracts, in order to enable the business to focus on the all-inclusive leasing package chosen by the vast majority of our customers, a further decision has been taken during the year to terminate our existing hire purchase agreements in December 2015. As a result, the hire purchase receivables have been written down by £5.2m to reflect the value of receivables due up to the cessation date in December 2015.

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £nil (2014: £0.2m). This allowance has been made by reference to past default experience. During the year there was a £0.1m decrease in provision and £nil of receivables were written off (2014: £0.1m increase in provision and £0.3m written off). There are no hire purchase receivables which are past due at the reporting date.

The fair value of the hire purchase receivables as at 30 September 2015 is estimated to be £0.9m (2014: £12.9m) using discount rates based on the market rate for similar consumer credit transactions.

19. Insurance receivables

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Insurance premium debtor	16.9	9.7	–	–
Claims recoveries and rebates	25.0	7.4	–	–
Reinsurance claims recoveries and commissions receivable	33.8	3.8	–	–
Total insurance receivables	75.7	20.9	–	–

The carrying value of insurance receivables approximates to fair value.

20. Trade and other receivables

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Trade receivables	87.3	120.9	–	–
Other receivables	72.2	75.2	–	–
Prepayments and accrued income	103.6	94.5	11.9	15.5
Total	263.1	290.6	11.9	15.5
Included in current assets	237.2	272.3	2.0	12.9
Included in non-current assets	25.9	18.3	9.9	2.6
Total	263.1	290.6	11.9	15.5

Trade receivables include an allowance for estimated irrecoverable amounts of £6.8m (2014: £3.9m). This allowance has been made by reference to past default experience. During the year there was a £7.3m increase in provision and £4.4m of receivables were written off (2014: £4.5m increase in provision and £4.3m written off). The average receivable days' period is eight days (2014: 11 days).

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

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

Included in the Group's trade receivables balance are receivables with a carrying value of £20.1m (2014: £13.0m) which are past due at the reporting date. The Group has not set aside provisions for these amounts as there has not been a significant change in credit quality and the amounts are still considered to be recoverable. The Group does not hold any collateral over these balances. The average past due period of these receivables is six days (2014: 15 days).

Ageing of past due but not impaired receivables:

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Past due by 1-30 days	19.1	10.9	–	–
Past due by 31-60 days	0.8	1.9	–	–
Past due by 61-90 days	0.1	0.1	–	–
Past due by 91-120 days	–	0.1	–	–
Past due by more than 120 days	0.1	–	–	–
Total	20.1	13.0	–	–

21. Deferred rental income

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Customers' advance payments (*)	114.5	108.3	–	–
Vehicle maintenance income	13.6	13.4	–	–
Vehicle insurance income	1.0	–	–	–
Customers' end of contract bonuses	41.8	38.4	–	–
Total current	170.9	160.1	–	–
Customers' advance payments (*)	116.9	113.8	–	–
Vehicle maintenance income	46.3	47.1	–	–
Vehicle insurance income	16.7	3.6	–	–
Customers' end of contract bonuses	31.9	28.2	–	–
Total non-current	211.8	192.7	–	–
Total	382.7	352.8	–	–

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

22. Insurance payables

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Reinsurance premiums payable	9.6	2.1	–	–
Commissions and administration fee payable	5.9	1.4	–	–
Claims reimbursements payable	15.3	6.5	–	–
Total insurance payables	30.8	10.0	–	–

The carrying value of insurance payables approximates to fair value.

23. Trade and other payables

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Trade payables	40.7	50.6	–	–
Social security and other taxes	1.3	1.3	–	–
Accruals	113.9	93.3	–	–
Other payables	0.2	0.1	148.6	116.9
Advance payments received from DWP	7.3	8.3	–	–
Total	163.4	153.6	148.6	116.9

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

The Group's trade purchases are predominantly purchases of vehicles which are paid immediately. The average credit periods taken for the other trade purchases, mainly insurance premiums, are 30 days (2014: 30 days).

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

24. General insurance provisions and insurance risk management

Insurance risk management

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

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

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

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

Motor insurance risks

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

Sources of uncertainty in the estimation of future claim payments

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

The estimation of the incurred but not reported ('IBNR') reserve will be determined by utilising an actuarial assessment and based on historical claims experience.

In estimating the liability for the cost of reported claims not yet paid, the Group considers any information available from loss adjusters and legal advisers and information on the cost of settling claims with similar characteristics in previous periods.

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group's net retention of £25,000 (2014: £25,000) each and every claim. Excess of loss reinsurance protects the Group against individual losses exceeding £5,000,000 (2014: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 114.9% (2014: 123.9%) of the Group's net earned premium income or £146,000,000 (2014: £56,000,000) in the aggregate, whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 125.9% (2104: 149.35%) of net premium earned or £14,000,000 (2014: £11,500,000) 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 is to select only those reinsurers that have a minimum credit rating of A- or better;
- significant individual losses are notified separately and the development of the claim is monitored; and
- independent third-party reinsurance brokers are appointed on the basis of their ability to negotiate, recommend and place reinsurance with appropriate markets.

Notes to the financial statements continued

24. General insurance provisions and insurance risk management continued

General insurance provisions

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Specific claims reserves	103.0	25.7	–	–
Incurred but not reported reserve	3.8	1.4	–	–
Total general insurance provisions	106.8	27.1	–	–

Specific claims reserves

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

Motor quota-share reinsurance	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Specific claims reserves	103.0	25.7	–	–
Third-party recoveries reserve	(20.7)	(5.4)	–	–
Reinsurance recoveries reserve	(32.3)	(3.7)	–	–
Total net retained	50.0	16.6	–	–

Incurred but not reported (IBNR)

The Group has appointed an independent actuary to undertake an actuarial study of the motor quota-share reinsurance claims reserves for the 2014/15 underwriting year. The independent actuary has used a combination of methods to determine the estimate. The methods adopted are summarised below:

Chain Ladder method

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

Expected Burning Cost method

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

Bornhuetter-Fergusson method

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

Average Cost per Claim method

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

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

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting year 2015 £m	Underwriting year 2014 £m	Total £m
At end of reporting year	157.2	52.1	
One year later	–	51.7	
Two years later	–	–	
Current estimate of cumulative claims	157.2	51.7	208.9
Cumulative payments to date	(75.5)	(34.7)	(110.2)
Effect of discounting	–	–	–
Total liability included in balance sheet	81.7	17.0	98.7

24. General insurance provisions and insurance risk management continued

Motor quota-share reinsurance continued

Estimate of ultimate claims cost net of reinsurance	Underwriting year 2015 £m	Underwriting year 2014 £m	Total £m
At end of reporting year	122.9	40.3	
One year later	–	40.2	
Two years later	–	–	
Current estimate of cumulative claims	122.9	40.2	163.1
Cumulative payments to date	(75.4)	(33.9)	(109.3)
Effect of discounting	–	–	–
Total liability net of reinsurance included in balance sheet	47.5	6.3	53.8
Comprises:			
Specific claims reserves			103.0
Third-party recoveries reserve			(20.7)
Reinsurance recoveries reserve			(32.3)
Incurred but not reported reserve			3.8
Total			53.8

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

Movements in insurance liabilities

	2015			2014		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims	25.7	(3.7)	22.0	–	–	–
Notified claims recoveries	(5.4)	–	(5.4)	–	–	–
Incurred but not reported	9.4	(8.0)	1.4	–	–	–
Total at beginning of year	29.7	(11.7)	18.0	–	–	–
Cash paid for claims settled						
In the year	(87.8)	0.8	(87.0)	(22.4)	0.1	(22.3)
Movement in liabilities						
Current year claims	149.8	(29.4)	120.4	42.7	(3.8)	38.9
Incurred but not reported	6.9	(4.5)	2.4	9.4	(8.0)	1.4
Total at end of year	98.6	(44.8)	53.8	29.7	(11.7)	18.0
Notified claims	103.0	(32.3)	70.7	25.7	(3.7)	22.0
Notified claims recoveries	(20.7)	–	(20.7)	(5.4)	–	(5.4)
Incurred but not reported	16.3	(12.5)	3.8	9.4	(8.0)	1.4
Total at end of year	98.6	(44.8)	53.8	29.7	(11.7)	18.0

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

Notes to the financial statements continued

25. Financial liabilities

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Current				
Accrued interest and coupon	50.6	49.7	50.6	49.7
Bank overdrafts	69.1	80.4	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	299.6	–	299.6	–
Total current	419.3	130.1	350.2	49.7
Non-current				
Bank loans	398.7	448.4	398.7	448.4
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,911.0	3,048.6	2,911.0	3,048.6
Preference shares	10.0	10.0	10.0	10.0
Total non-current	3,319.7	3,507.0	3,319.7	3,507.0
Total	3,739.0	3,637.1	3,669.9	3,556.7
The financial liabilities are repayable as follows:				
On demand or no later than one year	419.3	130.1	350.2	49.7
Later than one year and no later than two years	–	498.7	–	498.7
Later than two years and no later than five years	1,621.0	1,263.3	1,621.0	1263.3
Later than five years	1,698.7	1,745.0	1,698.7	1,745.0
Total	3,739.0	3,637.1	3,669.9	3,556.7

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

Bank borrowings

All bank borrowings as at 30 September 2015 and 2014 are at floating rates.

As at 30 September 2015 the Group has the following principal bank loans:

a) A five-year term loan of £0.4 billion taken out on 30 December 2013 (2014: five-year term loan of £0.4 billion taken out on 30 December 2013). The loan repayment date is 31 December 2018.

b) A five-year revolving credit facility of £1.5 billion taken out on 30 December 2013 (2014: five-year revolving credit facility of £1.5 billion taken out on 30 December 2013) of which £nil was drawn as at 30 September 2015 (2014: £50m). The facility repayment date is 31 December 2018.

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

25. Financial liabilities continued

Debt issued under the Euro Medium Term Note Programme

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

	30 September 2015 £m	30 September 2014 £m
5.250% Sterling bond due 2016 (IV)	299.6	498.6
3.750% Eurobond due 2017 (I)	368.3	387.9
3.250% Eurobond due 2018 (II)	405.2	427.0
6.625% Sterling bond due 2019	448.8	448.5
5.375% Sterling bond due 2022	397.2	396.7
1.625% Eurobond due 2023 (III)	400.8	–
3.750% Sterling bond due 2026	296.9	296.6
4.375% Sterling bond due 2027	295.6	295.2
5.625% Sterling bond due 2030	298.2	298.1
	3,210.6	3,048.6

(I) The repayment obligation in respect of the Eurobonds of €500m (£369.4m) is hedged by cross-currency swap contracts (note 26) for the purchase of €500m and for the sale of £425.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(II) The repayment obligation in respect of the Eurobonds of €550m (£406.3m) is hedged by cross-currency swap contracts (note 26) for the purchase of €550m and for the sale of £459.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

(III) The repayment obligation in respect of the Eurobonds of €550m (£406.3m) is hedged by cross-currency swap contracts (note 26) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

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

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

Other comprehensive income and hedging reserve

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

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

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 30 September 2015, the Eurobond debt liability was reduced by £105.4m (2014: reduced by £66.9m). This movement of £38.5m is a result of Sterling strengthening against the Euro. The associated liability relating to derivatives at 30 September 2015 was £98.8m (2014: net liability of £36.7m) – an increase of £62.1m (see note 26). The net valuation difference at 30 September 2015 is therefore an asset of £6.6m which, after tax at 20.0%, leads to a hedging reserve of £5.3m.

Preference shares

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

25. Financial liabilities continued

Preference shares continued

The weighted average interest rates on borrowings as at 30 September 2015 and 30 September 2014 were as follows:

	2015 Group %	2014 Group %	2015 Company %	2014 Company %
Current bank loans and overdrafts	1.4	1.4	–	–
Non-current bank loans	1.8	2.5	1.8	2.5
Non-current debt issued under the Euro Medium Term Note Programme	4.7	4.9	4.7	4.9
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2015 and 30 September 2014, the Group had the following undrawn committed borrowing facilities:

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Working capital facility	100.0	100.0	95.0(*)	95.0(*)
Revolving credit facility	1,500.0	1,450.0	1,500.0	1,450.0
Total	1,600.0	1,550.0	1,595.0	1,545.0

(*) Working capital facilities of the Group are cross-guaranteed between Group companies Motability Operations Limited and Motability Operations Group plc.

Undrawn committed facilities expire as follows:

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
No later than one year	5.0	5.0	–	–
Later than one year and no later than two years	–	–	–	–
Later than two years and no later than five years	1,595.0	1,545.0	1,595.0	1,545.0
Total	1,600.0	1,550.0	1,595.0	1,545.0

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

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

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

	2014 Group carrying amount £m	2014 Group fair value £m	2014 Company carrying amount £m	2014 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	130.1	130.1	49.7	49.7
Non-current debt issued under the Euro Medium Term Note Programme (*)	3,048.6	3,420.3	3,048.6	3,420.3
Non-current bank loans	448.4	448.4	448.4	448.4
Non-current preference shares	10.0	13.2	10.0	13.2
Total	3,637.1	4,012.0	3,556.7	3,931.6

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

As at 30 September 2015, the fair value of current and non-current bank loans approximates to their carrying values, because all the bank loans carry floating interest rates. The fair value of preference shares for disclosure purposes is estimated by discounting the cash flows at a discount rate which is derived from the yield curve at the balance sheet date. The fair value of the debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on the market data at the balance sheet date.

26. Derivative financial instruments

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

	Group 2014		Company 2014	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	(36.8)	885.0	(36.8)	885.0
Interest rate swaps	0.1	400.0	0.1	400.0
Total	(36.7)	1,285.0	(36.7)	1,285.0
Included in non-current liabilities	(36.8)	885.0	(36.8)	885.0
Included in current liabilities	–	200.0	–	200.0
Derivative financial instrument liabilities	(36.8)	1,085.0	(36.8)	1,085.0
Included in non-current assets	0.1	200.0	0.1	200.0
Included in current assets	–	–	–	–
Derivative financial instrument assets	0.1	200.0	0.1	200.0

Cross-currency swaps

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

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

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

Interest rate swaps

At 30 September 2015, the fixed interest rates varied from 0.789% to 0.845% (2014: the fixed interest rates varied from 0.570% to 0.789%) and the main floating rates are LIBOR. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 30 September 2015 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.

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
No later than one year	(10.5)	(4.0)	(10.5)	(4.0)
Later than one year and no later than three years	(10.1)	(8.0)	(10.1)	(8.0)
Later than three years and no later than five years	(4.6)	11.4	(4.6)	11.4
Later than five years	(16.6)	–	(16.6)	–
Total	(41.8)	(0.6)	(41.8)	(0.6)

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

Notes to the financial statements continued

27. Deferred tax

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

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Net at 1 October 2013	433.5	(0.7)	2.0	(0.1)	434.7
(Credit)/charge to income	(0.5)	0.3	–	–	(0.2)
Credit to income due to change in UK tax rate	(9.1)	–	–	–	(9.1)
Charge to equity	–	–	4.6	–	4.6
Credit to equity due to change in UK tax rate	–	–	(0.4)	–	(0.4)
Utilisation of pre-trading losses brought forward	–	–	–	0.1	0.1
Adjustment in respect of prior years	0.6	(0.2)	–	–	0.4
Net at 1 October 2014	424.5	(0.6)	6.2	–	430.1
Credit to income	(17.4)	(0.2)	–	–	(17.6)
Credit to income due to change in UK tax rate	(1.9)	–	–	–	(1.9)
Credit to equity	–	–	(4.9)	–	(4.9)
Controlled foreign company loss carried forward	–	–	–	(0.5)	(0.5)
Adjustment in respect of prior years	(0.3)	–	–	–	(0.3)
Net at 30 September 2015	404.9	(0.8)	1.3	(0.5)	404.9

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

	2015 £m	2014 £m
Deferred tax assets	–	(2.8)
Deferred tax liabilities	404.9	432.9
Net at 30 September	404.9	430.1

On 26 October 2015 Finance Bill No.2 2015 was substantively enacted, reducing the main rate of corporation tax from 20% to 19% with effect from 1 April 2017 and to 18% with effect from 1 April 2020. Had the Bill been substantively enacted prior to 30 September 2015, this would have resulted in a £24m credit to the tax charge for 2015 as a consequence of re-measuring the deferred tax liabilities using the new rates.

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
At 1 October 2013	–	–	2.0	(0.1)	1.9
Charge to equity	–	–	4.6	–	4.6
Utilisation of pre-trading losses brought forward	–	–	–	0.1	0.1
Charge to equity due to change in UK tax rate	–	–	(0.4)	–	(0.4)
At 1 October 2014	–	–	6.2	–	6.2
Credit to equity	–	–	(4.9)	–	(4.9)
Controlled foreign company loss carried forward	–	–	–	0.5	0.5
At 30 September 2015	–	–	1.3	0.5	1.8

28. Ordinary share capital

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

	2015	2014
Authorised:		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 Ordinary shares of £1 each	£50,000	£50,000

In accordance with the Shareholders' Agreement, the ordinary Shareholders will not procure a dividend and, in the event of a winding-up, all reserves surplus to the redeeming ordinary and preference share capital at par and outstanding dividends on the preference shares will be covenanted to Motability, the Charity.

The Company has 10,900,000 authorised 7% redeemable cumulative preference shares of £1 each, classified as a liability, of which 9,950,000 are in issue. These shares do not carry voting rights. Further details are provided in note 25.

29. Cash generated from/(used in) operations

Reconciliation of profit to net cash flow from operating activities:

	2015 Group £m	2014 Group £m	2015 Company £m	2014 Company £m
Profit before tax	261.6	251.3	11.8	3.7
Adjustments for:				
Depreciation and amortisation charge on corporate assets	6.4	7.6	–	–
Depreciation charge on operating lease assets	831.0	743.6	–	–
Finance costs	183.3	169.3	(11.3)	(3.5)
Gains on disposal of operating lease assets	(118.6)	(126.1)	–	–
Gains on disposal of corporate assets	(0.1)	(0.1)	–	–
Increase/(decrease) in debt provisions	7.8	(1.6)	–	–
Operating cash flows before movements in working capital	1,171.4	1,044.0	0.5	0.2
Purchase of assets held for use in operating leases	(2,971.0)	(2,817.9)	–	–
Proceeds from sale of assets held for use in operating leases including insurance reimbursements	1,909.1	1,845.6	–	–
Decrease in hire purchase receivables	6.9	9.0	–	–
Increase in insurance receivables	(54.8)	(20.9)	–	–
Decrease/(increase) in other receivables	22.7	(29.1)	0.5	3.1
Increase in loans to and investment in subsidiaries	–	–	(152.5)	(200.0)
Increase in deferred rental income	29.9	9.6	–	–
Increase in general insurance provisions	79.7	27.1	–	–
Increase in insurance payables	20.8	10.0	–	–
Increase in payables	8.8	20.0	31.8	36.2
Cash generated from/(used in) operations	223.5	97.4	(119.7)	(160.5)

30. Analysis of changes in net debt

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

	At 1 October 2013 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2014 £m
Cash and bank balances	101.3	105.6	–	–	206.9
Bank overdrafts	(59.2)	(21.2)	–	–	(80.4)
Cash and cash equivalents	42.1	84.4	–	–	126.5
Borrowings due within one year	–	–	–	–	–
Borrowings due after one year	(548.9)	101.9	–	(1.4)	(448.4)
Debt issued under the Euro Medium Term Note Programme	(2,808.8)	(296.4)	59.4	(2.8)	(3,048.6)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,367.7)	(194.5)	59.4	(4.2)	(3,507.0)
Total net debt	(3,325.6)	(110.1)	59.4	(4.2)	(3,380.5)

	2015 Group £m	2014 Group £m
Cash and bank balances	267.2	206.9
Current financial liabilities	(419.3)	(130.1)
Non-current financial liabilities	(3,319.7)	(3,507.0)
Total	(3,471.8)	(3,430.2)
Less interest accruals included in financial liabilities	50.6	49.7
Total net debt	(3,421.2)	(3,380.5)

31. Operating lease arrangements

The Group as lessee

	2015 Group £m	2014 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	3.0	2.9

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

	2015 Group £m	2014 Group £m
No later than one year	3.4	3.3
Later than one year and no later than five years	13.9	13.0
Later than five years	20.9	23.0
Total	38.2	39.3

Operating lease payments represent rentals payable by the Group for use of office properties. Leases are negotiated for an average term of 11 years and rentals fixed for an average of two years.

32. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the year to 30 September 2015 amounted to £3,184,632 (2014: £2,995,107). Net contributions due at the balance sheet date were £50 (2014: £117).

33. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note (see note 16 for the details of the intercompany transactions). The Group's corporate and finance structures are set out in the Strategic report on pages 2 to 28.

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

The relationship of the Company to Motability is set out on pages 2 and 3 of the Strategic Report.

Transactions

During the year Motability charitable grants totalling £20.9m (2014: £23.4m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £8.6m (2014: £8.4m) relating to Motability administration costs (the 'Motability levy').

A further £2.7m (2014: £2.5m) was paid by the Group to the Charity as rebates in respect of grant awards towards advance payments where customers terminated their hire agreements and rebates in respect of grants made where the Group-managed adaptations could not be processed.

In addition, £2.3m (2014: £2.4m) was paid by the Group as a rebate negotiated with Motability which effectively removes the risk pricing from vehicles acquired with charitable grants, and wheelchair-accessible vehicles. The Group donated £7,288 (2014: £4,120) to Motability's charitable funds during the year.

In 2013, the Government launched a new benefit – the Personal Independence Payment (PIP) – which will gradually replace Disability Living Allowance (DLA) for disabled people aged between 16 and 64. During the reassessment process and transition from DLA to PIP it is expected that some people may lose their eligibility for the Motability Scheme.

The Group has worked closely with Motability to devise a transitional support package which includes charitable support grants from Motability (subject to conditions) of £2,000 for customers who joined the Scheme prior to January 2013 and £1,000 for customers joining the Scheme during calendar year 2013. During the year the Group has made an additional donation to Motability of £25m (2014: £150m) to fund this transitional support package.

The funding of the Group and the Company through bank loans is provided by the Shareholder banks on commercial terms (see note 9 for details of financing costs on bank loans; £0.2m (2014: £0.2m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2014: £0.8m) were due to the Shareholder banks in proportion to their shareholdings for management services.

Subsidiary, parent and ultimate controlling party

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

Remuneration of key management personnel

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

	2015 £m	2014 £m
Short-term employee benefits	3.6	3.4
Post-employment benefits	0.1	0.1
Other long-term benefits	3.0	2.4
Total	6.7	5.9

Notes to the financial statements continued

34. Directors' remuneration

During the year there were five Executive Directors (2014: five) accruing benefits under money purchase pension schemes as well as receiving payments in lieu of pension. The Chairman makes separate provision for pension from his aggregate emoluments.

	2015	2014
Chairman		
Salary	£176,000	£176,000
Benefits	£19,618	£19,750
Aggregate emoluments in respect of qualifying services	£195,618	£195,750
Pension contributions under money purchase pension schemes	£nil	£nil

	2015	2014
Highest paid Director		
Salary	£527,800	£516,325
Performance-related payments	£260,000	£252,650
Payments in lieu of pension (*)	£131,950	£129,081
Benefits	£24,969	£24,996
Aggregate emoluments in respect of qualifying services	£944,719	£923,052
Pension contributions under money purchase pension schemes	£nil	£nil
All Directors		
Salary	£2,105,358	£2,065,623
Performance-related payments	£845,450	£813,850
Payments in lieu of pension (*)	£404,386	£366,505
Benefits	£115,642	£114,857
Aggregate emoluments in respect of qualifying services	£3,470,836	£3,360,835
Pension contributions under money purchase pension schemes	£11,774	£50,953

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

Long Term Incentive Arrangements

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

Long Term Incentive Plan (LTIP)

The Long Term Incentive Plan (LTIP) is linked to the Company's long-term objectives of maintenance of sufficient reserves, high levels of customer satisfaction and renewal levels, lease affordability and excellent business culture. Any payment is also determined by reference to the Company's external credit rating. The Plan aims to encourage sustained excellent performance and the retention of Directors. The ownership structure of the Company precludes the use of shares or share options as long-term incentives. However, the Plan overtly and directly links any future payout with clear and unambiguous measures of sustained performance aligned to the Company's strategic objectives. Performance criteria are designed so that units allocated into the Plan can both increase and decrease in value. The main features of the LTIP are:

- The Remuneration Committee determines annually, on a discretionary basis, whether LTIP 'units' should be allocated to any Executive Director. The notional value of an allocated unit is £1,000, with the accumulated value varying (up or down) in subsequent years
- Potential payouts are deferred for three years
- The value of any potential payout is determined by annual assessment against specific performance requirements in respect of level of customer service, customer retention, lease affordability, reserves adequacy and business culture
- Potential payouts are also impacted by movements in the Company's credit rating.

On the third anniversary of the initial allocation of units into the LTIP, the accumulated units can be converted into cash and released. During the reported year to September 2015, in aggregate an initial allocation of 550 units was made into the Plan. These units will not become eligible for possible cash conversion until 2017 (2014: 550 units eligible for release in 2016).

During the year to September 2015, £2,093,348 (2014: £2,188,500) was released including £666,065 for the highest paid Director in respect of the LTIP (2014: £666,065).

34. Directors' remuneration continued

Long Term Incentive Scheme (LTIS)

A five-year Long Term Incentive Scheme (LTIS) for the current CEO was introduced in 2010. Any potential benefit has now been deferred for seven years, during which period no additional payments will be made into the new Scheme and any potential benefit will continue to be linked to stretching financial performance targets.

During the reported year to September 2015, no payments have been made (2014: £nil).

35. Events after the reporting period

There have been no events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2015.

36. Funding and financial risk management

Capital risk management

The capital structure of the Group and the Company consists of debt, which includes the borrowings disclosed in note 25, net of cash and cash equivalents and equity capital. For capital risk management purposes the equity capital consists of equity share capital, preference share capital and restricted reserves. The hedging reserve relating to the fair value of swaps is excluded.

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

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

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

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

The Risk Management Committee reviews the capital structure and particularly the level of restricted reserves on a regular basis. The Group operates an Economic Capital methodology to determine the level of capital required in the business. In calculating the Minimum Capital Requirement, a comprehensive assessment of material risks and potential impacts is undertaken. The Economic Capital model is periodically refreshed to reflect changes to the risk profile.

The Group's policy is to ensure that capital remains above the calculated Minimum Capital Requirement at all times. The Group aims to hold capital at a level that is considered at least adequate to ensure that it can withstand a normalised cyclical market shock. The actual capital and the Minimum Capital Requirement at the year end are as follows:

	2015 £m	2014 £m
Actual capital (restricted reserves and equity share capital)	2,089	1,879
Minimum Capital Requirement	1,807	1,600
Actual capital held above Minimal Capital Requirement %	16%	17%

The Group's debt financing (bank loans) is subject to a customary loan covenant whereby the adjusted Total Group Assets: Total Net Debt ratio is targeted to be no less than 1.25:1. At 30 September 2015 the ratio was 1.80:1, and the Group has complied with the terms of the covenant throughout the year. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

Notes to the financial statements continued

36. Funding and financial risk management continued

Categories of financial instruments

	2015 Group carrying value £m	2014 Group carrying value £m	2015 Company carrying value £m	2014 Company carrying value £m
Non-derivative financial assets				
Hire purchase receivables	0.9	12.8	–	–
Held to maturity investments	24.9	–	–	–
Trade and other receivables	87.4	121.0	–	–
Loans to other Group companies	–	–	3,737.5	3,585.0
Cash and bank balances	267.2	206.9	114.4	113.2
Total non-derivative financial assets	380.4	340.7	3,851.9	3,698.2
Non-derivative financial liabilities				
Trade and other payables	(162.1)	(152.3)	(148.6)	(116.9)
Financial liabilities	(3,739.0)	(3,637.1)	(3,669.9)	(3,556.7)
Total non-derivative financial liabilities	(3,901.1)	(3,789.4)	(3,818.5)	(3,673.6)
Net non-derivative financial instruments	(3,520.7)	(3,448.7)	33.4	24.6
Derivative financial instruments				
Interest rate swaps	(0.7)	0.1	(0.7)	0.1
Cross-currency swaps	(98.1)	(36.8)	(98.1)	(36.8)
Total derivative financial instruments	(98.8)	(36.7)	(98.8)	(36.7)
Total financial instruments	(3,619.5)	(3,485.4)	(65.4)	(12.1)

Fair value of financial instruments

		2015 Group carrying value £m	2015 Group fair value £m	2014 Group carrying value £m	2014 Group fair value £m
Cash and bank balances	I	267.2	267.2	206.9	206.9
Trade and other receivables	II	87.4	87.4	121.0	121.0
Hire purchase receivables – current	III	0.9	0.9	5.6	5.8
Hire purchase receivables – non-current	III	–	–	7.2	7.1
Held to maturity investments	III	24.9	24.9	–	–
Trade and other payables	II	(162.1)	(162.1)	(152.3)	(152.3)
Bank loans including bank overdrafts – current	IV	(119.7)	(119.7)	(130.1)	(130.1)
Bank loans – non-current	IV	(398.7)	(398.7)	(448.4)	(448.4)
Debt issued under the Euro Medium Term Note Programme (*)	III	(3,210.6)	(3,577.8)	(3,048.6)	(3,420.3)
Redeemable preference share liabilities	III	(10.0)	(13.7)	(10.0)	(13.2)
Net non-derivative financial instruments		(3,520.7)	(3,891.6)	(3,448.7)	(3,823.5)
Interest rate swap – cash flow hedge		(0.7)	(0.7)	0.1	0.1
Cross-currency swap – cash flow hedge		(98.1)	(98.1)	(36.8)	(36.8)
Total		(3,619.5)	(3,990.4)	(3,485.4)	(3,860.2)

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

I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
II Non-interest bearing
III Bearing interest at fixed rate
IV Bearing interest at floating rate

36. Funding and financial risk management continued

Fair value of financial instruments continued

		2015 Company carrying value £m	2015 Company fair value £m	2014 Company carrying value £m	2014 Company fair value £m
Cash and bank balances	I	114.4	114.4	113.2	113.2
Loans to other Group companies	IV	3,737.5	3,737.5	3,585.0	3,585.0
Trade and other payables – current	II	(148.6)	(148.6)	(116.9)	(116.9)
Financial liabilities – current	IV	(50.6)	(50.6)	(49.7)	(49.7)
Bank loans – non-current	IV	(398.7)	(398.7)	(448.4)	(448.4)
Debt issued under the Euro Medium Term Note Programme (*)	III	(3,210.6)	(3,577.8)	(3,048.6)	(3,420.3)
Redeemable preference share liabilities	III	(10.0)	(13.7)	(10.0)	(13.2)
Net non-derivative financial instruments		33.4	(337.5)	24.6	(350.3)
Interest rate swap – cash flow hedge		(0.7)	(0.7)	0.1	0.1
Cross-currency swap – cash flow hedge		(98.1)	(98.1)	(36.8)	(36.8)
Total		(65.4)	(436.3)	(12.1)	(387.0)

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

I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
II Non-interest bearing
III Bearing interest at fixed rate
IV Bearing interest at floating rate

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

- the carrying value of cash and cash equivalents approximates to the carrying amount due to its short-term nature
- the carrying values less impairment provision of trade and other receivables and payables are assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables
- the hire purchase receivables are interest bearing and the inherent interest rate is fixed at the contract date. The fair value of hire purchase receivables for disclosure purposes is estimated by a discount rate based on the market rate for similar consumer credit transactions
- the fair value of preference shares for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date
- the fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date
- the fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

Notes to the financial statements continued

36. Funding and financial risk management continued

Fair value of financial instruments continued

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1)
- inputs other than quoted prices included within Level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2)
- inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (Level 3).

Group

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Hire purchase receivables	–	0.9	–	0.9
Held to maturity investments	24.9	–	–	24.9
	24.9	0.9	–	25.8
Non-derivative financial liabilities				
Financial liabilities	–	(3,591.5)	–	(3,591.5)
	–	(3,591.5)	–	(3,591.5)
Derivative financial instruments				
Interest rate swaps	–	(0.7)	–	(0.7)
Cross-currency swaps	–	(98.1)	–	(98.1)
	–	(98.8)	–	(98.8)
Total	24.9	(3,689.4)	–	(3,664.5)

Group

	2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Hire purchase receivables	–	12.9	–	12.9
	–	12.9	–	12.9
Non-derivative financial liabilities				
Financial liabilities	–	(3,433.5)	–	(3,433.5)
	–	(3,433.5)	–	(3,433.5)
Derivative financial instruments				
Interest rate swaps	–	0.1	–	0.1
Cross-currency swaps	–	(36.8)	–	(36.8)
	–	(36.7)	–	(36.7)
Total	–	(3,457.3)	–	(3,457.3)

Company

	2015			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial liabilities				
Financial liabilities	–	(3,591.5)	–	(3,591.5)
	–	(3,591.5)	–	(3,591.5)
Derivative financial instruments				
Interest rate swaps	–	(0.7)	–	(0.7)
Cross-currency swaps	–	(98.1)	–	(98.1)
	–	(98.8)	–	(98.8)
Total	–	(3,690.3)	–	(3,690.3)

36. Funding and financial risk management continued

Fair value of financial instruments continued

Company

	2014			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial liabilities				
Financial liabilities	–	(3,433.5)	–	(3,433.5)
	–	(3,433.5)	–	(3,433.5)
Derivative financial instruments				
Interest rate swaps	–	0.1	–	0.1
Cross-currency swaps	–	(36.8)	–	(36.8)
	–	(36.7)	–	(36.7)
Total	–	(3,470.2)	–	(3,470.2)

Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset & Liability Management Committee.

The Group's treasury function, operating under the control of the Asset & Liability Management Committee, monitors and manages the financial risks relating to the funding and treasury operations, as well as co-ordinating access to the financial markets. The treasury policy of the Group and the principles set out by the policy are endorsed by the Board and applied through delegated authority by the Chief Executive Officer operating through the Executive Committee and the Asset & Liability Management Committee. The treasury policy and treasury control framework are overseen by the Audit Committee.

The risks of the Group arising from its funding activities include interest rate risk, foreign exchange risk, credit risk and liquidity risk. The Group's activities expose it primarily to the financial risks of changes in interest rates. The Group enters into interest rate swaps and issues fixed-rate bonds to mitigate the risk of movements in interest rates. The Group does not enter into or trade financial instruments, including derivative financial instruments, for speculative purposes.

The Group's debt funding is provided through the Company via bank loans and capital markets issuance. As with the capital risk management, the overall funding and financial risk management of the Company is integrated with the funding and financial risk management of the Group and is not managed separately. As with the Group, the Company's operations expose it to a variety of financial risks that include interest rate risk, credit risk and liquidity risk. The Company's exposure to these risks is disclosed separately in the related sections below.

Interest rate risk management

The Group's revenues arise primarily from operating lease rentals, proceeds from disposal of operating lease assets and hire purchase repayments that are fixed for the period of the contract – typically three years for an operating lease contract. Apart from fixed rate bonds issued under the EMTN programme, the Group and the Company's borrowings are subject to floating interest rates. Borrowings arranged at floating rates of interest expose the Group and Company to cash flow interest rate risk, whereas those arranged at fixed rates of interest expose the Group and Company to fair value interest rate risk.

The Group and the Company seek to minimise cash flow interest rate risk by entering into fixed interest rate swaps to hedge floating rate borrowings. Interest rate swaps are employed to fix the interest rate profile of the borrowings and align these borrowings to the repayment profile of the assets. To the extent that borrowings at the balance sheet date will be used to fund new assets purchased during the year, the rentals will be set to reflect interest rates at the time the asset will be purchased. The Group's policy is that at least 90% of the total borrowings should be fixed in nature except where specific short-term dispensations are permitted (and commensurate with the overall funding policy). The Group only hedges the variable rate term borrowings; variable rate working capital facilities are not hedged.

Floating rate debt substantially swapped into fixed interest rates has a carrying value as at 30 September 2015 of £399m (2014: £448m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2015 of £3,211m (2014: £3,049m).

The Group and the Company have interest rate swaps of £200m maturing on 29 December 2015 and £200m maturing on 29 December 2016 (2014: £200m maturing on 29 December 2014 and £200m maturing on 29 December 2015). Under these swaps the Group and the Company pay an average fixed rate of 0.82% (2014: 0.68%).

Foreign exchange risk

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

36. Funding and financial risk management continued

Interest rate sensitivity analysis

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

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

If average interest rates had been 1% higher and all other variables were held constant, this would have resulted, over a period of one year, in a pre-tax profit decrease of approximately £0.3m as at 30 September 2015 (2014: £0.3m). 1% is used to measure the sensitivity of average interest rates as it is an easily scalable base unit for readers to evaluate the impact on the Group of various changes in interest rates.

Interest rate swap contracts

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

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

The following table details the notional principal amounts and average interest rate of the swap contracts outstanding at the reporting date:

	2015 Average contract fixed interest rate %	2014 Average contract fixed interest rate %	2015 Nominal principal amount £m	2014 Nominal principal amount £m	2015 Fair value £m	2014 Fair value £m
No later than one year	0.8	0.57	200.0	200.0	(0.1)	–
Later than one year and no later than two years	0.8	0.79	200.0	200.0	(0.7)	0.1
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	400.0	(0.8)	0.1

Cross-currency swap contract

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

The cross-currency swap contract is designated as a cash flow hedge and reduces the Group and the Company's cash flow exposure resulting from variable exchange rates on borrowings. The cross-currency swap eliminates all exchange rate risk by settling on the same day as foreign currency liabilities.

The following table details the notional principal amount and average interest rate of the swap contract outstanding at the reporting date:

	2015 Contract fixed GBP interest rate %	2014 Contract fixed GBP interest rate %	2015 Nominal principal amount £m	2014 Nominal principal amount £m	2015 Fair value £m	2014 Fair value £m
No later than one year		–	–	–	–	–
Later than one year and no later than two years		–	–	–	–	–
Later than two years and no later than five years	3.9	3.94	885.0	885.0	(99.9)	(36.8)
Later than five years	3.0	–	402.5	–	1.8	–
Total			1,287.5	885.0	(98.1)	(36.8)

36. Funding and financial risk management continued

Credit risk management

Credit risk is managed using an established process encompassing credit limits, credit approvals, control of exposures and the monitoring and reporting of exposures. Credit risk may arise from cash and cash equivalents, derivative financial instruments and deposits with banks and financial institutions, as well as from credit exposures to customers.

The Group's principal source of income is the Department for Work and Pensions, through the assigned allowances received by customers of the Group, and therefore the credit risk is considered to be very low. A small residual credit risk arises from miscellaneous customer billings and monies due from dealers, auction houses and vehicle manufacturers. Group management regularly carries out credit assessments of the limits set for auction houses, manufacturers and dealers.

For banks and financial institutions, only independently rated institutions with a minimum 'A' rating are accepted. All new proposed counterparties are subject to internal credit approval and Asset & Liability Management Committee ratification prior to entering into any transaction. Credit limits are set by the treasury function and are subject to approval by the Asset & Liability Management Committee.

For the year under review the following figures represent the Group's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2015 and 2014 attributable to banks/financial institutions.

	2015 Total limit £m	2015 Maximum utilisation £m	Balance as at 30 September 2015 £m	2014 Total limit £m	2014 Maximum utilisation £m	Balance as at 30 September 2014 £m
Counterparty credit limit	760.0	579.2	273.7	630.0	378.4	203.6

No counterparty credit limits were exceeded on 30 September 2015, and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's maximum exposure to credit risk. The limit and utilisation calculations consist of monies on deposit, asset fair value of derivatives and a calculated facility utilisation in respect of the interest rate swap notional principal amounts.

Liquidity risk management

The Group and the Company are exposed to changes in market conditions which in turn, and over time, could affect the provision of debt available to the Group.

Ultimate responsibility for liquidity risk management rests with the Board of Directors. The treasury policy has an appropriate liquidity risk management framework for the management of the Group and the Company's short, medium and long-term funding.

The Group policy for managing liquidity risk is to maintain undrawn headroom on its committed banking facilities of at least 20% of borrowings plus one year's projected funding growth. The Group has a five-year bank term loan with 3.2 years until maturity and a five-year revolving credit facility with 3.2 years until maturity. The Group has further increased the average maturity profile of the debt by issuing fixed-rate bonds. The bonds, with average maturities of nine years, provide increased sustainability and diversity to the Group's funding profile.

The Group continuously monitors forecast and actual cash flows. Included in note 25 is a description of additional undrawn facilities that the Group has at its disposal.

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

Notes to the financial statements continued

36. Funding and financial risk management continued

Liquidity risk management continued

Group

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(5.9)	(14.9)	(402.3)	–	(423.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.7	(455.7)	(695.0)	(1,112.8)	(2,111.6)	(4,375.1)
Financial liabilities – bank overdrafts and short-term borrowings	1.4	(80.4)	–	–	–	(80.4)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing						
Total		(542.7)	(711.3)	(1,516.5)	(2,122.9)	(4,893.4)

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

Group

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Financial liabilities – bank loans – variable interest rate	2.5	(6.8)	(22.8)	(467.6)	–	(497.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.9	(153.6)	(781.5)	(1,104.3)	(2,200.8)	(4,240.2)
Financial liabilities – bank overdrafts and short-term borrowings	1.4	(80.4)	–	–	–	(80.4)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(2.1)	(10.6)	(14.8)
Trade and other payables – non-interest bearing	–	(152.3)	–	–	–	(152.3)
Total		(393.8)	(805.7)	(1,574.0)	(2,211.4)	(4,984.9)

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

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Financial liabilities – bank loans – variable interest rate	1.8	(5.9)	(14.9)	(402.3)	–	(423.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.7	(455.7)	(695.0)	(1,112.8)	(2,111.6)	(4,375.1)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing		(148.6)	–	–	–	(148.6)
Total		(610.9)	(711.3)	(1,516.5)	(2,122.9)	(4,961.6)

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

36. Funding and financial risk management continued

Liquidity risk management continued

Company

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Financial liabilities – bank loans – variable interest rate	2.5	(6.8)	(22.8)	(467.6)	–	(497.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	4.9	(153.6)	(781.5)	(1,104.3)	(2,200.8)	(4,240.2)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.0	(0.7)	(1.4)	(2.1)	(10.6)	(14.8)
Trade and other payables – non-interest bearing	–	(116.9)	–	–	–	(116.9)
Total		(278.0)	(805.7)	(1,574.0)	(2,211.4)	(4,869.1)

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

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

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

Group

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Interest rate swaps	0.8	(0.7)	(0.1)	–	–	(0.8)
Cross-currency swaps	3.6	(9.8)	(10.0)	(4.6)	(16.6)	(41.0)

Group

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Interest rate swaps	0.7	–	0.1	–	–	0.1
Cross-currency swaps	3.9	(4.0)	(8.1)	11.4	–	(0.7)

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Interest rate swaps	0.8	(0.7)	(0.1)	–	–	(0.8)
Cross-currency swaps	3.6	(9.8)	(10.0)	(4.6)	(16.6)	(41.0)

Company

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Interest rate swaps	0.7	–	0.1	–	–	0.1
Cross-currency swaps	3.9	(4.0)	(8.1)	11.4	–	(0.7)

36. Funding and financial risk management continued

Liquidity risk management continued

The following tables detail the Group and the Company's expected maturity for its non-derivative financial assets. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets including the interest that will be earned on those assets, except where the Group and the Company anticipate that the cash flow will occur in a different period. Apart from hire purchase receivables and held to maturity investments, the non-derivative financial assets are anticipated to mature within one year. The maturity of the hire purchase receivables is matched by the term borrowings.

Group

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Hire purchase receivables – fixed interest rate	9.7	0.9	–	–	–	0.9
Held to maturity investments – fixed interest rate	1.1	1.8	23.6	–	–	25.4
Trade and other receivables – non-interest bearing	–	87.4	–	–	–	87.4
Cash and bank balances – non-interest bearing	–	267.2	–	–	–	267.2
Total		357.3	23.6	–	–	380.9

Group

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Hire purchase receivables – fixed interest rate	9.6	6.6	6.3	1.7	–	14.6
Trade and other receivables – non-interest bearing	–	121.0	–	–	–	121.0
Cash and bank balances – non-interest bearing	–	206.9	–	–	–	206.9
Total		334.5	6.3	1.7	–	342.5

Company

	2015 Weighted average interest rate %	2015 Under 1 year £m	2015 Between 1-3 years £m	2015 Between 3-5 years £m	2015 Over 5 years £m	2015 Total £m
Loans to other Group companies	4.2	170.4	309.8	271.2	3,988.0	4,739.4

Company

	2014 Weighted average interest rate %	2014 Under 1 year £m	2014 Between 1-3 years £m	2014 Between 3-5 years £m	2014 Over 5 years £m	2014 Total £m
Loans to other Group companies	4.9	181.6	360.1	347.4	3,907.0	4,796.1

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