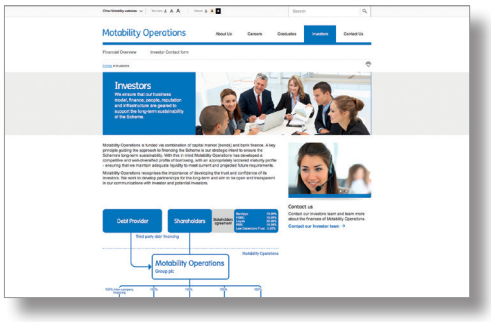
Motability Operations
Group plc

Annual Report and Accounts 2013

Contents

Online

Please visit our newly updated corporate website:



motabilityoperations.co.uk

2013 highlights

98%

Overall customer satisfaction (independently measured)

>92%

Customer renewal rate at the end of lease

>80%

Of customer calls answered within 20 seconds for the sixth consecutive year

94%

Employee engagement 13% higher than 'high-performing organisation' benchmark

Symbols

Icons are used throughout the report to help navigate to other content

This icon references further information on another page in this report

Who we are

Motability Operations is the operator of the Motability Car Scheme and the Powered Wheelchair and Scooter Scheme. The Motability Scheme enables disabled people to exchange their Higher Rate Mobility Component of the Disability Living Allowance, the enhanced rate of the Personal Independence Payment, or their War Pensioners' Mobility Supplement to obtain a new car, powered wheelchair or scooter.

As a not-for-profit plc, we reinvest any surpluses back into the business for the benefit of our customers.

Our prime purpose

We have developed a strategic agenda designed to satisfy our prime purpose of providing our customers with independence and mobility by offering a wide choice of vehicles at affordable prices.

We aim to deliver first-class customer service, and believe that understanding how disability affects our customers' needs is critical in meeting this objective. Ensuring the long-term sustainability of our business is essential for the delivery of these objectives.

Our business model

We operate a unique business model, working with Motability, stakeholders and partner suppliers, for the benefit of our customers.

To access a vehicle, powered wheelchair or scooter on the Motability Scheme you must receive the qualifying Government allowance. Motability plays no role in deciding who is eligible for this allowance. The 1.9 million people who are currently in receipt of this allowance could seek to obtain one of these products from Motability Operations. At present, around 33% of allowance recipients participate in the Scheme.

As operators of the 'Motability Scheme', secured through a contract with Motability, we receive customers' mobility allowances assigned directly from the Department for Work and Pensions (DWP). This revenue stream is received directly from Government, and therefore has minimal credit risk. As operators of the Scheme, we seek to leverage economies of scale and to tightly manage our cost base. It is by running an efficient operation that we are able to consistently deliver a highly-affordable and competitive proposition for our customers which would not otherwise be available through the retail market.

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 mobility including full insurance, maintenance and servicing, including (as applicable), tyre and windscreen replacement, breakdown assistance and 60,000 miles mileage allowance over three years.

We aim to offer customers a comprehensive and affordable product range. Currently, 34 vehicle manufacturers (representing 96% UK brand availability) and 16 powered wheelchair and scooter manufacturers are represented on the Scheme.

Mobility allowance

There are currently over 1.9 million recipients of qualifying mobility allowances. 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 the Service Personnel and Veterans' Agency (SPVA)). Receipt of a qualifying allowance is the sole eligibility criterion for people wishing to access the Scheme. Through its relationship with Motability, the DWP arranges for the allowance to be paid directly to us on behalf of those people who choose to use the Scheme.

Motability Operations

As the UK's largest car leasing company, we have over 35 years' experience in the industry and have supplied over 3.5 million vehicles since the Motability Scheme was launched.

Since 2010 we have also been responsible for the delivery of the Powered Wheelchair & Scooter (PWS) Scheme on behalf of Motability – thereby consolidating the provision of the Car and PWS Schemes under one provider. Our approach to operating the PWS Scheme is wholly aligned with that of the Car Scheme proposition.

How we operate

Motability

Motability directs and oversees the Scheme

Motability is a national charity, set up in 1977, to assist disabled people with their mobility needs. The Charity's prime purpose is 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.

At Motability Operations, our relationship with Motability is governed by the Scheme Agreement, which sets out the Charity's role of directing and overseeing the Scheme. Motability and Motability Operations are constitutionally and operationally separate entities.

Mobility allowance

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

Motability Operations

Manages the Motability Car, Powered Wheelchair and Scooter Scheme

Customers

Customers have access to a wide range of products that meet their specific needs

Our objective is to offer affordable, worry-free mobility to those with qualifying allowances. Through the Motability Scheme, potential customers can choose to divert the allowance into leasing a new car, powered wheelchair or scooter. We aim to provide sustained value and choice, combined with first-class customer service. All companies within Motability Operations Group plc operate to serve this common purpose.

Total customer numbers have increased steadily over recent years, with over 636,500 customers currently choosing to access the Scheme, made up of over 624,000 Car Scheme customers and over 12,000 PWS Scheme customers. We bought over 228,000 new cars and re-sold over 207,000 into the used car marketplace during the financial year ended September 2013.

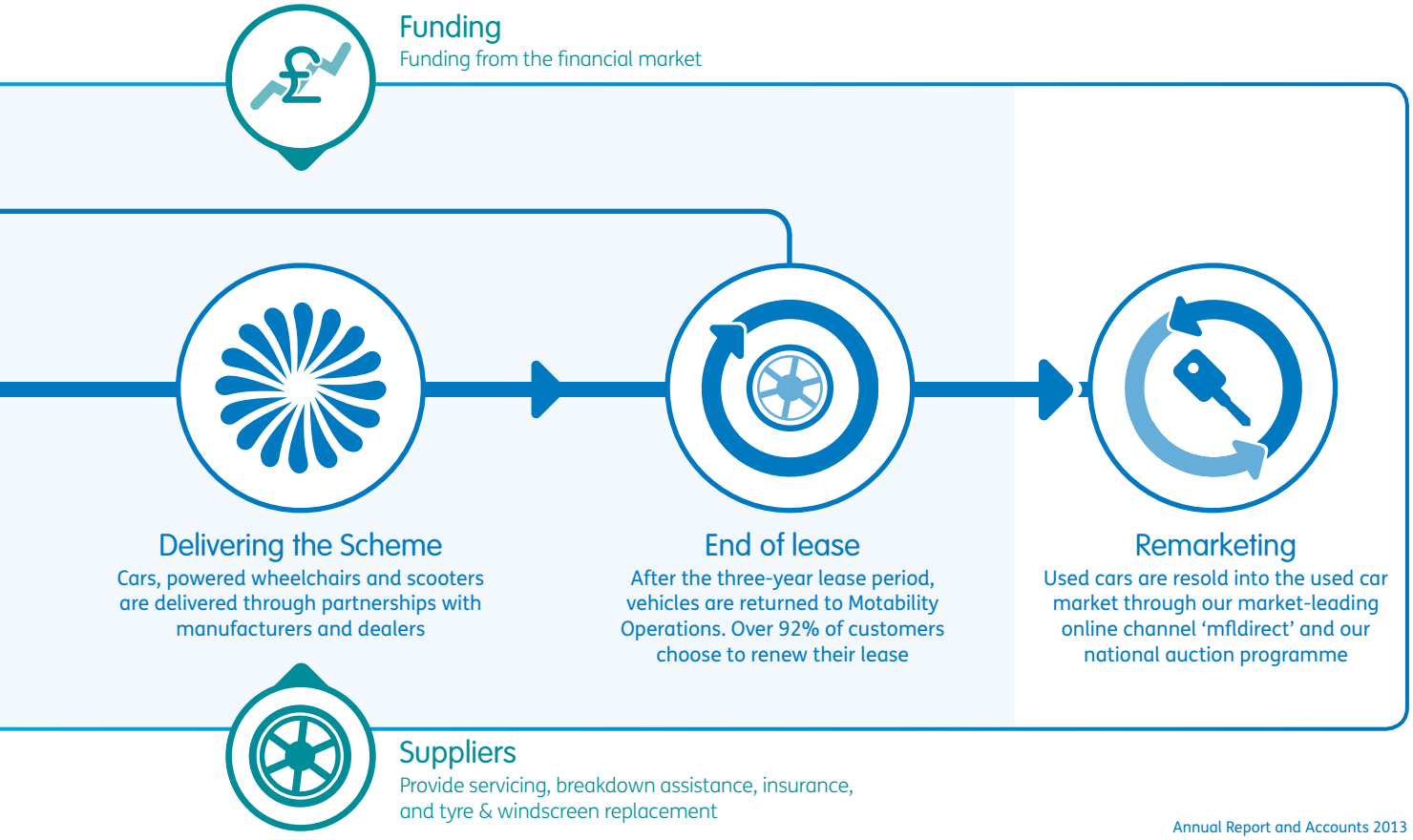
Through our strong financial position we are well equipped to deliver a stable customer proposition. This strength has been built on our prudent reserves and risk management methodology; our diversified fleet portfolio; our excellent business culture and best-practice governance. It is as a result of these strengths that we are able to provide our customers with sustained affordability throughout the economic cycle. As a not-for-profit plc, we reinvest any surpluses back into the business for the benefit of our customers.

At Motability Operations, we:

- Provide worry-free mobility through a Contract Hire product including (as appropriate) insurance; maintenance and servicing; tyre and windscreen replacement; breakdown assistance and a 60,000-mile mileage allowance over three years
- Offer excellent brand choice with 34 manufacturers represented on the Car Scheme, and all of the major scooter and powered wheelchair providers represented
- Aim to provide a choice of over 200 cars on the price list that are available by using the mobility allowance alone, with no 'advance payment'
- Offer a full range of adaptations and wheelchair accessible vehicles.

To achieve this we:

- Manage and develop relationships with key manufacturers
- Work in partnership with over 5,000 car dealers and 219 mobility outlets to provide excellent customer service
- Proactively manage suppliers to ensure an excellent and sustained customer experience on very affordable terms
- Provide telephone support to our customers through our call centre, supported by an interactive web-based enquiry tool
- Ensure that our workforce of over 800 people across our two sites in London and Bristol remains engaged and motivated.



Chairman's statement

Motability Operations has delivered another year of record customer satisfaction

> "I am pleased to report that, despite the challenging environment, Motability Operations continued to perform well in 2012/13. During the year, we saw sustained demand for the Scheme's services, as well as maintaining the highest levels of customer satisfaction.
>
> Neil Johnson, Chairman

Customers continued to rate satisfaction at record levels of 98%, while over the year we saw powered wheelchair and scooter satisfaction rise to a new high of 93%.

This outcome was particularly impressive in light of the concerns of current, and potential, customers around Welfare Reform, and the introduction in 2013 of Personal Independence Payment (PIP).

The Company's continuing excellent performance is delivered through our long-term strategies for customer service and enduring affordability. Together these have enabled us to achieve another year of steady growth, with customer numbers exceeding 636,500.

Motability Operations' financial position has also been robust, giving us confidence in meeting the challenges associated with the introduction of PIP. The outlook remains healthy, and our well-planned approach to financial and risk management enabled us to maintain our excellent credit rating. It has been an outstanding year for vehicle sales, with more than 69% of cars sold through our online channel.

Our commitment to customer service quality was recognised in January with the achievement of the ServiceMark of the Institute of Customer Services, a rigorous accreditation attained by a small number of the highest-performing services companies in the UK.

The year also saw the implementation of a range of initiatives to further enhance our customer experience, including investment in support systems, overhaul of key publications, widely attended national dealer briefings and training events.

A core focus has been on the impact of benefit changes. The change in assessment criteria for PIP means there will be customers who fail to qualify for the new benefit; we feel it is right to help those customers as they move on to independent mobility.

Over the year we worked tirelessly with Lord Sterling (the Chairman of Motability) and Motability to chart a clear path to implement a support package for our customers to meet the challenges of transition to PIP.

We hope that the transitional support package announced by Lord Sterling, comprising financial support from Motability, as well as information and advice (as detailed on page 19), will allow many customers to maintain their mobility when they are no longer able to use the Scheme.

Our stakeholders are wide ranging and include customers, disability organisations, Scheme business partners and DWP. Initial feedback has certainly been very positive. The package was shaped following extensive research and consultation with these groups, and we are grateful for their advice and support.

In addition to the transition support package, we are keen to ensure that our employees and dealers are well equipped to assist customers through these changes. We have therefore started to put in place a comprehensive training and briefing programme to build understanding and confidence in supporting customers through the forthcoming challenges.

In difficult times, our customers look to us for reassurance and support, and earning and maintaining their trust is a key element of our approach.

We realise there will be further, perhaps unforeseeable, challenges ahead, but we are confident that working closely together, we will meet these head on. Motability is a team involving both the Charity and Motability Operations, and this year has shown us ever more the value of a shared and completely co-ordinated approach.

I would like to thank Mike Betts, the Executive team, and all our employees, for their sustained effort in once again delivering such outstanding results.

We will continue to work closely with Motability, and we look forward to the year ahead, where we will focus on ensuring that we continue to deliver the best value and service to our customers.

Neil Johnson OBE
Chairman

Chief Executive's review

Motability Operations delivers a simple proposition – worry-free, affordable mobility for disabled people

> This has been a significant year for Motability Operations, as we begin to address the challenges of welfare changes. Despite this backdrop, I am happy to report that the year once again saw excellent performance, with record customer service levels and a strong financial outturn.
>
> **Mike Betts**, Chief Executive

Successful performance

Overall satisfaction of our 636,500 customers was 98%. We more than met our target for affordability, offering at least 465 models for the cost of the Higher Rate Disability Allowance alone throughout the year.

Our vehicle choices, provided by 34 manufacturers, included 50 automatics, as well as 120 adaptations available at no extra cost. We also offered more than 300 scooters and wheelchairs. We provided more green and fuel efficient choices, including our first all-electric car, the Nissan Leaf, and listed a wide range of economical wheelchair accessible vehicles.

Changes made last year to help protect the Scheme from misuse, and safeguard its reputation, have tightened up possible loopholes in the rules, helping to ensure that Motability cars are used for the benefit of the disabled customer. One outcome has been a reduction in the numbers of younger, non-customer, drivers on the Scheme. There has also been an increase in the numbers of customers investigated for fraud and abuse by the Scheme's protection unit.

We will continue to review Scheme rules and processes to help ensure customers understand their responsibilities, and to reduce activity which risks the integrity of the Scheme.

A range of factors helped us maintain excellent levels of customer satisfaction this year, including excellent service from our contact centre. Over 80% of calls were answered within 20 seconds, for the sixth year running, and we resolved nearly 90% of queries at first point of contact.

We refreshed the range of printed publications, including the launch of an Easy Read guide to the Scheme, and upgraded the popular online car search, to make it easier to use and accessible on mobile devices. We also introduced European breakdown cover for customers through the RAC.

We ran five successful One Big Day events in the summer, attracting record numbers of over 13,000 visitors who, between them, took 1,688 test drives (1,302 in adapted cars). These nationwide flagship events offer the opportunity for customers to explore a range of vehicles in a convenient location, and we gained very positive feedback.

For many of our customers the dealer is their key point of contact on the Scheme and this is an important focus for engagement and training. This year we launched the new Motability Dealer Partnership (MDP) programme, which simplified our partnership arrangement and processes, applying greater focus to customer service events.

The changes were launched at a series of well-attended briefings and roadshows for management and dealership staff, overall reaching more than 8,000 individuals across the UK. These events also gave us the opportunity to brief dealers on welfare changes and their potential impact on the Scheme.

More than 98% of Motability customers continued to say they were happy to recommend the Scheme to a friend, and we maintain a renewal rate above 92% for customers reaching the end of their three-year lease.

By the end of the year we grew to include more than 12,000 powered wheelchair and scooter scheme customers. The satisfaction of this group was 93%, and renewal rates rose to over 70%. We are aware that this is a newer segment for us, and we are continuing to learn more about customers' specific needs. This includes looking at steps to address some areas of lower satisfaction among wheelchair, scooter and other specialised mobility customers.

Organisational culture is the cornerstone of customer service delivery, and this year 94% of employees completed our MyView survey. This independent survey, which tracks Motability Operations against other high-performing organisations, saw us hold our position or move forward in every category in this year's results, with employee engagement at 94%, an exceptional level.

In addition, our scholarship programme for disabled students received a judge's commendation at the National Council for Work Experience Awards.

Chief Executive's review continued

Government Welfare Reform changes

A critical challenge this year has been the launch of a new benefit, Personal Independence Payment (PIP), to replace Disability Living Allowance (DLA). Over the next five years, all our working age customers will undergo reassessment for PIP. Anyone awarded the enhanced rate of PIP will qualify for the Scheme in the same way as DLA, but owing to a change in criteria, it is inevitable that some will no longer qualify for the Scheme. However, other potential customers may qualify for the first time.

As a Scheme we wish to support people losing eligibility, who may have been customers for many years, and could not have expected a change in their eligibility for the Scheme to occur. We have therefore worked closely with Lord Sterling and our colleagues at Motability to devise a package of support which is both appropriate to customer needs, and affordable to Motobility.

Go to page 19
for more information on
the impact of Welfare Reform

Financial sustainability

Our financial position remains robust, which means we are in a strong position to meet the challenges set by the PIP transition. Through the year we have maintained stable pricing, working in partnership with manufacturers to offer a wide choice of vehicles through a well-balanced portfolio. We continued to deliver improvements in used vehicle sale revenues with 69% of cars – a record level – now sold online through mfldirect.

Facilities extended in 2012 continue to provide us with more than sufficient liquidity headroom. Our financial strength has improved with our retained reserves increasing, underlining our confidence in the Scheme's long-term financial viability. Under a new partnership arrangement with RSA Insurance plc (RSA) we will, from 1 October 2013, share a carefully-managed level of insurance risk, some of which is conservatively reinsured with blue chip reinsurance partners. This partnership creates opportunities for greater flexibility and cost efficiency.

We are underway with investment in our IT systems and premises, to ensure they can support our business in the long term. We aim to ensure that our buildings are both environmentally friendly and follow best practice for accessibility, aligning them to other initiatives designed to attract and employ more disabled people.

Tight governance and control helped us ensure that financial and operational risks were carefully managed throughout the year.

Looking ahead

The next year is set to bring new challenges, including the wider impact of disability benefit changes.

The uncertainties of the economic outlook and unpredictable path of benefit reform mean this is a difficult time to plan for. However, previous years have shown us more than up to the task of handling many different challenges which come our way, and I am confident we have people of the calibre and expertise to manage whatever the coming months bring.

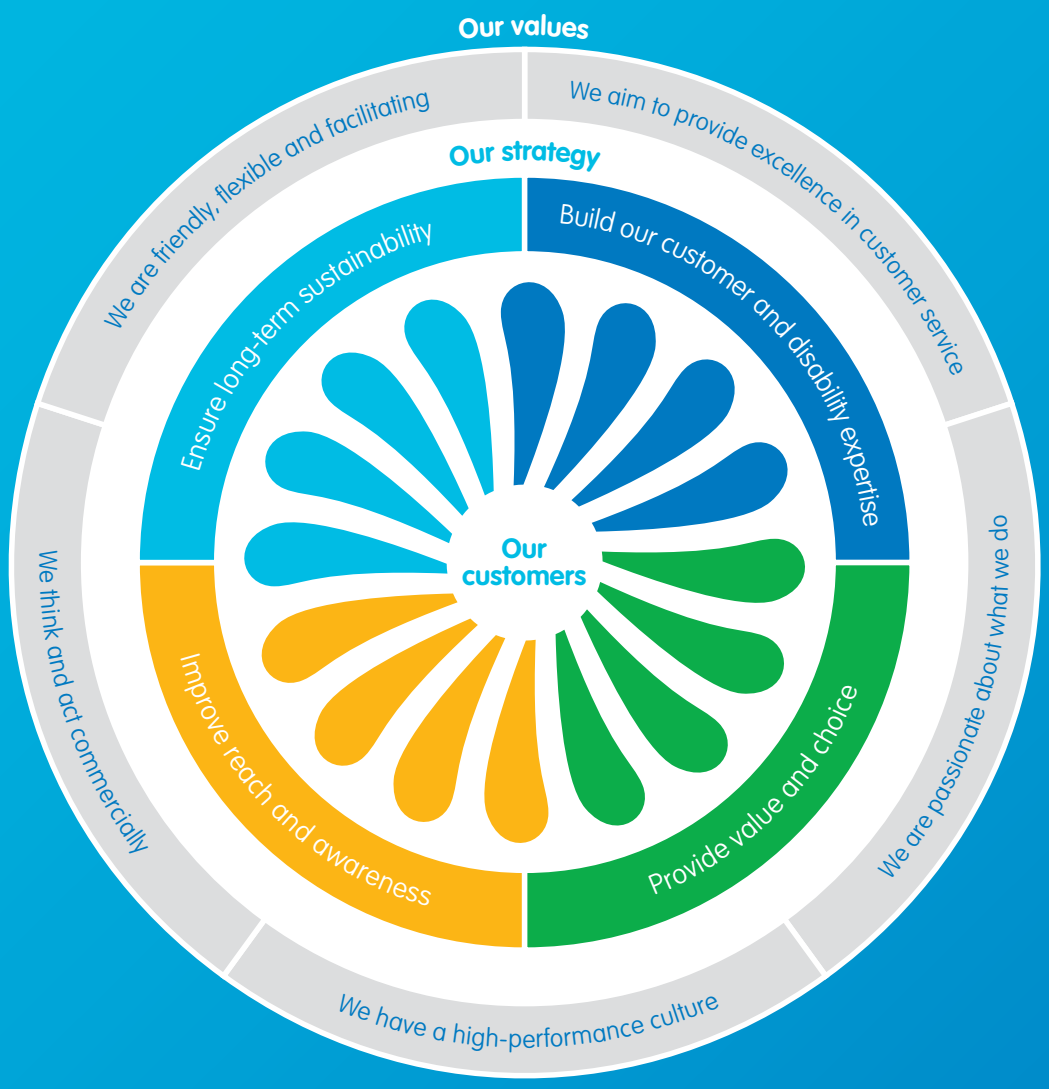
We have faced many challenges this year, and I would like to thank everyone who has been part of a sustained and coordinated effort to ensure that we deliver the right solutions for our customers and for the long term sustainability of the business.

Mike Betts
Chief Executive

Strategy in action and performance

Our strategy
To deliver our ambitions, 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 positive business culture aligned to our core values and principles. We seek to develop our people and reward and recognise excellent performance.

Go to pages 26-27
for more on people and principles

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.

Go to pages 8-15
for more on 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.

Go to pages 23-25
for more on risk management

Build our customer and disability expertise

Strategy

We 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%

13	98
12	98
11	98

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

Calls answered within 20 seconds 81%

13	81
12	84
11	83

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

Roadside assistance average response time 40.7 min

13	40.7
12	41.5
11	41.9

Mobility is a priority to our customers – in the event of a breakdown our customers receive priority assistance, and with an average response time of 40.7 minutes, customers are quickly attended to and are mobile again.

"My Motability specialist has first-class knowledge of the Motability Scheme. He takes so much interest in my strengths and weaknesses regarding my disability so he can advise me on suitable choices.

Mr Morrison, Isle of Skye

Provide

value and choice

Strategy

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.

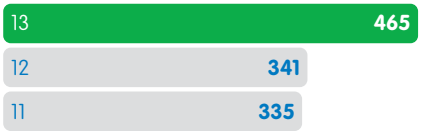
To this end we seek to leverage our purchasing power and ensure that we manage our cost base on commercial terms – the aim being to provide value without compromising choice or quality.

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.

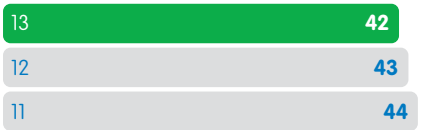
KPIs

Affordable vehicle choice >465



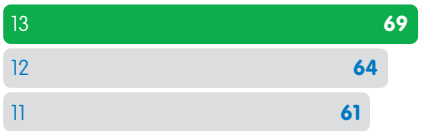
We aim to maintain the availability of at least 200 cars that are funded solely by the assignment of the customer's disability allowance. During the year we exceeded this target with at least 465 models at any one time.

Relative affordability – % cheaper than alternative 42%



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 deliver the majority of this differential.

% of vehicles sold online at the end of lease >69%



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.

"

Motability allows me to enjoy worry-free motoring and an excellent choice of cars.

Mrs Calland, Lancashire

Improve
reach and awareness

Strategy
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 prospects who are well positioned to evaluate its benefits.

Fundamental to this is 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 in increasing 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%**

13	98
12	97

Since 2012 we have measured customers' trust in Motability 'brand'. Trust is considered to be key in enabling current and potential customers to make an informed and confident choice on 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%**

13	92
12	92
11	92

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 this was maintained at above 92%.

Customer advocacy **>98%**

13	98
12	97
11	97

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

"It was great to be able to talk to the adaptation manufacturers and then the Motability advisers at the same time, all under one roof. I was given such good advice and hopefully I can now easily sort out what I need for my next car.

Mrs Darby, Berkshire

Ensure
long-term sustainability

Strategy
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 tolerating 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 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+/A2

We seek to preserve our relative credit rating with our robust approach to financial and risk management and through the flexibility of our pricing engine. During the year our ratings were re-affirmed as A+/A2 with stable outlooks (by Standard & Poor's and Moody's respectively).

Environmental accreditation for our Bristol offices Gold

We were assigned a 'Ska Gold Accreditation' for the refurbishment of our Bristol offices based on an assessment of the approach to energy and CO_2 emissions, waste, water, materials, pollution, wellbeing and transport.

Employee engagement (%) 94%

13	94
12	95
11	94

We participate in an independent annual review of business culture, where we have significantly outperformed the 'high-performing organisations' benchmark. Employee engagement is 13% higher than the benchmark.

"

Motability Operations works to a business model that ensures the future security of the Motability Scheme. Decisions at all levels are made with careful consideration to our company values, which promote long-term sustainability for the business.

Sam Wickenden, Graduate Programme

Finance Director's review

Solid financial performance underpins our ability to provide sustained affordability and choice to customers

> "
>
> From a financial management perspective our prime objective is to deliver a financial platform that is both durable and stable. This provides the business with the sustainable foundation from which we can respond to challenges with both confidence and flexibility.
>
> **David Gilman,** Finance Director

The continuing success of the business is underpinned by our robust Balance Sheet, effective management of key risks, a flexible pricing model and excellent structural liquidity. It is these features which equip the business to provide sustained affordability and choice to our customers through the economic cycle. During the year to September 2013 we met all financial and non-financial targets. Targets in terms of affordability and choice for customers were consistently exceeded, whilst we simultaneously ensured a robust capital base and maintained excellent liquidity headroom.

Financial performance

Targets met

Financial performance in the year ended September 2013 was strong, in part due to the continuing benefits of surpluses on the sale of vehicles. Targets were exceeded across the full range of financial measures. The transfer to reserves, which are retained in the business for the benefit of our customers and provide us with the capital base to ensure a stable and sustainable Scheme, was £259.7m (representing a Return on Gross Assets of 4.3%). Our corporation tax charge for the year was £63.8m (an underlying rate of 23.5%); however, this is in part offset by a £54m deferred tax release. This result takes restricted reserves on the balance sheet to £1,673.9m. This capital base enables us, from time to time, to make charitable donations to the Motability Tenth Anniversary Trust and to Motability, without compromising either our financial sustainability, or ability to provide stable and affordable pricing for customers who remain on the Scheme. We will periodically review the Group's capital position and this may provide scope for further donations to Motability in future years.

In light of the robust capital position and strong financial result in the year to September 2013 the Board approved a discretionary £50m donation to the Motability Tenth Anniversary Trust.

As outlined in the Chief Executive's review, in consultation with Motability, we have agreed to implement a package of transitional support for those customers who lose their eligibility for the Scheme through the roll-out of the PIP over the next five years. This support package will take the form of transitional grants from Motability, which will be funded via periodic charitable donations from Motability Operations. The initial support package will be reviewed in Autumn 2015 to take account of economic circumstances and any possible changes the Government may be making at that time following the independent review signalled for 2014.

The Group's liquidity remains in a healthy position. Given the existing financing headroom in place and positive cash flows from vehicle sales, it was not necessary to seek additional facilities during the year, with the existing Revolving Credit Facility remaining largely undrawn, and with a closing, un-drawn committed facility of £1,550m. 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 1.75:1 in September 2013. The Group's credit ratings were reaffirmed as A+/A2, with a stable outlook from Standard & Poor's and Moody's respectively.

Total customer numbers continued to increase during the year, with a closing fleet of 636,651 representing 2% growth year-on-year. Within this, the closing Car Scheme fleet stood at 624,375, whilst the Powered Wheelchair & Scooter Scheme customer numbers increased to 12,276. 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 roll-out of the PIP – renewal rates for existing customers have remained in excess of 92%.

Revenue increased to £3,471m – up 11% year-on-year. This reflects both an increase in rental income – up 7.2% to £1,873m (a product of the growth in customer numbers combined with the 2.2% uplift in the DLA from April 2012), and an increase in vehicle resale proceeds – with 207,217 vehicles sold during the year and overall disposal proceeds up 16.3% to £1,593m.

Cost management

Our operating cost base has continued to be tightly managed during the year through the application of effective cost management disciplines and via robust supplier management and procurement processes. The Group has continued to offer excellent affordability to customers throughout the period. The introduction of the revised insurance arrangements from October 2013 (described on page 21) will not only secure the long-term supply of insurance, but will bring greater efficiency and financial benefits in future years which will be passed through to customers.

Assets and residual values

Operating Lease Assets increased by £260m during the year to £5,573m – 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 re-assessment of this anticipated residual value during the life of each lease. This revaluation allows us to be agile and adjust residual values as appropriate to reflect market trends. This enables us to mitigate the risk of potential market volatility.

At each financial period end, this revaluation may result in the need for accounting adjustments which are usually made by recalibrating vehicle depreciation for the period and over the remaining life of the lease. Our in-house model, which is regularly externally validated, has consistently outperformed alternative external benchmarks, and remains less volatile and typically more conservative in outlook than other market views. At September 2013, the projected revaluation of the fleet versus the priced position reflected an anticipated gross gain of £91m, with the alternative market valuation forecasting a £437m gain – evidencing our conservative positioning.

As regards vehicle resale performance, the Group realised significant gains on disposal during the year ended September 2013, recognising an aggregate gain of £103.8m (or 7%) against the adjusted residual value. This result demonstrates both the increasing effectiveness of our remarketing operation – with close to 143,000 (69%) of vehicles sold via our online channel (mfldirect) – and also 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 (which are retained exclusively for the benefit of the Scheme – with shareholders having no entitlement to dividends), which are used to protect the Scheme, and so customers, from potential market or economic shock events.

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

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

The capital implications of the revised insurance arrangements have been subject to particular review and scrutiny. As a design principle, the structuring and implementation of the revised insurance arrangements (which begin from October 2013), have been configured to ensure that the net risk imported into the Group sits well within our risk appetite, and that secondly, we hold sufficient capital to underpin these arrangements. Under the revised insurance structure the net risk retained by the Group is limited through a conservatively placed reinsurance programme. Our Economic Capital model has been adjusted to reflect the net risk – and consequently this has led to an increase in the calculated Economic Capital Requirement (ECR) at a Group level year-on-year.

The Group uses a comprehensive range of stress-test scenarios to validate the Economic Capital approach. 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 extremely robust nature of the Group's Balance Sheet, so providing management with great confidence and assurance as we look to the future.

Our existing policy is to seek to manage capital to remain within a target corridor between 100% and 130% of the calculated ECR. This aims to ensure that the Group's capital is maintained above 'sufficiency' – providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer. At the financial year end the Group's closing capital position remains within this target corridor – with a closing position representing 117% of ECR.

An independent review of the Group's Economic Capital methodology was commissioned this year, with the preliminary 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. Whilst it is not envisaged that this will result in any changes to the Group's underpinning EC calculations, we will, however, seek to review our approach to how we use this as a tool to inform the Group's capital management policy, so that it remains appropriately prudent, sufficiently flexible and aligned to best practice.

Cash and funding

The Group has maintained significant liquidity headroom throughout the year (the policy being to ensure that it has sufficient committed financing facilities to provide for at least 12 months' projected growth plus 20%). The Group's £1.5 billion Revolving Credit Facility was undrawn for the majority of the year and was only marginally drawn at the financial year end, with £ 1.45 billion headroom – more than sufficient headroom to meet Group policy.

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 two 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 2013 was an asset of £7.0m post-tax.

David Gilman
Finance Director

Operational review

Overview

As outlined in the 'Strategy in action and performance' section (pages 7-15) the year ended September 2013 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 above 92% and total customer numbers increased 1.9% to 636,651.

Customer awareness and advocacy of the Scheme

Better awareness and understanding of the key components of the Motability 'package' enable customers to make informed decisions on whether to take a vehicle, powered wheelchair or scooter on the Scheme.

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.

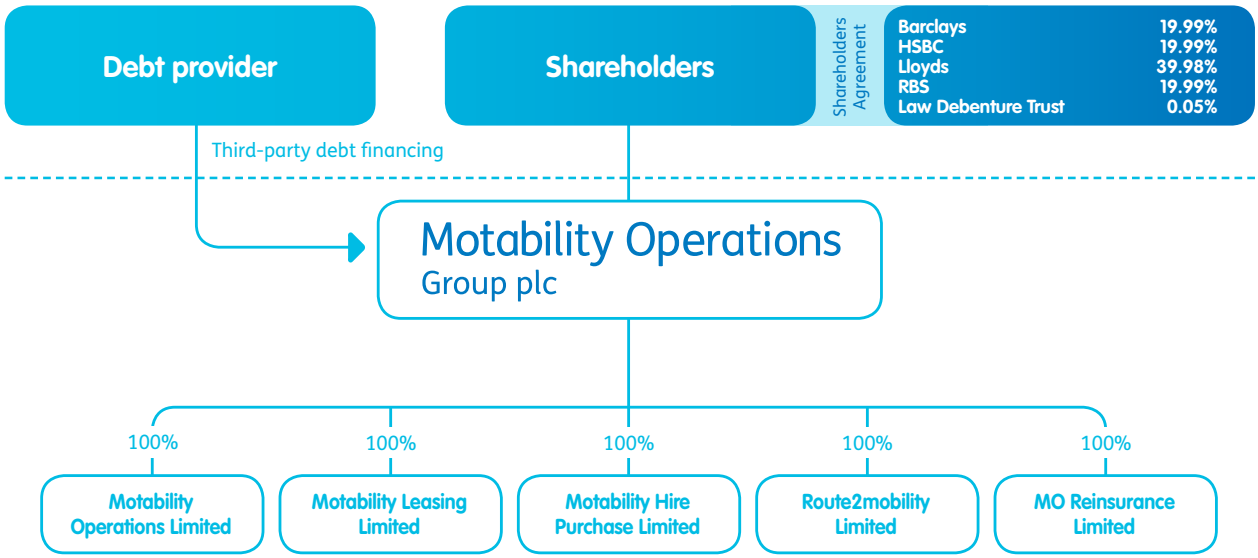
One of the most effective media for this communication is word of mouth. Our customers are our greatest ambassadors, and our research shows that over 98% would recommend the Scheme.

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 13,000 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, 75,771 new customers chose to take a vehicle, powered wheelchair or scooter on the Scheme. This, combined with continued excellent renewal rates of over 92% among existing customers (a product of high customer satisfaction and sustained affordability), has precipitated continued growth during the financial year. Our total customer base increased by 1.9% year-on-year, closing at 636,651 customers on the Scheme.

Corporate structure

The diagram below sets out the current corporate structure



Government Welfare Reform changes

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

From October 2013 to 2018, the Department for Work and Pensions (DWP) will 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, it is expected that some people will lose their eligibility for the Motability Scheme. Other potential customers may qualify 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.

Taking account of what is affordable and sustainable and the consideration of customer needs, Motability has announced the following support as available to customers when they leave the Car Scheme as a result of PIP reassessment:

Customers who have made an 'advance payment' (an additional upfront payment to lease a larger or more complex vehicle on the Scheme) will have their 'advance payment' refunded on a pro-rata basis. No further costs will be applied to customers whose leases end early as a result of a PIP reassessment.

To help departing customers plan their next step, we will provide general information on motoring, insurance and other services outside the Scheme. This will include information, for example, on buying a new or used car, and arranging insurance. We are working with a leading UK insurance broker who will offer insurance quotations to former Scheme customers that will recognise their no-claims history on the Scheme.

The Scheme will offer 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.

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 timeframe will 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), will be eligible for transitional support of £2,000. For many customers, this will enable 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, will be provided with £1,000 of transitional support.

Motability will review these levels of transitional support in 2015 to take account of economic conditions, and of any possible changes the Government may make to PIP at that time.

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

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

Operational review continued

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'), so this is also without credit risk.

Our prices are over 40% cheaper than our external benchmark, which references the cost of commercial contract hire quotations. 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).

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 up to 34 manufacturers with over 2,000 vehicle derivatives on the price list. Our approach to the PWS Scheme is also to provide customers with a wide and representative choice.

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

As signalled in the 2011 Annual Report, Motability Operations, alongside the Charity, continues to monitor the Scheme offering to ensure the proposition remains appropriate, and that it continues to deliver high value to its customers consistent with the Scheme's core objectives. During 2012 a number of changes were implemented, which collectively were designed to protect the integrity and reputation of the core of the Scheme.

This included the streamlining of our price list to focus closely on those cars chosen by 95% of our customers (generally priced below £2,000 advance payment, and with a retail value of under £25,000).

Other changes were also made, designed to help protect the Scheme from misuse, and safeguard its reputation. In particular, we have taken steps to improve customers' and Scheme partners' familiarity with Scheme rules, and have tightened guidelines, to ensure that Motability cars are used exclusively for the benefit of the disabled customer.

The changes include some restrictions on named drivers, who should generally live within five miles of the disabled customer, and reduce the selection of cars available to younger drivers. Exceptions are considered to address particular disability needs. We also introduced a statement to help customers understand their responsibilities.

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 excellent 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 excellent 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 six years of answering 80% of calls within 20 seconds.

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
- Operating an online 'Lingubot' called 'Ask Mo', which enables customers to 'chat' through their queries in ordinary language
- 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, more than 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 PWS Scheme proposition
- Displaying vehicle accessibility information on our website
- The availability of targeted specialist publications including the Wheelchair Accessible Vehicle (WAV) Guide
- The Car Price Guide includes images of cars with accessibility considerations, an 'automatics' column and images to help customers visualise the types of cars available.

Revised Fleet Insurance Arrangements

Sustainable arrangements

On 18 June 2013 Motability Operations announced the renewal of its contract with RSA to provide motor insurance to the Motability Scheme. This new contract extends the long-term relationship and the strong, sustainable partnership between RSA and Motability Operations. The new contract took effect from 1 October 2013 for an initial five-year period.

Under the new arrangements RSA will continue as insurer, but will share premium exposure with Motability Operations via its reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through the placement of a conservatively structured reinsurance programme.

RSA will 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 will enable continued excellent customer service and will deliver significant additional benefits to the Scheme:

- Customer service: RSA have been the insurance suppliers to the Scheme for many years and the new deal will ensure continuity of our customers' 'worry-free' claims management experience for many more years. There will be no change visible to our customers
- Financial: the financial model that will underpin the new arrangements will bring with it additional financial benefits, all of which will be passed to customers
- Supply risk: MORL will be supported by a conservatively structured reinsurance programme that will spread insurance supply amongst a number of highly-rated organisations and, in so doing, diversify risk and ensure stability of insurance provision into the future.

MO Reinsurance Ltd (MORL) – Overview

MORL is a wholly owned subsidiary of Motability Operations Group plc, which has been newly 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 have 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+/A2 respectively, with Stable Outlook) 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 have therefore assigned the Group's A+ rating to MORL.

MORL is domiciled in the Isle of Man (IOM), because it is not possible to efficiently implement the preferred structure 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 Isle of Man through MORL will be allocated to Motability Operations Group plc and charged to tax in the UK. This will be 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 will be 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.

Operational review continued

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 over 2,000 vehicle derivatives, delivered through a network of over 5,000 car dealerships. During the year we accounted for over 10% of UK car registrations.

As a consequence we represent an increasingly important 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, 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 after sales) with a particular emphasis on customer service. The MDP programme has, through targeted investment, delivered improvements that have led to a better customer experience at car 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 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 2013, we sold over 207,000 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 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.

mfldirect provides a competitive purchasing environment and ensures that we both maximise our sales return and minimise disposal costs. Online sales accounted for over 69% of all disposals during 2013. 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 11% increase in volumes year-on-year.

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 2013, with £103.8m gains recognised across aggregate sales.

Environment

Environmental issues continue to feature prominently on the political and economic agenda.

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 continued 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 are in the process of refurbishing our premises. A key objective of this refurbishment programme is to ensure that these buildings are exemplary from a disability accessibility perspective and also meet the highest environmental standards. The Bristol phase of this refurbishment was completed during the year, and we are pleased to have been assigned 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 our membership of the Government's Cycle to Work Scheme.

Risk management

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 Policy, which is enshrined within our governance framework, is overseen and managed by our Risk Management Committee.

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. Whilst we do not fall under FCA or Prudential Regulation Authority (PRA) regulation, we seek to align our risk management approach with best market practice.

We use Economic Capital principles to determine and manage our reserves position.

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.

Key risks and mitigations

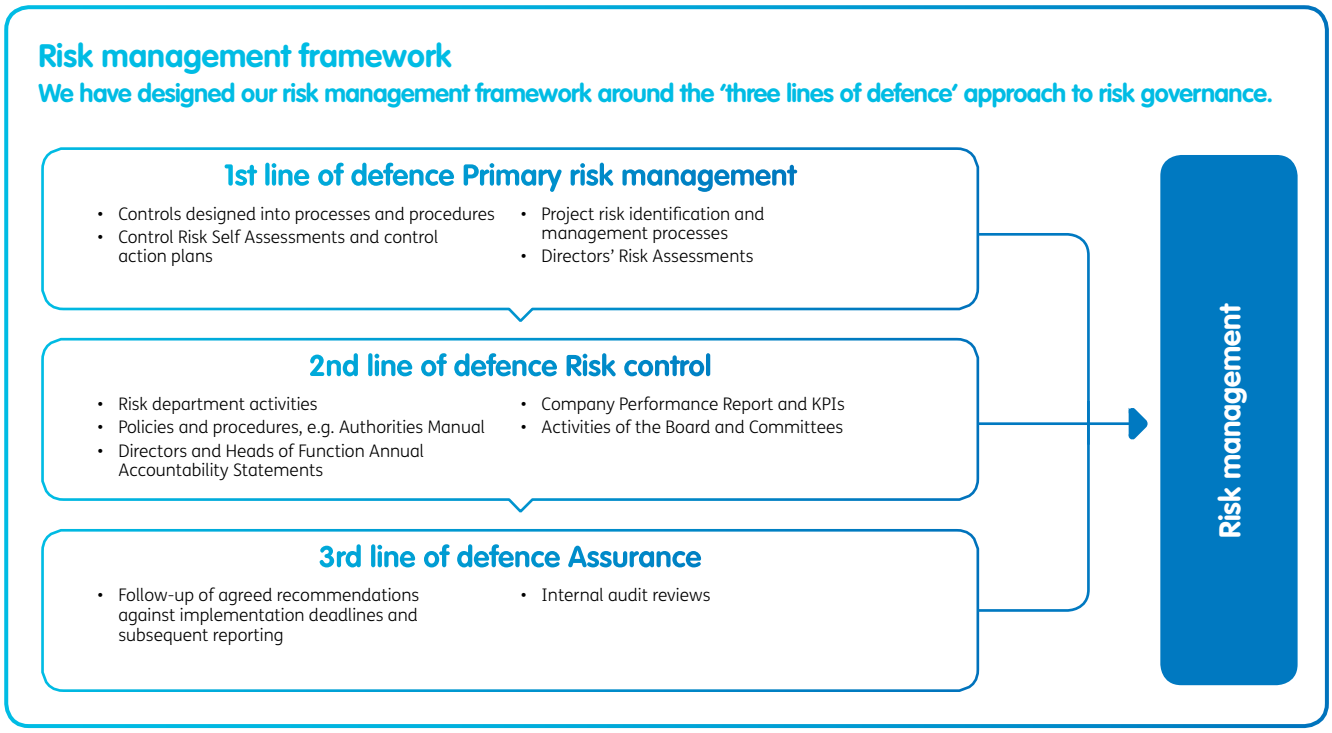
Residual values

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 re-calibrated 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.



Risk management continued

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.

Credit risk

Our income is principally 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.

We proactively manage the small residual credit risk that arises from miscellaneous customer billings, monies due from dealers, auction houses and vehicle manufacturers. 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).

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 in place to cater for projected growth over the next 12 months, plus 20% headroom.

Capital adequacy and economic capital

Ensuring that we have the financial resilience to withstand economic turbulence without compromising the customer offering is at the forefront of our approach to balance sheet management. The Group holds capital in the form of 'restricted reserves' to provide the necessary financial shock-absorber to ensure this 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 opposite.

This enables us to calculate our Economic Capital Requirement (ECR), 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 ECR per vehicle to our current and projected contract hire fleet size. This gives us an overall current and projected ECR 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 EC methodology and the key underlying assumptions. Focus is also given to new or emerging company-specific or wider environmental factors which are considered to have a bearing on the Group's capital requirements.

Our existing policy is to seek to manage capital to remain within a target operating corridor of between 100% and 130% of the ECR, to protect the longevity of the Scheme. Operating this policy aims to ensure that the Group's capital is maintained above sufficiency – providing greater tolerance in the event of economic shock, and so less volatility in lease pricing for the customer.

The Group uses a comprehensive range of stress-test scenarios to validate the Economic Capital approach. 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. The conclusion of this stress-testing is to affirm the extremely robust nature of the Group's Balance Sheet – and so provide management with great confidence and assurance as we look to the future.

An independent review of the Group's EC methodology was commissioned this year, with the preliminary 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. Whilst it is not envisaged that this will result in any changes to the Group's underpinning EC calculations, we will, however, seek to review our approach to how we use this as a tool to inform the Group's capital management policy, so that it remains appropriately prudent, sufficiently flexible and aligned to best practice.

Summary of our key risks and mitigations

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 the appropriate mitigants in place to reduce these exposures.

We use Economic Capital principles to determine and manage our reserves position in the context of these risks. Through this policy and approach we ensure that the business remains sustainable through the economic cycle.

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

Relevance 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)

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

Relevance 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 occurred

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

Relevance 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

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 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 good credit rating
- Good treasury system, controls and governance

Relevance 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

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

Relevance to strategy

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

People and principles

People

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 positive business culture aligned to our core values and principles.

We seek to develop our people and reward and recognise excellent performance. To support this, our remuneration is regularly reviewed against the market to ensure that it is fair and competitive. We are fully committed to paying our people at least at the level of the current Living Wage for their base location.

Our values (which are described to the right) 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.

We believe that our business culture provides a foundation for success. For this reason, we are committed to carrying out independent benchmarking through an annual employee survey conducted by a global employee research and consulting firm. The results are shared with employees through road shows hosted by the Chief Executive, with key themes identified and actions being agreed to address any issues that may emerge.

Results are compared against a UK benchmark of high-performing organisations. In the last five years, our results have significantly outperformed the 'high-performing' norm.

Our leaders are assessed every year using 360-degree feedback.

We run a structured Graduate Programme which seeks to attract and recruit 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.

Equality of opportunity is at the heart of all we do. We treat everyone with respect and offer equal chances to participate and contribute. Our Scholarship Programme offers disabled students the opportunity for work experience and financial assistance during their degree course whilst our Apprenticeship Programme proactively encourages applications from disabled individuals; offering the opportunity to gain experience that will provide a good grounding for the future.

While regretted attrition levels are low, we manage the risk of losing key individuals through regular talent reviews and succession planning. Our Nomination Committee reviews the plans for Directors and senior managers. High-potential employees are identified and we develop people through different mechanisms including internal secondments.

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

Principles

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

- 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.

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 'Gold Card Members' of the Business Disability Forum (formerly the Employers' Forum on Disability). 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.

Employee involvement

The Company seeks to engage all employees in short and long-term goal setting. This is achieved through the use of a number of communication methods including senior management briefings, workshops, a Company newsletter, employee consultation forums and through use of our corporate intranet.

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

Board of Directors

Membership of the Board comprises a Non-Executive Chairman, five Executive Directors, five Independent Non-Executive Directors and four Non-Executive Directors. The Directors of the company who were in office during the year and up to the date of signing the financial statements were:

Neil Johnson OBE
Non-Executive Chairman

Neil was appointed Chairman of Motability Operations in 2001. He was appointed as Non-Executive Chairman of Motability Operations Group plc on 20 March 2008.

Executive Directors

Mike Betts
Chief Executive

Mike joined the Motability Operations Board in 2002 and was appointed to the position of Chief Executive Officer in September 2003. He was appointed as Chief Executive Officer of Motability Operations Group plc on 20 March 2008.

Anne Downey
HR Director

Anne joined Motability Operations in 1997, and was appointed to the Board in 2004. She was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

David Gilman
Finance Director

David joined the Motability Operations Board in 2003 as Finance Director. He was appointed as an Executive Director of Motability Operations Group plc on 30 June 2008.

Ian Goswell
Commercial Services Director

Ian joined the Motability Operations Board as Commercial Services Director in 2004. He was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

Ashley Sylvester
Operations Director

Ashley joined the Motability Operations Board in 2004 as Asset and Pricing Director and in 2006 was appointed Operations Director. He was appointed as an Executive Director of Motability Operations Group plc on 17 September 2008.

Non-Executive Directors

John Callender
Independent Non-Executive Director

John has been a Non-Executive Director of Motability Operations since 1993. He was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

Nigel Clibbens
Non-Executive Director

Nigel has been a Non-Executive Director of Motability Operations since 2002. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Peter Lord, appointed 17 September 2008).

Frank Gardner OBE
Independent Non-Executive Director

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

Joe Hennessy OBE
Independent Non-Executive Director

Joe has been an Independent Non-Executive Director of Motability Operations since 2006. He was appointed as an Independent Non-Executive Director of Motability Operations Group plc on 30 June 2008.

Christopher Lendrum CBE
Independent Non-Executive Director

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

David Oldfield
Non-Executive Director

David was appointed as a Non-Executive Director of Motability Operations Group plc on 14 September 2011 (alternate – Mark Stokes, appointed 1 July 2013).

Mark Parsons
Non-Executive Director

Mark was appointed as a Non-Executive Director of Motability Operations Group plc on 20 February 2012 (alternate – Duncan Rowberry, appointed 13 June 2012).

Mike Russell-Brown
Non-Executive Director

Mike has been a Non-Executive Director of Motability Operations since 2006. He was appointed as a Non-Executive Director of Motability Operations Group plc on 30 June 2008 (alternate – Martin Lord, appointed 1 November 2012).

David Smith
Independent Non-Executive Director

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

Jo Pentland
Company Secretary

Jo joined Motability Operations in 2003 and as a qualified Chartered Secretary was appointed to the role of Company Secretary in 2005. She was appointed as Company Secretary of Motability Operations Group plc on 20 March 2008.

Other statutory information

Corporate Social Responsibility

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

- Through the Scheme's core objectives, we help customers to gain independence and lead fuller lives through affordable, worry-free mobility
- We offer our facilities to various disability organisations and local associations
- We have an environmental policy which is reviewed through the 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).

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 £51,398 (2012: £49,084) to support and sponsor local initiatives through our 'mycommunity' programme.

In addition, the Group made a £50m charitable donation to the Motability Tenth Anniversary Trust. The principal objective of the Tenth Anniversary Trust is to promote and support the objectives of Motability by making grants and investing in research and special projects to facilitate mobility needs.

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 in respect of itself and its Directors.

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 28, 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.

Post Balance Sheet events

As highlighted in the Strategic report (page 21), Motability Operations has entered into revised fleet insurance arrangements. These arrangements became operational on 1 October 2013 and therefore the new insurance subsidiary MO Reinsurance Ltd is now trading.

In December 2013 the Group renewed the following principal bank loans:

- The three-year term loan of £0.5 billion has been replaced with a five-year term loan of £0.4 billion and
- The five-year revolving credit facilities of £1.5 billion have been extended to run for a further two years.

Both of these loans are now coterminous, having repayment dates of December 2018.

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, Nigel Clibbens, Anne Downey, Frank Gardner, David Gilman, Ian Goswell, Joe Hennessy, Christopher Lendrum, David Oldfield, Mark Parsons, Mike Russell-Brown, David Smith and Ashley Sylvester served as Directors throughout the year.

Duncan Rowberry and Peter Lord served as alternate Directors throughout the year.

Martin Lord was appointed as Mike Russell-Brown's alternate as of 1 November 2012.

Richard Francis resigned as an alternate Director on 1 July 2013.

Mark Stokes was appointed as David Oldfield's alternate as of 1 July 2013.

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

31 December 2013

Corporate governance

Central to achieving the objectives of Motability Operations

> The Board considers that good corporate governance is central to achieving the objectives of Motability Operations, and that this underpins the sustainability of our product offering. As such we are committed to high standards of corporate governance.

While the Board has overall responsibility for the success of the business, its strategic direction, governance and financial control, the Executive Committee is responsible for the day-to-day management of the Group and, in particular, for the formulation of strategy, supervising operational management, and providing structure and leadership for the business.

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

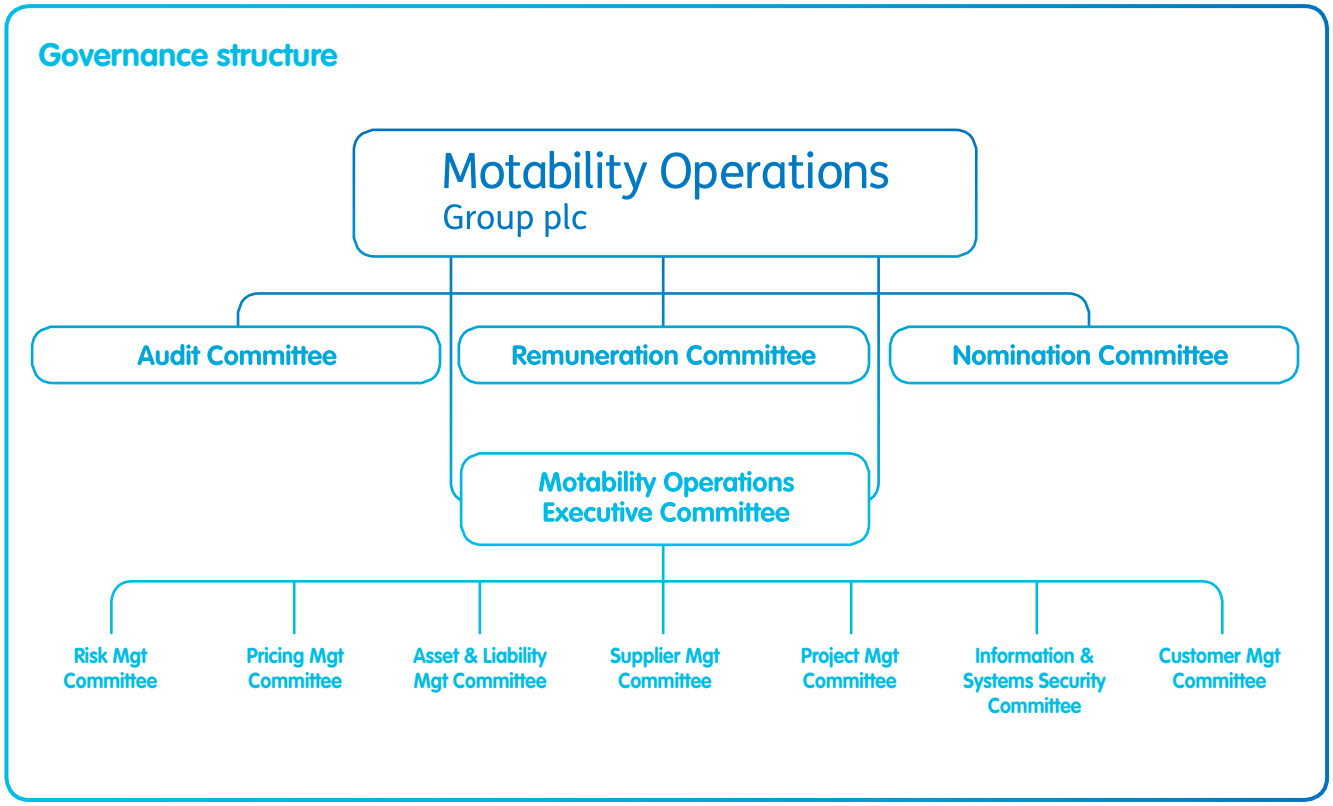
The division of responsibilities between the Chairman and the Chief Executive has been clearly established. The responsibility of the Non-Executive Chairman includes leading the Board and ensuring its effectiveness. This includes setting the agenda for Board meetings and, with the assistance of the Company 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.

Corporate governance continued



Executive Committee

The Executive Committee is chaired by Mike Betts, Chief Executive, and includes: David Gilman, Finance Director; Anne Downey, HR Director; Ian Goswell, Commercial Services Director; Ashley Sylvester, Operations Director; and Jo Pentland, Company Secretary, as members.

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

- Manage the day-to-day business operation of the Group and its subsidiaries
- Develop and set strategic objectives
- Agree policy guidelines
- Agree the Group's budgets and plans and, once these are adopted by the Board, be responsible for achieving them
- Ensure appropriate levels of authority are delegated to senior management
- Ensure the co-ordination and monitoring of the Group's internal controls and ensure that activities undertaken are conducted within the Group's risk appetite
- Safeguard the integrity of management information and financial reporting systems
- Approve all 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 and Liability Management; Risk Management; Supplier Management; Information & Systems Security Management; Project Management; Pricing Management; 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.

Audit Committee

The Audit Committee comprises three Independent Non-Executive Directors and four Non-Executive Directors. The Committee is chaired by Christopher Lendrum, the other members being John Callender, Nigel Clibbens, David Oldfield, Mark Parsons, Mike Russell-Brown and David Smith. 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
- Monitor the objectivity, independence and effectiveness of the external auditors, including the sanction of non-audit work
- Consider any substantive control issues arising, including major control failures or incidents
- Oversee the operation of the risk management framework, including the risks identified in the corporate risk register
- 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 at every meeting include:

- 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 appropriate capital adequacy at all times within the parameters agreed by the Board
- A Treasury report covering policy and factors affecting liquidity (including 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 current major change programmes and projects. During the year these included changes required to implement the transition from Disability Living Allowance to Personal Independence Payments introduced by Government, and the planned restructuring of fleet insurance provision including new governance and supervision arrangements covering MO Reinsurance Ltd
- Internal Audit reports and issue resolution over the previous quarter, together with the appropriate resourcing of the function. No significant issues were encountered. The Committee has considered the recommendations (Effective Internal Audit in the Financial Services Sector) made by the Chartered Institute of Internal Auditors in July 2013 which has been useful in ensuring appropriate consideration and application of all aspects relevant to the Motability Operations Group
- Reports on any significant control failures or incidents over the previous quarter.

The financial statements for the half year and full year 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 2013 the auditors provided appropriate assurance and identified no matters of material concern to the Committee.

The Committee is satisfied that PwC complies with UK regulatory and professional requirements and that its objectivity is not compromised. The current lead audit partner Anne Simpson has been in post for some five years, and in line with policy, PwC will rotate the lead audit partner next year. Under PwC's succession arrangements Jeff Picton has been appointed to succeed her as lead auditor. 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 the updated UK Corporate Governance Code of the Financial Reporting Council.

In recognition of the importance of evaluating its own effectiveness, in 2012 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. With committee membership unchanged, a further review will be considered when appropriate.

Christopher Lendrum CBE
Audit Committee Chairman

Corporate governance continued

Nomination Committee

The Nomination Committee comprises the Non-Executive Chairman and two Independent Non-Executive Directors. It is chaired by Neil Johnson and the other members are John Callender and Christopher Lendrum. The CEO and HR Director are in attendance where appropriate. The Committee meets twice yearly and has delegated authority from the Board to:

- Review succession and retention plans
- Review plans for the appointment of new Directors and reappointment of Non-Executive Directors at the end of their term
- Review the structure, size and composition of the Board.

Although the importance of assessing the effectiveness and performance of the Nomination Committee for good corporate governance is recognised, as there had been no material changes since the last formal review in 2012 a review was not carried out in 2013. The next formal review process will be put in place in 2014.

Neil Johnson OBE
Nomination Committee Chairman

Remuneration Committee

The Remuneration Committee comprises the Non-Executive Chairman of Motability Operations, four Independent Non-Executive Directors and one Non-Executive Director. The Chair of the Committee is an Independent Non-Executive Director.

The Committee is chaired by John Callender, the other members being Neil Johnson, Joe Hennessy, Christopher Lendrum, Mark Parsons and David Smith. In addition, the Committee draws on the expertise of an external independent specialist for benchmarking, for advice on best practice and to confirm that a thorough and well-governed process is applied. No employee is permitted to participate in discussions or decisions which directly relate to their own remuneration.

The Committee meets twice yearly and has delegated authority from the Board to review and approve, for Motability Operations and its subsidiaries, the following:

- The overall positioning of market competitive remuneration packages
- Base salaries and increases for the Executive Directors
- The design, terms and eligibility of performance-related pay schemes including long-term incentive arrangements
- When short and long-term payments will be made and whether any portion of such payments should be deferred
- The policy for pension arrangements and other benefits for the Directors
- The broad policy for the remuneration of all employees, the implementation of which is delegated to the Executive Committee.

The Committee reports twice yearly to the main Board and works closely with the Audit and Nomination Committees.

Remuneration report

The link between performance and pay

As described on pages 7 to 15 the Company has a clear strategic agenda, with an overarching purpose of providing customers with independence and mobility by offering a wide choice of vehicles at affordable prices. Each year, the Company reviews and refreshes this strategic agenda with annual objectives and targets being adjusted accordingly. Remuneration is then linked very clearly to these Company and individual performance targets as well as by reference to individuals' ability to demonstrate performance consistent with the Company's core values (see below).

Performance appraisals are conducted annually by employees' direct managers and leaders are assessed every year using 360-degree style feedback. Employees' appraisal ratings directly drive any discretionary pay awards. Each Executive Director and Head of Function also receives, each year, a copy of the Annual Operating Plan which describes corporate and divisional objectives and budgets, together with an Accountability Statement setting out expectations in respect of a range of matters including risk management, diversity, fraud and bribery prevention, adherence to Company policies and employee engagement.

Motability Operations' culture and its people are fundamental to its success and the Company is committed to recruiting and retaining an engaged and motivated workforce. The Company's core values, iterated below, are central to delivering excellent performance. The Company embraces diversity.

The core values are:

- 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 main measure of the Company's culture is through the use of an annual employee survey conducted by an independent external company. The survey benchmarks the organisation's culture versus that of other high-performing companies in the UK.

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

Motability Operations deploys proportionate pay and benefit programmes which facilitate the achievement of its objectives. The Company reviews its remuneration against the market to ensure that it is affordable and 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. The Company does not reward poor performance or failure. The Company places the highest importance on meeting both short-term performance targets and long-term objectives.

The Company has no share or share option schemes.

Pay for all UK employees, Executive Directors, the Non-Executive Chairman and Independent Non-Executive Directors is managed through the PAYE (Pay As You Earn) system.

Key remuneration elements for employees and Executive Directors

Remuneration seeks to strike an appropriate balance between fixed and variable pay.

The key elements of remuneration for employees are:

- Base pay
- Annual performance-related payments. These payments are not guaranteed and are overtly linked to clear and sustainable measures of business performance
- Non-contributory pension scheme (defined contribution)
- Benefits including private medical insurance, life assurance and critical illness cover. A company car/allowance is provided for certain roles.

Corporate governance continued

The key elements of remuneration for Executive Directors are:

- Base pay
- Annual performance-related payments
- Long-term incentive arrangements
- Non-contributory pension scheme (defined contribution). In light of the 'annual' and 'life-time' limits the Government introduced in 2010, Directors can reduce or cease contributions being made to the Company's pension scheme and, instead, receive a pension allowance
- Benefits including private medical insurance, life assurance, company car/allowance and critical illness cover.

Annual performance-related pay awards and payments into long-term incentive arrangements are not guaranteed and are overtly linked to clear and sustainable measures of business performance. Annual performance-related payments for the Executive Directors are linked to both business and personal performance. They are discretionary and cannot exceed 50% of base salary.

Long-term incentive arrangements apply to the CEO and the Executive Directors. There are two programmes in place:

(1) 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 LTIP 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 LTIP 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 LTIP 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 the 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.

(2) The Long Term Incentive Scheme (LTIS) for the CEO was introduced in October 2010. It is a one-off, five-year programme. As regards any future value the Scheme mirrors the LTIP except in the following respects:

- Any value attaching to units allocated at the discretion of the Remuneration Committee will be paid, subject to specific performance requirements (per the LTIP) and continuing employment, only after the fifth anniversary of the initial allocation
- The CEO can elect at the point of allocation that the value of any units be released in five years at the nominal allocation value, thereby foregoing any potential value enhancement but avoiding also the prospect of units having no, or diminished value. Alternatively, he can elect that the value of allocations be determined by reference to the same criteria as those applying to the LTIP i.e. by annual assessment against specific performance requirements in respect of the level of customer service and retention, reserves adequacy and business culture and with potential payouts also being impacted by movements in the Company's credit rating.

Key remuneration elements for the Non-Executive Chairman and Independent Non-Executive Directors

The Non-Executive Chairman receives an annual fee, a company car/allowance and private medical insurance. The Non-Executive Chairman does not receive any other benefits or pension.

The Independent Non-Executive Directors receive a basic annual fee. In addition, when an Independent Non-Executive Director is a member or chair of a Board Committee, a separate fee is paid.

The Non-Executive Directors from the Shareholder banks are not remunerated by the Company.

Details of Directors' remuneration are set out in note 31 on pages 63-64 of the Financial Statements.

John Callender
Remuneration Committee Chairman

Independent Auditors' report to the Members of Motability Operations Group plc

We have audited the Group and Parent Company financial statements (the 'financial statements') of Motability Operations Group plc for the year ended 30 September 2013 which comprise the Group Income statement, the Group Statement of comprehensive income, the Group and Parent Company Balance sheets, the Group and Parent Company Statements of changes in equity, the Group and Parent Company Statements of cash flows, and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the Parent Company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

Respective responsibilities of Directors and Auditors

As explained more fully in the Statement of Directors' responsibilities set out on page 30, 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). 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.

Scope of the audit of the financial statements

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 Parent 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. 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.

Opinion on financial statements

In our opinion:

- The financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 30 September 2013 and of the Group's surplus and Group's and Parent Company's cash flows for the year then ended;
- The Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- The Parent Company financial statements have been properly prepared in accordance with 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.

Opinion on other matter prescribed by the Companies Act 2006

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- Adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- The Parent Company financial statements are not in agreement with the accounting records and returns; or
- Certain disclosures of Directors' remuneration specified by law are not made; or
- We have not received all the information and explanations we require for our audit.

Anne Simpson (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London, United Kingdom
31 December 2013

Income statement

For the year ended 30 September 2013

	Note	2013 Group £m	2012 Group £m
Revenue	4	3,471.1	3,126.3
Net operating costs excluding charitable donations		(2,986.6)	(2,700.7)
Charitable donations		(50.0)	–
Net operating costs	6	(3,036.6)	(2,700.7)
Surplus from operations		434.5	425.6
Finance costs	9	(165.0)	(165.9)
Surplus before tax		269.5	259.7
Taxation (*)	10	(9.8)	(25.4)
Surplus for the financial year		259.7	234.3

(*) The taxation charge for the year of £9.8m comprises a tax charge of £63.8m and a deferred tax release of £54.0m which is a result of the substantive enactment, in July 2013, of future reductions of the corporation tax rate down to 20% (2012: taxation charge for the year of £25.4m comprising a tax charge of £65.4m and a deferred tax release of £40.0m).

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 surplus for the year was £7.8m (2012: £6.8m).

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

Statement of comprehensive income

For the year ended 30 September 2013

	2013 Group £m	2012 Group £m
Surplus for the financial year	259.7	234.3
Other comprehensive income – items that may be reclassified subsequently to profit or loss		
Gains on movements in fair value of cash flow hedging derivatives	22.2	5.5
Tax relating to components of other comprehensive income	(5.1)	(1.7)
Other comprehensive income for the year, net of tax	17.1	3.8
Total comprehensive income for the year attributable to equity	276.8	238.1

The notes on pages 42 to 72 form part of these financial statements

Balance sheets

As at 30 September 2013

	Note	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Assets					
Non-current assets					
Intangible assets	11	4.9	7.8	–	–
Property, plant and equipment	12	22.6	15.5	–	–
Assets held for use in operating leases	13	5,572.6	5,312.6	–	–
Investment in subsidiaries	15	–	–	43.8	12.6
Loans to Group companies	15	–	–	3,385.0	3,335.0
Hire purchase receivables	17	11.6	22.6	–	–
Trade and other receivables	18	19.3	13.5	4.6	–
Derivative financial instruments	22	6.5	–	6.5	–
Deferred tax asset	24	2.5	5.8	–	3.1
		5,640.0	5,377.8	3,439.9	3,350.7
Current assets					
Corporation tax receivable		–	13.6	–	–
Inventories	14	87.5	68.4	–	–
Loans to other Group companies	15	–	–	43.1	43.4
Cash and bank balances	16	101.3	102.5	52.0	92.3
Hire purchase receivables	17	10.0	16.0	–	–
Trade and other receivables	18	244.6	218.9	15.8	18.5
		443.4	419.4	110.9	154.2
Total assets		6,083.4	5,797.2	3,550.8	3,504.9
Liabilities					
Current liabilities					
Corporation tax payable		(4.6)	–	–	–
Deferred income	19	(179.7)	(178.5)	–	–
Trade and other payables	20	(133.8)	(145.0)	(80.7)	(103.3)
Financial liabilities	21	(109.4)	(89.7)	(50.2)	(46.4)
Derivative financial instruments	22	–	(0.6)	–	(0.6)
Provision for other liabilities	23	(1.5)	(2.1)	–	–
		(429.0)	(415.9)	(130.9)	(150.3)
Net current assets/(liabilities)		14.4	3.5	(20.0)	3.9
Non-current liabilities					
Deferred income	19	(163.5)	(172.0)	–	–
Financial liabilities	21	(3,367.7)	(3,271.8)	(3,367.7)	(3,271.8)
Derivative financial instruments	22	(5.0)	(62.4)	(5.0)	(62.4)
Deferred tax liabilities	24	(437.2)	(470.9)	(1.9)	–
		(3,973.4)	(3,977.1)	(3,374.6)	(3,334.2)
Total liabilities		(4,402.4)	(4,393.0)	(3,505.5)	(3,484.5)
Net assets		1,681.0	1,404.2	45.3	20.4
Equity					
Ordinary share capital	25	0.1	0.1	0.1	0.1
Hedging reserve		7.0	(10.1)	7.0	(10.1)
Restricted reserves (*)		1,673.9	1,414.2	38.2	30.4
Total equity		1,681.0	1,404.2	45.3	20.4

(*) 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 38 to 72 were approved by the Board of Directors on 31 December 2013.

Mike Betts
Chief Executive

Motability Operations Group plc
Registered number 6541091

The notes on pages 42 to 72 form part of these financial statements

Statements of changes in equity

For the year ended 30 September 2013

Group	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2011	0.1	(13.9)	1,179.9	1,166.1
Comprehensive income				
Surplus for the year	–	–	234.3	234.3
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	5.5	–	5.5
Tax relating to components of other comprehensive income	–	(1.7)	–	(1.7)
Total comprehensive income	–	3.8	234.3	238.1
At 1 October 2012	0.1	(10.1)	1,414.2	1,404.2
Comprehensive income				
Surplus for the year	–	–	259.7	259.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	22.2	–	22.2
Tax relating to components of other comprehensive income	–	(5.1)	–	(5.1)
Total comprehensive income	–	17.1	259.7	276.8
At 30 September 2013	0.1	7.0	1,673.9	1,681.0

Company	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total equity £m
At 1 October 2011	0.1	(13.9)	23.6	9.8
Comprehensive income				
Surplus for the year	–	–	6.8	6.8
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	5.5	–	5.5
Tax relating to components of other comprehensive income	–	(1.7)	–	(1.7)
Total comprehensive income	–	3.8	6.8	10.6
At 1 October 2012	0.1	(10.1)	30.4	20.4
Comprehensive income				
Surplus for the year	–	–	7.8	7.8
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Gains on movements in fair value of cash flow hedging derivatives	–	22.2	–	22.2
Tax relating to components of other comprehensive income	–	(5.1)	–	(5.1)
Total comprehensive income	–	17.1	7.8	24.9
At 30 September 2013	0.1	7.0	38.2	45.3

The notes on pages 42 to 72 form part of these financial statements

Statements of cash flows

For the year ended 30 September 2013

	Note	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Cash flows from operating activities					
Cash generated from/(used in) operations	26	132.4	126.6	(70.3)	(84.4)
Interest (paid)/received		(161.5)	(155.0)	11.3	14.8
Income tax (paid)/received		(27.0)	(13.0)	–	1.3
Net cash used in operating activities		(56.1)	(41.4)	(59.0)	(68.3)
Cash flows from investing activities					
Incorporation of subsidiary	15	–	–	(31.3)	–
Purchase of corporate property, plant and equipment and intangible assets	11,12	(11.4)	(18.2)	–	–
Proceeds from sale of corporate property, plant and equipment	11,12	0.4	0.5	–	–
Net cash used in investing activities		(11.0)	(17.7)	(31.3)	–
Cash flows from financing activities					
New loans raised	21	50.0	751.6	50.0	751.6
Bank loans repaid		(0.1)	(625.4)	–	(622.0)
Net cash generated from financing activities		49.9	126.2	50.0	129.6
Net (decrease)/increase in cash and cash equivalents		(17.2)	67.1	(40.3)	61.3
Cash and cash equivalents at beginning of year		59.3	(7.8)	92.3	31.0
Cash and cash equivalents at end of year	16	42.1	59.3	52.0	92.3

The notes on pages 42 to 72 form part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB. The nature of the Company's operations and its principal activities are set out in the Strategic report on pages 2 and 3 and the Group's shareholders are detailed in the Operational review on page 18.

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 2013 and 2012.

Adoption of new or revised standards

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

Amendments to IAS 1	*Presentation of Financial Statements*

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

Amendments to IFRS 7	*Financial Instruments: Disclosures*
IFRS 9	*Financial Instruments*
IFRS 10	*Consolidated Financial Statements*
IFRS 11	*Joint Arrangements*
IFRS 12	*Disclosure of Interests in Other Entities*
IFRS 13	*Fair Value Measurement*
Amendment to IAS 12	*Income Taxes*
Amendment to IAS 19	*Employee Benefits*
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*
Improvements to IFRS 2012	
IFRIC 21	*Levies*

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.

2. Significant accounting policies continued

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic report on pages 7 to 15. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are described in the Finance Director's review on pages 16 and 17. In addition, note 33 to the accounts 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.

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

Inventories are stated at the lower of cost and net realisable value. Cost is the net carrying value of the operating lease assets, which were previously held for use in operating leases and then become held for sale, as at the date of the transfer to inventory. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. A provision for irrecoverable vehicles is made for inventories that have been held for more than 12 months.

Notes to the financial statements continued

2. Significant accounting policies continued

Revenue recognition

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

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

Revenue comprises both advance rentals payable directly by lessees and periodic rentals receivable from lessees by means of mandated payments of either: the Higher Rate Mobility Component of the Disability Living Allowance, the War Pensioners' Mobility Supplement, the Enhanced Rate of the Mobility Component of 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 19.

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 19.

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 30) 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.

Taxation

Taxation on the surplus 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 surplus 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 surplus will be available against which the asset can be utilised.

Provision for other liabilities

The Group is required to perform dilapidation repairs on leased properties prior to the properties being vacated at the end of their lease term. Provision for such costs is made where a legal obligation is identified and the liability can be reasonably quantified.

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.

2. Significant accounting policies continued

Foreign currency translation

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

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.

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.

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 22 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.

Notes to the financial statements continued

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 22 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 2013, 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 £41.9m (2012: £38.9m). This change in depreciation would be charged/credited to depreciation expense on operating leases over the remaining terms of the operating leases 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.

4. Revenue

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

	2013 £m	2012 £m
Rentals receivable from operating leases	1,873.1	1,746.7
Proceeds from disposal of operating lease assets	1,593.0	1,367.8
Hire purchase earnings	2.8	4.6
Other income	1.3	6.5
Contingent rentals	0.6	0.5
Finance income	0.3	0.2
Total revenue	3,471.1	3,126.3

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

5. Segmental analysis

The Motability Operations Group is managed as a single integrated business unit. Accordingly no segmental analysis is applicable.

6. Net operating costs

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

	2013 £m	2012 £m
Net book value of disposed operating lease assets	1,489.2	1,296.2
Fleet operating costs including insurance, maintenance and roadside assistance costs	543.0	475.0
Other operating costs	52.7	45.2
Donation to the Motability Tenth Anniversary Trust	50.0	–
Employee costs	43.8	41.2
Other product costs including continuous mobility costs, adaptations support, communications	26.7	24.2
Legal and professional fees	15.5	14.4
Motability levy and rebates	8.0	10.2
Bad debt charges and movement in bad debt provisions	4.1	1.3
Management fees	0.8	1.4
Net operating costs before depreciation	2,233.8	1,909.1
Depreciation on assets used in operating leases (*)	796.0	787.5
Depreciation and amortisation of property, plant and equipment and intangible assets	6.8	4.1
Net operating costs	3,036.6	2,700.7

(*) The depreciation charge on assets used in operating leasing includes a £8.3m charge (2012: £29.6m charge) relating to the change in estimate during the year of future residual values (see note 13).

7. Auditors' remuneration

		2013	2012
Auditors' remuneration:	Audit fees for Group and Parent Company financial statements	£144,900	£140,000
Total audit fees		£144,900	£140,000
	Audit fees paid on behalf of subsidiaries	£96,600	£90,000
	Audit-related assurance services	£46,575	£45,000
	Tax compliance services	£0	£0
	Tax advisory services	£0	£0
	Internal audit services	£0	£0
	Other assurance services	£24,150	£37,000
	Corporate finance services	£0	£0
Total other fees payable to Auditors		£167,325	£172,000

Notes to the financial statements continued

8. Employee costs

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

Group

	2013	2012
Administrative staff	765	762

	2013 £m	2012 £m
The breakdown of staff costs is as follows:		
Wages and salaries	36.9	34.4
Social security costs	4.1	4.0
Pension costs	2.8	2.8
Total employee costs	43.8	41.2

9. Finance costs

	2013 £m	2012 £m
Interest and charges on bank loans and overdrafts	21.9	35.6
Interest on debt issued under the Euro Medium Term Note Programme	142.4	129.6
Preference dividends	0.7	0.7
Total finance costs	165.0	165.9

10. Taxation

The major components of the Group tax expense are:

	2013 £m	2012 £m
Current tax		
Charge for the year	45.3	13.4
Total	45.3	13.4
Deferred tax		
Origination and reversal of temporary differences	18.5	52.0
Impact of change in UK tax rate	(54.0)	(40.0)
Total	(35.5)	12.0
Tax on surplus	9.8	25.4

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

	2013 £m	2012 £m
Surplus before taxation	269.5	259.7
Tax calculated at appropriate tax rates applicable to surplus	63.4	65.0
Expenses not deductible for tax purposes	0.4	0.4
Adjustment relating to prior years deferred tax	–	–
Adjustments recognised in the current year in relation to the current tax of prior years	–	–
Re-measurement of deferred tax due to change in the UK corporation tax rate	(54.0)	(40.0)
Total tax on surplus	9.8	25.4

The standard rate of corporation tax in the UK changed from 24% to 23% with effect from 1 April 2013. Accordingly, surpluses are taxed at 23.5% for this accounting period (2012: 25%).

An analysis of the impact of the change in UK tax rates is disclosed in note 24.

11. Intangible assets

Group

Cost	Total £m
At 1 October 2011	10.1
Additions	6.2
At 1 October 2012	16.3
Additions	–
At 30 September 2013	16.3

Accumulated amortisation and impairment	
At 1 October 2011	6.7
Amortisation charge for the year	1.8
At 1 October 2012	8.5
Amortisation charge for the year	2.9
At 30 September 2013	11.4

Carrying amount	
At 1 October 2011	3.4
Additions	6.2
Amortisation	(1.8)
At 1 October 2012	7.8
Additions	–
Amortisation	(2.9)
At 30 September 2013	4.9

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

At 30 September 2013, the Group had entered into contractual commitments in respect of capital expenditure on intangible assets amounting to £nil (2012: £nil).

Notes to the financial statements continued

12. Property, plant and equipment

Group

Cost	Motor vehicles £m	Leasehold improvements £m	Fixtures, fittings and office equipment £m	Total £m
At 1 October 2011	1.9	7.0	8.4	17.3
Additions	0.8	8.1	3.1	12.0
Disposals	(0.8)	–	–	(0.8)
At 1 October 2012	1.9	15.1	11.5	28.5
Additions	1.0	7.5	2.9	11.4
Disposals	(0.8)	–	–	(0.8)
At 30 September 2013	2.1	22.6	14.4	39.1
Accumulated depreciation				
At 1 October 2011	0.6	4.4	6.1	11.1
Charge for the year	0.4	0.6	1.3	2.3
Eliminated on disposals	(0.4)	–	–	(0.4)
At 1 October 2012	0.6	5.0	7.4	13.0
Charge for the year	0.5	1.1	2.3	3.9
Eliminated on disposals	(0.4)	–	–	(0.4)
At 30 September 2013	0.7	6.1	9.7	16.5
Carrying amount				
At 1 October 2011	1.3	2.6	2.3	6.2
Additions	0.8	8.1	3.1	12.0
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.4)	(0.6)	(1.3)	(2.3)
At 1 October 2012	1.3	10.1	4.1	15.5
Additions	1.0	7.5	2.9	11.4
Disposals	(0.4)	–	–	(0.4)
Depreciation	(0.5)	(1.1)	(2.3)	(3.9)
At 30 September 2013	1.4	16.5	4.7	22.6

At 30 September 2013, the Group had entered into contractual commitments in respect of capital expenditure on property, plant and equipment amounting to £3.8m (2012: 11.8m). These amounts relate to the premises improvement programme.

13. Assets held for use in operating leases

Group

Cost	Motor vehicle assets £m
At 1 October 2011	6,040.7
Additions	2,427.6
Transfer to inventory	(1,844.3)
At 1 October 2012	6,624.0
Additions	2,564.2
Transfer to inventory	(2,210.2)
At 30 September 2013	6,978.0

Accumulated depreciation	
At 1 October 2011	1,064.1
Charge for the year	787.5
Eliminated on transfer to inventory	(540.2)
At 1 October 2012	1,311.4
Charge for the year	796.0
Eliminated on transfer to inventory	(702.0)
At 30 September 2013	1,405.4

Carrying amount	
At 1 October 2011	4,976.6
Additions	2,427.6
Depreciation	(787.5)
Transfer to inventory (note 14)	(1,304.1)
At 1 October 2012	5,312.6
Additions	2,564.2
Depreciation	(796.0)
Transfer to inventory (note 14)	(1,508.2)
At 30 September 2013	5,572.6

Residual values

Residual values represent the estimated net sale proceeds expected from the sale of the asset 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

	2013 £m	2012 £m
No later than one year	1,370.0	1,142.5
Later than one year and not later than two years	1,244.4	1,306.6
Later than two years and not later than five years	1,575.7	1,445.3
Total exposure	4,190.1	3,894.4

Notes to the financial statements continued

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 change in estimate 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

	2013 £m	2012 £m
Prior years	(41.0)	(20.0)
Current year	(8.3)	(29.6)
Amounts carried at 30 September	(49.3)	(49.6)
Amounts to be charged in future years	(84.9)	(72.1)
Total effect of changes in estimated residual value	(134.2)	(121.7)

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:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
No later than one year	1,468.8	1,429.1	–	–
Later than one year and not later than two years	872.0	848.5	–	–
Later than two years and not later than five years	358.4	338.5	–	–
Total	2,699.2	2,616.1	–	–

14. Inventories

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Ex-operating lease assets held for sale	87.9	68.9	–	–
Provisions	(0.4)	(0.5)	–	–
Ex-operating lease assets held for sale (net)	87.5	68.4	–	–

Inventories represent the operating lease assets previously held for rental to others and which cease to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £0.4m has been provided against irrecoverable vehicles (2012: £0.5m). During the year there was a £0.1m release of provision and £nil written off (2012: £0.3m increase in provision and £nil written off).

The cost of inventories recognised as expense and included in net operating costs amounted to £1,489.2m (2012: £1,296.2m).

The movements of the inventories in 2013 and 2012 are as follows:

	£m
At 1 October 2011	61.0
Transfer from operating lease assets (note 13)	1,304.1
Disposals	(1,296.2)
At 1 October 2012	68.9
Transfer from operating lease assets (note 13)	1,508.2
Disposals	(1,489.2)
At 30 September 2013	87.9

15. Investment in subsidiaries

	2013 £m	2012 £m
Investments in subsidiaries at 30 September	43.8	12.6

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 Leasing Limited	100%	Financing of Scheme contract hire agreements
Motability Hire Purchase Limited	100%	Financing of Scheme hire purchase agreements
Route2mobility Limited	100%	Financing of Scheme powered wheelchair and scooter agreements
MO Reinsurance Limited	100%	Provision of the Scheme reinsurance arrangements

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 (see note 32). The Directors consider the value of the investments to be supported by underlying assets.

During the year MO Reinsurance Limited was incorporated and Motability Operations Group plc subscribed for 125,000,000 of its shares partly paid at 25 pence per £1 share and paid up 25 pence on the subscriber share for a total contribution of £31,250,000.

Loans to Group companies

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Motability Leasing Limited	–	–	3,428.1	3,371.1
Motability Hire Purchase Limited	–	–	–	7.3
Total	–	–	3,428.1	3,378.4

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Loans to Group companies – current	–	–	43.1	43.4
Loans to Group companies – non-current	–	–	3,385.0	3,335.0
Total	–	–	3,428.1	3,378.4

The loans to Group companies do not have a defined maturity. The current balance represents interest, charged on an arm's length basis.

16. Cash and cash equivalents

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Cleared balances	83.9	95.5	52.0	92.3
Cash in the course of collection	17.4	7.0	–	–
Cash and bank balances	101.3	102.5	52.0	92.3

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Cleared balances	–	–	–	–
Cash in the course of transmission	(59.2)	(43.2)	–	–
Bank overdrafts	(59.2)	(43.2)	–	–

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 amount of these assets approximate to their fair value.

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

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Cash and bank balances	101.3	102.5	52.0	92.3
Bank overdrafts	(59.2)	(43.2)	–	–
Cash and cash equivalents	42.1	59.3	52.0	92.3

Notes to the financial statements continued

17. Hire purchase receivables

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Gross repayments receivable				
No later than one year	11.5	18.7	–	–
Later than one year and not later than five years	12.7	24.6	–	–
Total	24.2	43.3	–	–
Unearned income receivable				
No later than one year	(1.5)	(2.7)	–	–
Later than one year and not later than five years	(1.1)	(2.0)	–	–
Total	(2.6)	(4.7)	–	–
Net total within one year	10.0	16.0	–	–
Net total due in the second to fifth years inclusive	11.6	22.6	–	–
Present value of minimum hire purchase receivables	21.6	38.6	–	–

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 10% per annum, and reflects provision for early termination losses and other costs (2012: between 8% and 10%).

Hire purchase receivable balances include an allowance for estimated irrecoverable amounts of £0.4m (2012: £0.1m). This allowance has been made by reference to past default experience. During the year there was a £0.8m increase in provision and £0.5m of receivables were written off (2012: £0.2m release of provision and £0.7m 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 2013 is estimated to be £21.8m (2012: £38.7m) using discount rates based on the market rate for similar consumer credit transactions.

18. Trade and other receivables

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Trade receivables	82.4	64.9	–	–
Other receivables	67.0	63.6	–	–
Prepayments and accrued income	114.5	103.9	20.4	18.5
Total	263.9	232.4	20.4	18.5
Included in current assets	244.6	218.9	15.8	18.5
Included in non-current assets	19.3	13.5	4.6	–
Total	263.9	232.4	20.4	18.5

Trade receivables include an allowance for estimated irrecoverable amounts of £3.7m (2012: £3.6m). This allowance has been made by reference to past default experience. During the year there was a £3.4m increase in provision and £3.3m of receivables were written off (2012: £0.7m increase in provision and £4.2m written off). The average receivable days period is five days (2012: four 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 income is the Department for Work and Pensions through the assigned allowances receivable by customers of the Group. In effect the income stream is sourced from the UK Government, hence credit risk is considered by the Directors to be very low. A small residual credit risk arises from miscellaneous customer billings, 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 receivable balance are receivables with a carrying value of £6.5m (2012: £11.3m) 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 seven days (2012: nine days).

18. Trade and other receivables continued

Ageing of past due but not impaired receivables:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Past due by 1-30 days	6.0	10.5	–	–
Past due by 31-60 days	0.4	0.6	–	–
Past due by 61-90 days	0.1	0.1	–	–
Past due by 91-120 days	–	–	–	–
Past due by more than 120 days	–	0.1	–	–
Total	6.5	11.3	–	–

19. Deferred income

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Customers' advance payments (*)	108.8	122.7	–	–
Vehicle maintenance income	28.5	20.5	–	–
Customers' end of contract bonuses	42.4	35.3	–	–
Total current	179.7	178.5	–	–
Customers' advance payments (*)	104.3	99.7	–	–
Vehicle maintenance income	31.4	44.1	–	–
Customers' end of contract bonuses	27.8	28.2	–	–
Total non-current	163.5	172.0	–	–
Total	343.2	350.5	–	–

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

20. Trade and other payables

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Trade payables	58.0	64.7	–	–
Social security and other taxes	1.2	1.1	–	–
Accruals	73.4	76.3	–	–
Other payables	0.2	0.9	80.7	103.3
Advance payments received from DWP	1.0	2.0	–	–
Total	133.8	145.0	80.7	103.3

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 (2012: 30 days).

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

Notes to the financial statements continued

21. Financial liabilities

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Current				
Accrued interest and coupon	50.2	46.4	50.2	46.4
Bank overdrafts	59.2	43.2	–	–
Bank loans	–	0.1	–	–
Total current	109.4	89.7	50.2	46.4
Non-current				
Bank loans	548.9	498.1	548.9	498.1
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	2,808.8	2,763.7	2,808.8	2,763.7
Preference shares	10.0	10.0	10.0	10.0
Total non-current	3,367.7	3,271.8	3,367.7	3,271.8
Total	3,477.1	3,361.5	3,417.9	3,318.2
The financial liabilities are repayable as follows:				
On demand no later than one year	109.4	89.7	50.2	46.4
Later than one year and no later than two years	499.0	–	499.0	–
Later than two years and no later than five years	963.7	995.5	963.7	995.5
Later than five years	1,905.0	2,276.3	1,905.0	2,276.3
Total	3,477.1	3,361.5	3,417.9	3,318.2

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

Bank borrowings

All bank borrowings as at 30 September 2013 and 2012 are at floating rates.

As at 30 September 2013 the Group has the following principal bank loans:

a) A three-year term loan of £0.5 billion (2012: £0.5 billion) taken out on 19 January 2012. Loan repayment date is 19 January 2015.

b) Five-year revolving credit facilities of £1.5 billion (2012: £1.5 billion) taken out on 19 January 2012 of which £50m was drawn as at 30 September 2013 (2012: £nil). Facility repayment date is 19 January 2017.

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

Debt issued under the Euro Medium Term Note Programme

The Company has a £4 billion Euro Medium Term Note Programme with denominations of GBP 50,000. The bonds were admitted to trading on 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.

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.

21. Financial liabilities continued

The weighted average interest rates on borrowings as at 30 September 2013 and 30 September 2012 were as follows:

	2013 Group %	2012 Group %	2013 Company %	2012 Company %
Current bank loans and overdrafts	1.5	1.5	–	–
Non-current bank loans	1.9	1.8	1.9	1.8
Non-current debt issued under the Euro Medium Term Note Programme	5.0	5.0	5.0	5.0
Non-current preference shares	7.0	7.0	7.0	7.0

At 30 September 2013 and 30 September 2012, the Group had the following undrawn committed borrowing facilities:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Working capital facility	100.0	100.0	95.0(*)	95.0(*)
Revolving credit facility	1,450.0	1,500.0	1,450.0	1,500.0
Total	1,550.0	1,600.0	1,545.0	1,595.0

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

Undrawn committed facilities expire as follows:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 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	1,545.0	1,595.0	1,545.0	1,595.0
Total	1,550.0	1,600.0	1,545.0	1,595.0

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

	2013 Group carrying amount £m	2013 Group fair value £m	2013 Company carrying amount £m	2013 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	109.4	109.4	50.2	50.2
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,808.8	3,169.5	2,808.8	3,169.5
Non-current bank loans	548.9	548.9	548.9	548.9
Non-current preference shares	10.0	13.1	10.0	13.1
Total	3,477.1	3,840.9	3,417.9	3,781.7

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

	2012 Group carrying amount £m	2012 Group fair value £m	2012 Company carrying amount £m	2012 Company fair value £m
Current financial liabilities (including accrued interest and coupon)	89.7	89.7	46.4	46.4
Non-current debt issued under the Euro Medium Term Note Programme (*)	2,763.7	3,214.2	2,763.7	3,214.2
Non-current bank loans	498.1	498.1	498.1	498.1
Non-current preference shares	10.0	13.8	10.0	13.8
Total	3,361.5	3,815.8	3,318.2	3,772.5

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

As at 30 September 2013, 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.

Notes to the financial statements continued

22. Derivative financial instruments

	Group 2013		Company 2013	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	1.5	885.0	1.5	885.0
Interest rate swaps	–	400.0	–	400.0
Total	1.5	1,285.0	1.5	1,285.0
Included in non-current liabilities	(5.0)	425.2	(5.0)	425.2
Included in current liabilities	–	250.0	–	250.0
Derivative financial instrument liabilities	(5.0)	675.2	(5.0)	675.2
Included in non-current assets	6.5	459.8	6.5	459.8
Included in current assets	–	150.0	–	150.0
Derivative financial instrument assets	6.5	609.8	6.5	609.8

	Group 2012		Company 2012	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges				
Cross-currency swaps	(62.4)	885.0	(62.4)	885.0
Interest rate swaps	(0.6)	400.0	(0.6)	400.0
Total	(63.0)	1,285.0	(63.0)	1,285.0
Included in non-current liabilities	(62.4)	885.0	(62.4)	885.0
Included in current liabilities	(0.6)	400.0	(0.6)	400.0
Derivative financial instrument liabilities	(63.0)	1,285.0	(63.0)	1,285.0

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%.

Interest rate swaps

At 30 September 2013, the fixed interest rates vary from 0.490% to 0.527% (2012: the fixed interest rates vary from 0.699% to 0.745%) 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 2013 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.

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
No later than one year	(4.0)	(4.6)	(4.0)	(4.6)
Later than one year and no later than three years	(8.2)	(7.9)	(8.2)	(7.9)
Later than three years and no later than five years	1.1	(8.2)	1.1	(8.2)
Later than five years	6.5	11.4	6.5	11.4
Total	(4.6)	(9.3)	(4.6)	(9.3)

Further details of derivative financial instruments are provided in note 33.

23. Provision for other liabilities

	Group £m
At 1 October 2012	2.1
Additional provision in the year	–
Utilised provision in the year	(0.6)
At 30 September 2013	1.5

Analysis of total provisions	2013 £m	2012 £m
Included in current liabilities	1.5	2.1
Included in non-current liabilities	–	–
Total	1.5	2.1

The provision for other liabilities has been set up in respect of obligations arising due to dilapidations payable at the end of operating leases on the properties occupied by the Group. These provisions are expected to be fully utilised in the next financial year.

24. 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 periods.

Group	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
Net at 1 October 2011	457.2	(1.0)	(4.8)	–	451.4
Charge to income	52.0	–	–	–	52.0
(Credit)/charge to income due to change in UK tax rate	(40.1)	0.1	–	–	(40.0)
Charge to equity	–	–	1.5	–	1.5
Charge to equity due to change in UK tax rate	–	–	0.2	–	0.2
Net at 1 October 2012	469.1	(0.9)	(3.1)	–	465.1
Charge to income	18.5	0.1	–	(0.1)	18.5
(Credit)/charge to income due to change in UK tax rate	(54.1)	0.1	–	–	(54.0)
Charge to equity	–	–	5.2	–	5.2
Charge to equity due to change in UK tax rate	–	–	(0.1)	–	(0.1)
Net at 30 September 2013	433.5	(0.7)	2.0	(0.1)	434.7

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:

	2013 £m	2012 £m
Deferred tax assets	(2.5)	(5.8)
Deferred tax liabilities	437.2	470.9
Net at 30 September	434.7	465.1

As a result of changes to the UK corporation tax rates substantively enacted on 2 July 2013, the relevant deferred tax balances have been re-measured. The corporation tax rate from 1 April 2014 will be 21% and from 1 April 2015 the rate will be 20%.

Notes to the financial statements continued

24. Deferred tax continued

Company	Accelerated tax depreciation £m	Short-term timing differences £m	Derivatives £m	Tax losses £m	Total £m
At 1 October 2011	–	–	(4.8)	–	(4.8)
Charge to income	–	–	–	–	–
Charge to equity	–	–	1.5	–	1.5
Charge to equity due to change in UK tax rate	–	–	0.2	–	0.2
At 1 October 2012	–	–	(3.1)	–	(3.1)
Charge to income	–	–	–	(0.1)	(0.1)
Charge to equity	–	–	5.2	–	5.2
Charge to equity due to change in UK tax rate	–	–	(0.1)	–	(0.1)
At 30 September 2013	–	–	2.0	(0.1)	1.9

Deferred tax assets are recognised for tax loss carry-forwards to the extent that the realisation of the related tax benefit through the future taxable surplus is probable. £72k of the deferred tax asset is expected to crystallise within the next 12 months.

25. Share capital

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

	2013	2012
Authorised:		
100,000 Ordinary shares of £1 each	£100,000	£100,000
Issued and fully paid:		
50,000 Ordinary shares of £1 each (2012: 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 21.

26. Cash used in operations

Reconciliation of surplus to net cash flow from operating activities:

	2013 Group £m	2012 Group £m	2013 Company £m	2012 Company £m
Surplus before tax	269.5	259.7	7.7	6.8
Adjustments for:				
Depreciation and amortisation charge on corporate assets	6.8	4.1	–	–
Depreciation charge on operating lease assets	796.0	787.5	–	–
Inventory write-down		–	–	–
Finance costs	165.0	165.9	(7.4)	(6.8)
Gains on disposal of operating lease assets	(103.8)	(71.6)	–	–
Gains on disposal of corporate assets	(0.1)	(0.1)	–	–
Decrease in provisions	(0.7)	(3.6)	–	–
Operating cash flows before movements in working capital	1,132.7	1,141.9	0.3	–
Purchase of assets held for use in operating leases	(2,564.2)	(2,427.6)	–	–
Proceeds from sale of assets held for use in operating leases	1,593.0	1,367.8	–	–
Decrease in hire purchase receivables	16.7	24.9	–	–
(Increase)/decrease in other receivables	(27.4)	(15.8)	2.0	(5.3)
Increase in loans to and investment in subsidiaries	–	–	(50.0)	(139.8)
(Decrease)/increase in deferred income	(7.3)	22.8	–	–
(Decrease)/increase in payables	(11.1)	12.6	(22.6)	60.7
Cash generated from/(used in) operations	132.4	126.6	(70.3)	(84.4)

27. Analysis of changes in net debt

Group	At 1 October 2012 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2013 £m
Cash and bank balances	102.5	(1.2)	–	–	101.3
Bank overdrafts	(43.2)	(16.0)	–	–	(59.2)
Cash and cash equivalents	59.3	(17.2)	–	–	42.1
Borrowings due within one year	(0.1)	0.1	–	–	–
Borrowings due after one year	(498.1)	(50.0)	–	(0.8)	(548.9)
Debt issued under the Euro Medium Term Note Programme due after one year	(2,763.7)	–	(42.3)	(2.8)	(2,808.8)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,271.9)	(49.9)	(42.3)	(3.6)	(3,367.7)
Total net debt	(3,212.6)	(67.1)	(42.3)	(3.6)	(3,325.6)

	At 1 October 2011 £m	Cash flows £m	Foreign exchange £m	Amortisation of premiums and discounts £m	At 30 September 2012 £m
Cash and bank balances	33.7	68.8	–	–	102.5
Bank overdrafts	(41.5)	(1.7)	–	–	(43.2)
Cash and cash equivalents	(7.8)	67.1	–	–	59.3
Borrowings due within one year	(3.5)	3.4	–	–	(0.1)
Borrowings due after one year	(1,120.1)	622.1		(0.1)	(498.1)
Debt issued under the Euro Medium Term Note Programme due after one year	(2,063.7)	(751.7)	54.2	(2.5)	(2,763.7)
Preference shares	(10.0)	–	–	–	(10.0)
Financing activities	(3,197.3)	(126.2)	54.2	(2.6)	(3,271.9)
Total net debt	(3,205.1)	(59.1)	54.2	(2.6)	(3,212.6)

	2013 Group £m	2012 Group £m
Cash and bank balances	101.3	102.5
Current financial liabilities	(109.4)	(89.7)
Non-current financial liabilities	(3,367.7)	(3,271.8)
Total	(3,375.8)	(3,259.0)
Less interest accruals included in financial liabilities	50.2	46.4
Total net debt	(3,325.6)	(3,212.6)

28. Operating lease arrangements

The Group as lessee

	2013 Group £m	2012 Group £m
Minimum lease payments under operating leases recognised in the income statement in the year	3.3	2.8

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:

	2013 Group £m	2012 Group £m
No later than one year	2.8	1.7
Later than one year and no later than five years	12.9	13.3
Later than five years	26.4	25.4
Total	42.1	40.4

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.

Notes to the financial statements continued

29. 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 2013 amounted to £2,847,218 (2012: £2,754,457). Net contributions due at the balance sheet date were £1,893 (2012: £2,587).

30. 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 15 for the details of the intercompany transactions). The Group's corporate and finance structures are set out in the Strategic review on pages 16 to 18.

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

The relationship of the Company to the Motability Charity is set out in the Business overview.

Transactions

During the year Motability charitable grants totalling £25.2m (2012: £23.7m) were awarded to customers and paid to the Group to enable vehicles to be purchased on their behalf. The Group also paid £6.8m (2012: £6.7m) relating to Motability administration costs (the 'Motability levy').

A further £1.2m (2012: £2.9m) 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, £2.8m (2012: £3.5m) 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 £4,183 (2012: £5,113) to Motability's charitable funds during the year.

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; £0.1m (2012: £0.1m) of bank charges were also paid during the year). Additionally, total fees of £0.8m (2012: £1.4m) were due to the shareholder banks in proportion to their shareholdings for management services. The reduction this year is because the banks have chosen to waive the advisory element of their fees.

During the year the Group made a donation of £50m (2012: £nil) to the Motability Tenth Anniversary Trust. The principal objective of the Tenth Anniversary Trust is to promote and support the objectives of Motability by making grants and investing in research and special projects to facilitate mobility needs.

Contingent liability

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, which is anticipated to run for at least five years, it is expected that some people may lose their eligibility for the Motability Scheme.

Motability Operations 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.

As part of this process a Letter of Understanding has been drawn up between Motability Operations and the Trustees of Motability with regard to funding this transitional support package until 2015, when a review of the overall package will take place based on economic conditions and any changes the Government may make following its own review of PIP during 2014.

Under the terms of this Letter of Understanding, Motability Operations has agreed to make donations to Motability that, in aggregate, should be sufficient to cover customer grants made until the review date. The amount and timing of donations cannot be reliably estimated due to uncertainties arising out of the conditions associated with the making of donations and the overall cost of the support package.

The potential level of donations from the Group over the period is estimated to be between £15m and £26m.

Remuneration of key management personnel

The remuneration of the key management personnel who are the Directors of the Group is set out below in aggregate for each of the categories specified in IAS 24, 'Related Party Disclosures'.

	2013 £m	2012 £m
Short-term employee benefits	3.2	3.1
Post-employment benefits	0.1	0.1
Other long-term benefits	2.4	2.3
Total	5.7	5.5

31. Directors' remuneration

During the year there were five Executive Directors (2012: 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.

	2013	2012
Chairman		
Salary	£176,000	£174,500
Benefits	£19,311	£19,307
Aggregate emoluments in respect of qualifying services	£195,311	£193,807
Pension contributions under money purchase pension schemes	£nil	£nil

	2013	2012
Highest-paid Director		
Salary	£501,900	£487,525
Performance-related payments	£245,850	£237,500
Payments in lieu of pension (*)	£125,475	£96,881
Benefits	£24,444	£24,295
Aggregate emoluments in respect of qualifying services	£897,669	£846,201
Pension contributions under money purchase pension schemes	£nil	£25,000
All Directors		
Salary	£2,002,531	£1,950,157
Performance-related payments	£791,900	£765,000
Payments in lieu of pension (*)	£294,747	£263,331
Benefits	£113,366	£109,800
Aggregate emoluments in respect of qualifying services	£3,202,544	£3,088,288
Pension contributions under money purchase pension schemes	£109,422	£128,296

(*) 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 2013, in aggregate an initial allocation of 550 units was made into the Plan. These units will not become eligible for possible cash conversion until 2015 (2012: 550 units eligible for release in 2014).

During the year to September 2013, £2,093,348 was released including £666,065 for the highest paid Director in respect of the LTIP (2012: £570,913).

Notes to the financial statements continued

31. Directors' remuneration continued

Long Term Incentive Scheme (LTIS)

The Long Term Incentive Scheme (LTIS) for the CEO was introduced in October 2010. It is a one-off, five-year programme. As regards any future value the Scheme mirrors the LTIP except in the following respects:

- Any value attaching to units allocated at the discretion of the Remuneration Committee will be paid, subject to specific performance requirements (per the LTIP) and continuing employment, only after the fifth anniversary of the initial allocation
- The CEO can elect at the point of allocation that the value of any units be released in five years at the nominal allocation value, thereby foregoing any potential value enhancement but avoiding also the prospect of units having no value, or diminished value. Alternatively he can elect that the value of allocations be determined by reference to the same criteria as those applying to the LTIP, i.e. by annual assessment against specific performance requirements in respect of the level of customer service and retention, reserves adequacy and business culture and with potential payouts also being impacted by movements in the Company's credit rating
- There is no opportunity for future allocations
- The CEO has elected that these further allocations also be banked with value varying subject to the same criteria as the LTIP.

During the reported year to September 2013, an initial allocation of 99 units (2012: 87 units), each with a nominal value of £1,000, was made. The CEO has elected that these units be subject to the same valuation criteria as those applying to the LTIP. These allocated units will not become eligible for possible cash conversion until late 2015.

32. Events after the reporting period

During the year Motability Operations renewed its contract with RSA Insurance Group plc (RSA). Under the new arrangements RSA will continue as insurer, but share premium exposure with Motability Operations via a reinsurance captive, MO Reinsurance Limited (MORL).

With effect from 1 October 2013 MORL is providing 80% quota share reinsurance to RSA in respect of the Motability Operations fleet.

Reinsurance is arranged to limit the Company's exposure as follows:

- RSA arrange common account excess of loss reinsurance to limit the exposure of RSA and the Company to £5,000,000
- Quota share reinsurance has been purchased to limit the Company's exposure to £25,000 any one loss
- Stop loss reinsurance has been arranged on an accident year basis. The Company is protected when retained losses in the aggregate exceed 123.90% of net premium earned or £56,000,000 in the aggregate whichever is the lesser. Cover provided is for losses between 123.90% and 149.35% of net premium earned or £11,500,000 in the aggregate whichever is the lesser.

In respect of the Company's obligations under the quota share reinsurance of RSA, Motability Operations Group plc has provided a parental guarantee. The guarantee can be terminated by Motability Operations Group plc providing 90 days' written notice of the termination to the Company and RSA, provided that the Company complies with the collateral requirements of the quota share reinsurance agreement.

In December 2013 the Group renewed the following principal bank loans:

a) The three-year term loan of £0.5 billion has been replaced with a five-year term loan of £0.4 billion and

b) The five-year revolving credit facilities of £1.5 billion have been extended to run for a further two years.

Both of these loans are now coterminous, having repayment dates of December 2018.

There have been no other events arising after the reporting date that require recognition or disclosure in the financial statements for the year ended 30 September 2013.

33. 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 21, 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.

33. Funding and financial risk management continued

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 surpluses 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 for dividend).

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 Economic 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 policy of the Group is to seek to manage reserves within a target operating corridor between 100% and 130% of the Economic Capital Requirement. The actual capital and the Economic Capital Requirement corridor at the year end are as follows:

	2013 £m	2012 £m
Actual capital (restricted reserves and equity share capital)	1,674	1,414
Economic Capital Requirement corridor (100% – 130%)	1,434 – 1,864	1,204 – 1,565

The Group is not subject to externally imposed regulatory capital requirements.

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 2013 the ratio was 1.75:1, and the Group has complied with the terms of the covenant throughout the period. The covenant ratio is reported on a monthly basis and reviewed by the Directors to ensure there is no breach of the covenant and to take appropriate action if necessary.

From the perspective of the Company, capital risk management is integrated with the capital risk management of the Group and is not managed separately.

Significant accounting policies

Details of the significant accounting policies and methods adopted in respect of each class of financial asset, financial liability and equity instrument, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, are disclosed in note 2 to the financial statements.

Categories of financial instruments

	2013 Group carrying value £m	2012 Group carrying value £m	2013 Company carrying value £m	2012 Company carrying value £m
Non-derivative financial assets				
Hire purchase receivables	21.6	38.6	–	–
Trade and other receivables	82.5	65.0	–	–
Loans to other Group companies		–	3,428.1	3,378.4
Cash and bank balances	101.3	102.5	52.0	92.3
Total non-derivative financial assets	205.4	206.1	3,480.1	3,470.7
Non-derivative financial liabilities				
Trade and other payables	(132.6)	(143.9)	(80.7)	(103.3)
Financial liabilities	(3,477.1)	(3,361.5)	(3,417.9)	(3,318.2)
Total non-derivative financial liabilities	(3,609.7)	(3,505.4)	(3,498.6)	(3,421.5)
Net non-derivative financial instruments	(3,404.3)	(3,299.3)	(18.5)	49.2
Derivative financial instruments				
Interest rate swaps	–	(0.6)	–	(0.6)
Cross-currency swaps	1.5	(62.4)	1.5	(62.4)
Total derivative financial instruments	1.5	(63.0)	1.5	(63.0)
Total financial instruments	(3,402.8)	(3,362.3)	(17.0)	(13.8)

Notes to the financial statements continued

33. Funding and financial risk management continued

Fair value of financial instruments

		2013 Group carrying value £m	2013 Group fair value £m	2012 Group carrying value £m	2012 Group fair value £m
Cash and bank balances	I	101.3	101.3	102.5	102.5
Trade and other receivables	II	82.5	82.5	65.0	65.0
Hire purchase receivables – current	III	10.0	10.3	16.0	16.8
Hire purchase receivables – non-current	III	11.6	11.5	22.6	21.9
Trade and other payables – current	II	(132.6)	(132.6)	(143.9)	(143.9)
Bank loans including bank overdrafts – current	IV	(109.4)	(109.4)	(89.7)	(89.7)
Bank loans – non-current	IV	(548.9)	(548.9)	(498.1)	(498.1)
Debt issued under the Euro Medium Term Note Programme (*)	III	(2,808.8)	(3,169.5)	(2,763.7)	(3,214.2)
Redeemable preference share liabilities	III	(10.0)	(13.1)	(10.0)	(13.8)
Net non-derivative financial instruments		(3,404.3)	(3,767.9)	(3,299.3)	(3,753.5)
Interest rate swap – cash flow hedge		–	–	(0.6)	(0.6)
Cross-currency swap – cash flow hedge		1.5	1.5	(62.4)	(62.4)
Total		(3,402.8)	(3,766.4)	(3,362.3)	(3,816.5)

(*) 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

		2013 Company carrying value £m	2013 Company fair value £m	2012 Company carrying value £m	2012 Company fair value £m
Cash and bank balances	I	52.0	52.0	92.3	92.3
Loans to other Group companies	IV	3,428.1	3,428.1	3,378.4	3,378.4
Trade and other payables – current	II	(80.7)	(80.7)	(103.3)	(103.3)
Financial liabilities – current	IV	(50.2)	(50.2)	(46.4)	(46.4)
Bank loans – non-current	IV	(548.9)	(548.9)	(498.1)	(498.1)
Debt issued under the Euro Medium Term Note Programme (*)	III	(2,808.8)	(3,169.5)	(2,763.7)	(3,214.2)
Redeemable preference share liabilities	III	(10.0)	(13.1)	(10.0)	(13.8)
Net non-derivative financial instruments		(18.5)	(382.3)	49.2	(405.1)
Interest rate swap – cash flow hedge		–	–	(0.6)	(0.6)
Cross-currency swap – cash flow hedge		1.5	1.5	(62.4)	(62.4)
Total		(17.0)	(380.8)	(13.8)	(468.1)

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

I Interest bearing portion of the cash and cash equivalents consists of overnight deposits
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.

33. Funding and financial risk management continued

Fair value of financial instruments continued

With effect from 1 January 2009, the Group and the Company adopted the amendments to IFRS 7 for financial instruments that are measured in the balance sheet at fair value; this requires disclosure of fair value measurements using the following hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- Inputs other than quoted prices included within level 1 that are observable for the assets or liabilities, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2)
- Inputs for the assets or liabilities that are not based on observable market data (that is, unobservable inputs) (level 3).

The only financial instruments of the Group and the Company that are measured subsequent to initial recognition at fair value are interest rate and cross-currency swaps, grouped into level 2.

Financial risk management objectives

The Group's funding and financial risk is overseen and managed by the Asset and Liability Management Committee.

The Group's treasury function, operating under the control of the Asset and 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 to the Chief Executive Officer operating through the Executive Committee and the Asset and 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 2013 of £549m (2012: £498m).

Notes issued subject to fixed interest rates have a carrying value as at 30 September 2013 of £2,809m (2012: £2,764m).

The Group and the Company have interest rate swaps of £400m maturing over the next year (2012: £400m maturing over the next year). Under these swaps the Group and the Company pay an average fixed rate of 0.51% (2012: 0.73%).

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.

Notes to the financial statements continued

33. 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 surplus decrease of approximately £0.2m as at 30 September 2013 (2012: £1.7m). 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:

	2013 Average contract fixed interest rate %	2012 Average contract fixed interest rate %	2013 Nominal principal amount £m	2012 Nominal principal amount £m	2013 Fair value £m	2012 Fair value £m
No later than one year	0.51	0.73	400.0	400.0	–	(0.6)
Later than one year and no later than two years	–	–	–	–	–	–
Later than two years and no later than five years	–	–	–	–	–	–
Later than five years	–	–	–	–	–	–
Total			400.0	400.0	–	(0.6)

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:

	2013 Contract fixed GBP interest rate %	2012 Contract fixed GBP interest rate %	2013 Nominal principal amount £m	2012 Nominal principal amount £m	2013 Fair value £m	2012 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	–	–	–	–	–	–
Later than five years	3.94	3.94	885.0	885.0	1.5	(62.4)
Total			885.0	885.0	1.5	(62.4)

33. 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, 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 and 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 and Liability Management Committee.

For the year under review the following figures represent the Group's and the Company's total counterparty credit limit, the highest utilisation during the year and the balance as at 30 September 2013 and 2012 attributable to banks/financial institutions.

	2013 Total limit £m	2013 Maximum utilisation £m	Balance as at 30 September 2013 £m	2012 Total limit £m	2012 Maximum utilisation £m	Balance as at 30 September 2012 £m
Counterparty credit limit	310.0	193.3	67.7	200.0	147.6	108.7

No credit limits were exceeded during the reporting period and management does not expect any losses from non-performance by these counterparties.

The carrying amount of financial assets recorded in the financial statements, which is net of impairment losses, represents the Group's and the Company'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 three-year bank term loan with 2.3 years until maturity and a five-year revolving credit facility with 4.3 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 21 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.

Group

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Financial liabilities – bank loans – variable interest rate	1.89	(10.1)	(555.1)	–	–	(565.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.02	(142.5)	(785.2)	(648.4)	(2,371.6)	(3,947.7)
Financial liabilities – bank overdrafts and short-term borrowings	1.50	(59.2)	–	–	–	(59.2)
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(132.6)	–	–	–	(132.6)
Total		(345.1)	(1,341.7)	(649.8)	(2,382.9)	(4,719.5)

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

Notes to the financial statements continued

33. Funding and financial risk management continued

Liquidity risk management continued

Group

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Financial liabilities – bank loans – variable interest rate	1.83	(9.1)	(512.0)	–	–	(521.1)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.02	(142.4)	(284.8)	(758.9)	(2,903.9)	(4,090.0)
Financial liabilities – bank overdrafts and short-term borrowings	1.50	(43.2)	–	–	–	(43.2)
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	–	(143.9)	–	–	–	(143.9)
Total		(339.3)	(798.2)	(760.3)	(2,915.2)	(4,813.0)

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

Company

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Financial liabilities – bank loans – variable interest rate	1.89	(10.1)	(555.1)	–	–	(565.2)
Financial liabilities – debt issued under the Euro Medium Term Note Programme – fixed interest rate	5.02	(142.5)	(785.2)	(648.4)	(2,371.6)	(3,947.7)
Financial liabilities – bank overdrafts and short-term borrowings	–	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(80.7)	–	–	–	(80.7)
Total		(234.0)	(1,341.7)	(649.8)	(2,382.9)	(4,608.4)

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

Company

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Financial liabilities – bank loans – variable interest rate	1.83	(9.0)	(512.0)	–	–	(521.0)
Financial liabilities – debt issued under Euro Medium Term Note Programme – fixed interest rate	5.02	(142.4)	(284.8)	(758.9)	(2,903.9)	(4,090.0)
Financial liabilities – bank overdrafts and short-term borrowings	–	–	–	–	–	–
Financial liabilities – redeemable preference shares – fixed interest rate (*)	7.00	(0.7)	(1.4)	(1.4)	(11.3)	(14.8)
Trade and other payables – non-interest bearing	–	(103.3)	–	–	–	(103.3)
Total		(255.4)	(798.2)	(760.3)	(2,915.2)	(4,729.1)

(*) 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.

33. Funding and financial risk management continued

Liquidity risk management continued

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

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Interest rate swaps	0.51	–	–	–	–	–
Cross-currency swaps	3.94	(4.0)	(8.2)	1.1	6.5	(4.6)

Group

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Interest rate swaps	0.73	(0.6)	–	–	–	(0.6)
Cross-currency swaps	3.94	(18.2)	(10.7)	(10.3)	(23.2)	(62.4)

Company

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Interest rate swaps	0.51	–	–	–	–	–
Cross-currency swaps	3.94	(4.0)	(8.2)	1.1	6.5	(4.6)

Company

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Interest rate swaps	0.73	(0.6)	–	–	–	(0.6)
Cross-currency swaps	3.94	(18.2)	(10.7)	(10.3)	(23.2)	(62.4)

Notes to the financial statements continued

33. 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 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

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Hire purchase receivables – fixed interest rate	9.3	11.7	10.7	2.2	–	24.6
Trade and other receivables – non-interest bearing	–	244.6	19.3	–	–	263.9
Cash and bank balances – non-interest bearing	–	101.3	–	–	–	101.3
Total		357.6	30.0	2.2	–	389.8

Group

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Hire purchase receivables – fixed interest rate	9.4	18.8	20.9	3.7	0.1	43.5
Trade and other receivables – non-interest bearing	–	218.9	13.5	–	–	232.4
Cash and bank balances – non-interest bearing	–	102.5	–	–	–	102.5
Total		340.2	34.4	3.7	0.1	378.4

Company

	2013 Weighted average interest rate %	2013 Under 1 year £m	2013 Between 1-3 years £m	2013 Between 3-5 years £m	2013 Over 5 years £m	2013 Total £m
Loans to other Group companies	4.89	171.6	347.1	320.5	3,696.2	4,535.4

Company

	2012 Weighted average interest rate %	2012 Under 1 year £m	2012 Between 1-3 years £m	2012 Between 3-5 years £m	2012 Over 5 years £m	2012 Total £m
Loans to other Group companies	4.93	172.9	341.6	328.1	3,632.9	4,475.5

Motability Operations Group plc

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

motabilityoperations.co.uk

MIX
Paper from responsible sources
FSC® C022913

Printed in the UK by Pureprint Group on Revive 50 silk and Explorer offset containing FSC® certified fibre.

Pureprint Group is a carbon neutral company registered to EMAS, the Eco Management Audit Scheme, and is certified to ISO 14001 Environmental Management System.

Designed and produced by Black Sun Plc.