Motability Operations | Group plc

Sustaining a worry-free proposition through challenging times

Half Year Report 2022

For the six months ended 31 March 2022

Contents

Responsibility statement of the Directors in respect of the half year financial report

The Directors confirm that to the best of their knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK; and
- the interim management report includes a fair review of the information required by DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, namely:
  - an indication of important events that have occurred during the first six months of the financial year and their impact on the condensed set of financial statements; and
  - a description of the principal risks and uncertainties for the remaining six months of the year.

By order of the Board

Andrew Miller
Chief Executive
27 May 2022

Matthew Hamilton-James
Chief Finance Officer
27 May 2022

Our purpose is to provide our customers access to affordable, worry-free mobility.

Motability Operations was established in 1978 to deliver the Motability Scheme, under contract to Motability the national charity (which is responsible for oversight of the Scheme).

We provide mobility to over 640,000 customers with a wide range of different disabilities, providing an opportunity to achieve freedom and independence.

As we do not pay shareholder dividends we can focus purely on delivering for our customers, with profits available for reinvestment to support their current and future needs. In addition, we may also donate to Motability (the Charity) supporting their broader aim to enhance the lives of disabled people with transportation solutions.

How we deliver the Scheme

We provide mobility to over 640,000 customers, all of whom are in receipt of the Government's mobility allowance. Through integration of manufacturers, dealers and other suppliers, we deliver for our customers, efficient worry-free, affordable mobility to meet their individual needs.

Motability, the Charity's role

Motability sets the strategic policies and direction of the Scheme.

The Government's role

Mobility allowance

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

Motability Operations' role

Suppliers

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

Funding

In operating the Scheme, we are required to source the financing of our £9.1bn vehicle fleet. Our capital reserves are fully reinvested into our fleet; this reduces the amount we have to borrow and therefore the cost of customer leases. The balance of our financing is provided by debt in the form of bonds issued in the debt capital markets and bank facilities.

Scheme customers

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

Delivering the Scheme

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

End of lease

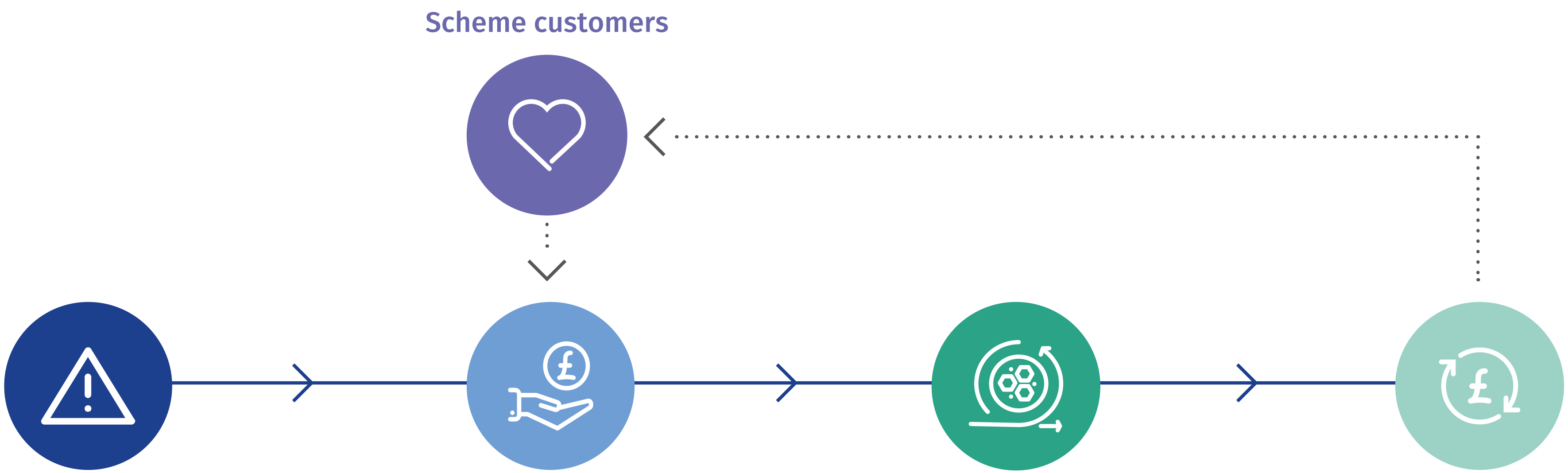
At the end of lease (typically three years), vehicles are returned to us. More than 90% of customers choose to renew their lease.

Remarketing

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

How we protect the Scheme

As operators of the Motability Scheme, we bear a number of significant risks, the most significant of which is the movement in used-car values, which could, if not carefully managed, undermine the long-term sustainability of how we serve our customers.



Risk

Our biggest single risk relates to the value of used cars when they are returned to us by customers at the end of their lease; this residual value is something we have to forecast three to five years in advance. Lease prices are fixed therefore customers are not exposed to this risk.

We also bear a number of other significant risks which are covered in detail in our Risk management section from page 20.

Capital

To protect the Scheme, and so customers, from exposure to these risks we aim to hold an adequate level of capital reserves.

We use an externally validated model and approach to calculate the level of capital we should hold to underpin the long-term sustainability of the Scheme.

Profitability

We aim to deliver a consistent customer experience that is protected from economic downturn or market-specific shocks. We include a margin in our lease pricing to enable us to minimise pricing volatility for customers should these events occur. It means that we can recover financially from such impacts without needing to increase customer prices.

Reinvestment

To the extent that retained profit exceeds capital requirements, and following consultation with Motability, the Charity, any additional profit can be reinvested into the customer proposition or donated to Motability.

Our business model

A unique proposition

Our objectives underpin the core principles of the Scheme, ensuring that through our people and our partners, we meet the needs of today's and tomorrow's customers.

Our objectives

How we add value

Our customers

- We aim to deliver value and an excellent service for customers by providing an affordable, consistent, worry-free leasing proposition which is universally available across the UK.
- Our customer experience is delivered in a sustainable manner to ensure that we meet the needs of today's and tomorrow's customers.

Our people

- The way we work is central to delivering and meeting the needs of our customers.
- Our employees believe passionately in what we do, underpinned by a strong and supportive culture.
- We aim to recruit and retain the talent needed to maintain our strong performance over the long term.

Our partners

- Working with our key partners we provide worry-free mobility offering: servicing, breakdown assistance, insurance, tyre and windscreen replacement.
- We have developed strategic relationships with mainstream car manufacturers and support specialist training across the UK dealership network.

Chairman's statement

Investing now for the future

It's my pleasure as Chairman of Motability Operations Group plc to welcome you to this Half Year Report. Reflecting on this year so far, I believe it has been one of the most challenging starts to the year that we have faced in our history. With the lasting impact of the Covid-19 pandemic on the supply of semiconductors, and now the tragic conflict in Ukraine further impacting the supply chain, our customers are experiencing long delays in receiving their vehicles. But as ever, we have risen to these challenges and remain committed to our customers.

Our customers

I am delighted to report that our customer satisfaction rating is at an outstanding 97% and we have stayed true to our purpose of providing worry-free mobility for our customers.
To mitigate the delays in receiving new vehicles, our teams are working extremely hard to extend customers' leases for at least six months, so we can ensure they remain mobile and are not adversely affected by the wait for their new vehicle.

Thank you

I'd like to take this opportunity to thank all our colleagues, for their continuing dedication to our customers and helping us to weather the storm in the motoring industry. I passionately believe that with our people at the forefront of the business, we are well positioned to shape the future of Motability Operations and navigate the changing face of the motoring industry. I'd also like to express my thanks to all the members of the Executive Team and the Board for ensuring our consistent performance and driving transformation across the business.

Business performance and risk

Motability Operations is funded via a combination of capital market (bonds) and bank finance, and we have developed a competitive and well-diversified profile of borrowing. This January, we successfully approached the debt market and secured new bond finance for £500m (20-year issue) in adherence with the Company's Social Bond Framework.

As an organisation, we are passionate about improving the lives of our customers and we know they are often reliant on the Scheme for their mobility, so we plan carefully to ensure they are best protected against the risks of the wider market. Even with the challenges we are facing, our strong balance sheet and profit margins are helping us to remain financially resilient in this volatile market, and most importantly in a good position to support our customers now and in the long term.

Prudent capital management

£3,480.1m

Capital reserves as at 31 March 2022

£170m

Committed to Motability, the Charity

We're using any profit and our capital reserves to ensure ongoing affordability support for our customers, to support Motability (the Charity) and to assist our customers on their transition to Electric Vehicles (EVs).

Our capital reserves provide us with headroom and are reassuring for the Board and all our stakeholders, as we navigate the complex economic market. We keep these funds in our capital reserves, to safeguard our vital service and the mobility and independence of our customers.

In our interim management report (page 14) Chief Financial Officer, Matthew Hamilton-James, will outline in detail how we have delivered this strong set of results.

Motability, the Charity

As we reported in the 2021 Annual Report and Accounts, our strong financial performance has also enabled us to make a £170m donation to Motability, the Charity. Motability have outlined how they are going use this donation to further enhance the lives of people living with disabilities. £120m will be used to sustain and increase current grant spending on the Scheme-related grant programme (over the next three financial years ending March 2025). The remaining £50m will be used to expand their support for other organisations and charities (over the next three financial years ending March 2025).

On this point, our working relationship with the Charity remains very strong. Their role is invaluable in helping us to deliver the Scheme for all our customers. I would particularly like to thank Motability's Chairman, Charles Manby MBE, for his support.

Looking ahead

The strength of our financial position means we can invest now for the future of our business and support customers with the transition to EVs. In our 2021 Annual Report and Accounts, we outlined the challenges presented by the transition to electric vehicles and presented a first look at our investment in the Glide Path to Green. In his CEO statement, Andrew Miller will share an update on how this has developed and our progress on innovation, so please read on for more on this.

These half year results present a positive performance and I look forward to reporting on our full year of results at the end of 2022. Despite the global motoring industry challenges, we remain financially stable and in the coming months we will continue to adapt to the changing environment and balance the needs of our business and our customers.

On behalf of the Board at Motability Operations Group, I would like to thank our colleagues, our suppliers, all our Scheme Partners and Motability (the Charity) for helping us to deliver our quality customer service to the disabled community.

Stephen O'Brien

Rt. Hon. Sir Stephen O'Brien KBE
Chairman

"The strength of our financial position means we can invest now for the future of our business and support customers with the transition to electric vehicles."

Chief Executive's statement

Staying focused on keeping our customers mobile in extraordinary circumstances

We remain focused on our long-term goals and supporting our customers mobility, as we work to deliver against the Government commitment to transition to electric vehicles (EVs) by 2030. However, we're not immune to the challenges that the whole motoring industry is facing.

Weathering uncertain times in the motoring industry

Motability Operations is a financially and operationally secure business and our business model is designed to protect our customers' mobility in the long term. We hold capital in reserve to ensure that we can be there for our customers in all circumstances. The increase in used car values over the last twelve months has boosted our reserves still further meaning we can continue to support our customers as we face into the current uncertainty but also fund the transition to EVs, support Motability, the Charity and continue to support customers through the new vehicle payment.

Global shortages of semiconductors have been causing long delays to delivery of new vehicles, since the beginning of the pandemic, and this has not improved in the first few months of this year. We have also seen increased pressure on the supply chain, since the start of the tragic conflict in Ukraine and manufacturers are now struggling to source other key parts for vehicle production.

As an organisation, our priority is to keep our customers mobile. To ensure this happens, we're auto extending car leases by six months and longer if necessary. We are working hard to continuously update our customers by sharing the latest news on our website, providing regular customer emails and speaking to our customers directly on the phone.

This commitment to our customers and our service, is reflected in our continuing customer satisfaction rating at 97%. This is only possible because of our amazing team at Motability Operations, their resilience, passion and commitment enable us to provide the best possible service for our customers. I'm delighted that we are continuing to excel under the most challenging circumstances.

Our current customer base remains at over 640,000 people who currently lease a car, Wheelchair Accessible Vehicle (WAV) or Powered Wheelchair or Scooter (PWS) and new applications remain steady with over 100,000 new orders already placed this year (FY2022 year to date).

Investing for the future

Our finances remain strong and resilient, which enables us to be more powerful for our customers. Our worry-free service is critical for our customers' independence and mobility, both now and in the future, and we need to ensure we are there for the long term.

Our business model is designed to be sustainable, and our capital reserves are there to not only weather the storms, but also provide us with a platform to make strategic investments for the needs of our customers. As of 31 March 2022, our capital reserves stood at £3,480.1m, which we use to make investments and operationally to purchase vehicles in our fleet. As I reported in the Annual Report in 2021, we're using our profits to make large investments in the Glide Path to Green, Affordability Support, and Supporting Motability (the Charity). These investments are set out in more detail throughout this report.

We have over 40 years of experience behind us, and throughout this time we have continuously adapted to the changing needs of our customers. We are now ready to adapt once again, to safeguard our future and keep up with the changing environment we operate in.

Affordability Support

I am pleased to report that as outlined in the Annual Report and Accounts 2021, we are providing more affordability support to our customers. In February 2022, we started the New Vehicle and Product payment, provided to customers who are taking delivery of a new vehicle or product. This payment is available to both existing and new to Scheme customers. It is delivered in two types of payments with car customers receiving a 'New Vehicle Payment' of £250 and scooter and powered wheelchair customers receiving a 'New Product Payment' of £100. Since the launch we have made over £10m in payments to our customers.

The Glide Path to Green

Our focus on being there for our customers over the long term means we are financially stable and can continue to invest in the future of mobility for our customers by supporting their transition into electric vehicles.

From 2030 there will be a ban on the sale of new internal combustion engine cars and vans in the UK. With the transition to electric vehicles fast approaching, we need to invest now to make this easier for our customers.

We are investing in the future of mobility for the disabled community, and we're working hard to ensure our customers are not left behind in the transition to electric vehicles. We have ring-fenced £300m of capital to invest in this area and for the benefit of our customers.

We currently have around 60 electric vehicle models available on the Scheme, many with no advance purchase payment. For customers who lease their first electric car on the Scheme, we're arranging and covering the cost of an at home chargepoint with the support of our charging partners Ohme and Easee.

With the technology rapidly changing and developing, we want to make sure our customers have all the latest news on everything EV and we have now developed a dedicated EV hub on our Scheme website. Acting as a one-stop shop for our customers to help them decide if an EV is right for them now. As we relaunch our face-to-face 'One Big Day' customer events this summer, for the first time the events will feature an EV Information Hub, designed to provide customers with a chance to ask all their EV questions, see the latest EV technology and hear from EV experts.

As part of our commitment to the Glide Path to Green, we're also looking for innovative products and services to make the transition to EV easier for customers. We have recently launched a series of customer pilots with a range of partners, so we can find the best solutions for the accessibility challenges we are facing. So far, we have launched trials with Co Charger, Zap Map, Sycada and Bonnet, with plans to launch more in the near future. These initatives form an important strand of the wider ESG strategy as outlined later in this report.

Our people are our greatest strength

Our service and performance are underpinned by the commitment of our colleagues. To protect the Scheme and maintain our service, we always need to be thinking about recruiting and retaining the best talent, so we are continuously developing our training, scholarships, graduate and internship program. Our new Equality, Diversity and Inclusion (ED&I) strategy is now in place, and we have communicated our aims and ambitions across the business. By the end of year five, we aim to have a more inclusive employee base, that reflects the UK population (based on 2021 Census data) across gender, ethnicity, disability, and sexuality at all levels (including manager, and senior leadership roles). To give us the best chance of delivering against these goals we are working with specialist organisations to remove bias from our recruitment processes and we run a number of programmes across our business aimed at attracting early talent into our organisation, including Scholarship Programmes designed to support students with disabilities and those from black and ethnic minority background through university – offering financial support whilst at university together with paid work experience during the summer breaks.

We have now concluded the first phase of a company-wide inclusion programme, Valuing Difference that all employees at every level, including the Executive team attended and we run a Personal Development Programme designed for employees with disabilities to develop the skills and confidence to further their career at Motability Operations.

We have been operating in a hybrid working model since August 2021, and I am pleased to report that this is going well. While we are continuing to keep this under review, employees are returning to the office and enjoying the increased flexibility hybrid working allows, and it's also enabling us to attract more diverse talent.

Our recent Gender Pay Gap report in April 2022 reported a mean gap of 25.1% (FY2020: 24.6%) and a gender bonus gap of 39% (FY2020 64.3%). The gap is primarily driven by the uneven distribution of men and women across different roles within the business, especially in technical roles where competition for top diverse talent is highly competitive.

We are always looking for ways to improve our pay gap and in January 2022, we expanded our Executive Team to prepare us for the future. We introduced five new roles and also made the team more gender balanced and representative of our work force.

Thank you and future planning

Finally, I'd like to thank all my colleagues across the business. I am incredibly proud to lead a team of people, who, even through the challenging times, show the same dedication and commitment to our customers.

I also would like to thank Sir Stephen O'Brien and the other members of our Board for their support, and I look forward to continuing work on our strategy and developing the future of Motability Operations with them by my side.

I have also enjoyed working alongside our colleagues at Motability, the Charity, and I would particularly like to thank Charles Manby, Barry Le Grys and their teams for their insight and positive engagement.

Despite the many challenges to the start of this year, we remain financially and operationally resilient and we're looking forward to putting our future plans into action.

Andrew Miller
Chief Executive Officer

Environment, Social and Governance

Committed to the journey

As a business we have a clear social purpose.

We operate our vehicle fleet to meet the mobility needs of over 640,000 disabled customers and their families. We have a unique role in the transition to EVs and we need to ensure that disabled people retain access to affordable, worry-free mobility.

Environment

E

We have committed £300m in the Glide Path to Green

Social

S

We have been awarded Disability Confident Leader status, in recognition of our work supporting this community

Governance

G

We have now established a dedicated ESG Steering Committee

Environment

We are committed to the Glide Path to Green and embracing the roll-out of vehicle electrification

E

As a vehicle-leasing business we inevitably have a significant environmental impact and to help reduce this we are now actively transitioning our fleet of over 600,000 cars to electric.

Progress to date

- £300m investment to electrify our vehicle fleet by 2030.
- Over 10% of applications are now for electric vehicles - with £36m of investment to date including the funding for 11,000 homechargers for customers.
- Over 60 electric vehicles on the Scheme.

Our carbon footprint also extends beyond our vehicle fleet into our premises and employee footprint, and a clear strategy and targets are being developed to help us reduce our CO2 levels in our premises. Some of these initiatives have already been implemented.

- Secured a 'B' rating from the Carbon Disclosure Project (CDP) and preparing to publish our carbon emissions publicly.
- Premises sustainability programme approved, in accordance with ISO14001 (internationally recognised environmental standard) - initiatives implemented include replacing single-use coffee cups, bee hives.

Next steps

- Working with EcoAct to complete the CDP application again and on track to maintain our 'B' rating.
- 50% waste reduction by 2030.

Social

We recognise our people are our biggest strength

S

We recognise that by delivering affordable and worry-free motoring for our customers, we are in a unique position to deliver a positive social impact. Our social commitments also extend beyond our customers, and we are fully committed to diversifying our workforce and supporting the communities in which we live and work.

Progress to date

- Motability Operations is focussed on our customers, with a 97% customer satisfaction rate.
- Donated £170m in September 2021 to Motability to support the delivery of their wider mandate for assisting disabled people.
- On track to become an accredited Living Wage Employer (through the nationally recognised Living Wage Foundation scheme)
- Awarded Disability Confident Leader status, in recognition of our work supporting this community.
- Launched 'On-hand' volunteering app, to facilitate volunteering for our work force
- Continued to raise funding through our Social Bond Framework (in January 2022 a new £500m bond was secured on a 20 year issue)
- Launched an ED&I strategy aiming to develop a more inclusive employee base, that reflects the UK population across gender, ethnicity, disability, and sexuality at all levels (including manager, and senior leadership roles).

Next steps

- Advocate for and encourage suppliers to become Living Wage Employers and Disability Confident Leaders.
- Improve our pay gap across gender, ethnicity and disability.

Governance

We are committed to the Glide Path to Green and embracing the roll-out of vehicle electrification

G

We believe that accountability and transparency are essential for the effective operation of a modern, responsible business.

Progress to date

- Dedicated ESG Steering Committee established and operational
- For the first time, this year we chose to calculate and publish our ethnicity and disability pay gaps to help us understand where we need to focus actions and drive improvements.

Next steps

- Establish employee and customer 'ESG' champions, to ensure all voices are included and can participate in environmental and social impact decisions
- Publish a full and detailed ESG/sustainability impact report, alongside 2022 Annual Report and Accounts.
- Define roadmap for future reporting and disclosure including consideration of the early adoption of TCFD reporting requirements.
- Publish our ESG strategy with clearly defined targets, including those linked to remuneration structures.
- Explore the appropriateness of potential frameworks and accreditations to reinforce our commitment and demonstrate progress made against our ESG ambitions.

Safeguarding the scheme

We remain focused on providing a stable and sustainable scheme.

Financial performance

Revenue in the six months to March 2022 increased 6.7% to £2,313.9m (2021: £2,169.0m). Within this:

- Rental income increased 4.3% reflecting higher average customer numbers (with an incremental 9,800 joining the scheme) and the effect of the 0.5% uplift in mobility allowances effective from April 2021. Rental income in the year to March 2021 was also net of £32m of insurance related rental rebates, which distorts the year-on-year comparison.
- Notwithstanding a lower volume of vehicles sold – down 30,000 units compared with 2021 (a consequence of an increasing volume of lease extensions for existing customers pending the delivery of their new vehicles) the proceeds from the disposal of operating lease assets saw a 8.4% increase in the six months to March 2022 compared with prior year, reflecting the elevated sales values achieved in the used-car market.

Profit for the period was £598.7m, representing a 10.3% return on assets (above our long-term target of 1.5%). This above target result is primarily driven by two effects:

- A gain of £403.9m from vehicle sales (2021: £78.4m), reflecting the buoyant used-car market referenced above. The strength of the used-car market can be directly linked to the new-vehicle supply-side challenges faced globally. This has resulted in significant switching of demand to used cars. Our vehicle remarketing operation has been able to effectively capitalise on the conducive demand conditions in the used-car market, with average sales values of £15.5k (up 50%) on prior year not only driving increased revenue, but leading to crystallised profits versus the net book value. Whilst this upside is in part a result of used-car values exceeding our previous forecast expectations, this also reflects the realisation of a proportion of the blocked appreciation which was carried through the September 2021 year-end (as signalled in the 2021 Annual Report and Accounts).
- A £311.4m depreciation credit reflecting the output of the March 2022 fleet revaluation exercise outlined below.

The result for the first six months of trading takes restricted reserves on the balance sheet to £3,480.1m (March 2021: £2,444.7m) providing headroom above our target position.

Half year highlights 2022

£598.7m
Post-tax Profit

97%
Customer Satisfaction
(Independently measured)

£3,480.1m
Capital Reserves as at 31st March 2022

90%
Renewal rate at end of lease

A1/A
Credit Rating with Stable Outlook

8.4 years
Debt Maturity Profile

Assets and residual values

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

The sustained strength of current used-car values continues to have an impact on our assessment of future residual values, with current values underpinning the starting point from which we project the value of the extant fleet as this unwinds over the coming 36 months. The extended nature of the global supply challenges, and consequential impact on used-car values, has been exacerbated by the Ukrainian crisis. The carrying value of operating lease assets has increased 3.5% since September 2021, to £9,100.6m (March 2021: £8,184.1m). At March 2022, the estimated residual value of the fleet versus the priced position reflected a projected net gain of £1,642.5m (March 2021: £197.7m). This projected improvement is credited to the income statement over the term of the respective leases. At the balance sheet date, £748.8m of this gain (March 2021: £91m) had been recognised through the income statement, (with £352.9m recognised in the six months to March 2022 and £395.9m credited in prior periods) with the balance to be released across future financial years, including £311.6m of blocked appreciation which to the extent that the current assessment of vehicle values hold will result in vehicle remarketing profitability in future periods.

Continued investment in the customer proposition

In our 2021 Annual Report and Accounts we announced a number of investments and initiatives aimed at supporting current and future generations of customers, and the wider disabled population in the UK.
By way of update:

- The £170m donation to Motability was paid in September 2021 and will be deployed by Motability to assist disabled people in the UK with their transportation needs
- The third customer rebate of £60 which was announced in the autumn of 2021 has now been fulfilled (bringing the total rebate paid since the start of the Covid-19 pandemic to over £100m)
- The £180m ring-fenced to provide an affordability support payment for new and renewing customers (£250 per customer) is in the process of being rolled out as customers take delivery of their new vehicles, with 41,298 payments made to date totalling £10.0m
- We are in the process of deploying the £300m assigned to support an affordable transition to electric vehicles for our customers. Applications for electric vehicles have increased 706% year on year, with £36m of investment currently allocated based on vehicles delivered to date and the current order pipeline

Financing and liquidity

The Group continues to pursue a strategy aimed at diversifying sources of funding, protecting structural liquidity and maintaining a well-laddered debt maturity profile. Following the issue of inaugural bonds under our social bond framework in January 2021, the Group raised incremental financing in January 2022 via a £500m 20-year GBP bond. This bond provides us with strong liquidity headroom as we look ahead and in the context of the repayment of a £400m bond liability due in July 2022.

Of the Group's £1,093.8m cash and cash equivalents balance reported at 31 March 2022 (March 2021: £437.8m), £83.1m is ring-fenced (March 2021: £149.5m) in respect of insurance liabilities in MO Reinsurance Ltd. The Group retains a £1.5bn Revolving Credit Facility to provide liquidity headroom which was undrawn at 31 March 2022. Our corporate credit ratings (A1/A, both with a Stable outlook; S&P and Moody's respectively) remain an important enabler of our access to financing at competitive rates from the debt capital markets.

"We remain committed to supporting our customers on the transition to electric vehicles."

Insurance

Through our insurance arrangements with RSA Insurance Group (RSA), Motability Operations participates in a proportion of premium exposure via our A+ rated reinsurance captive MO Reinsurance Ltd (MORL). MORL's net exposure is contained through a conservatively structured reinsurance programme. Following an independent review of our actuarial assessment of the reserving position, MORL reported a £2.1m post-tax profit for the six months to March 2022 (March 2021: £14.7m).

Outlook

We anticipate the current new-vehicle supply challenges to continue through 2022. It is clear from vehicle manufacturers that there are varying views across the industry regarding the pace at which a more normalised pattern of supply will come back on stream. Our focus remains on keeping existing customers mobile and we anticipate that the current pattern and duration of lease extensions will continue into the medium term.

We continue to engage closely with vehicle manufacturers and aim to ensure that once supply does become more readily available, that our existing customers and potential new customers have access to a suitable range of affordable vehicles. Our capital position gives us scope to invest in the pricelist to support customer choice and affordability as the current supply constraints unwind. As signalled in the 2021 Annual Report and Accounts, we remain committed to support our customers on the transition to electric vehicles. It is expected that the deployment of the £300m ring-fenced capital investment will scale up during the remainder of 2022 and into 2023 as the range, choice, suitability and availability of electric vehicles increases.

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

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

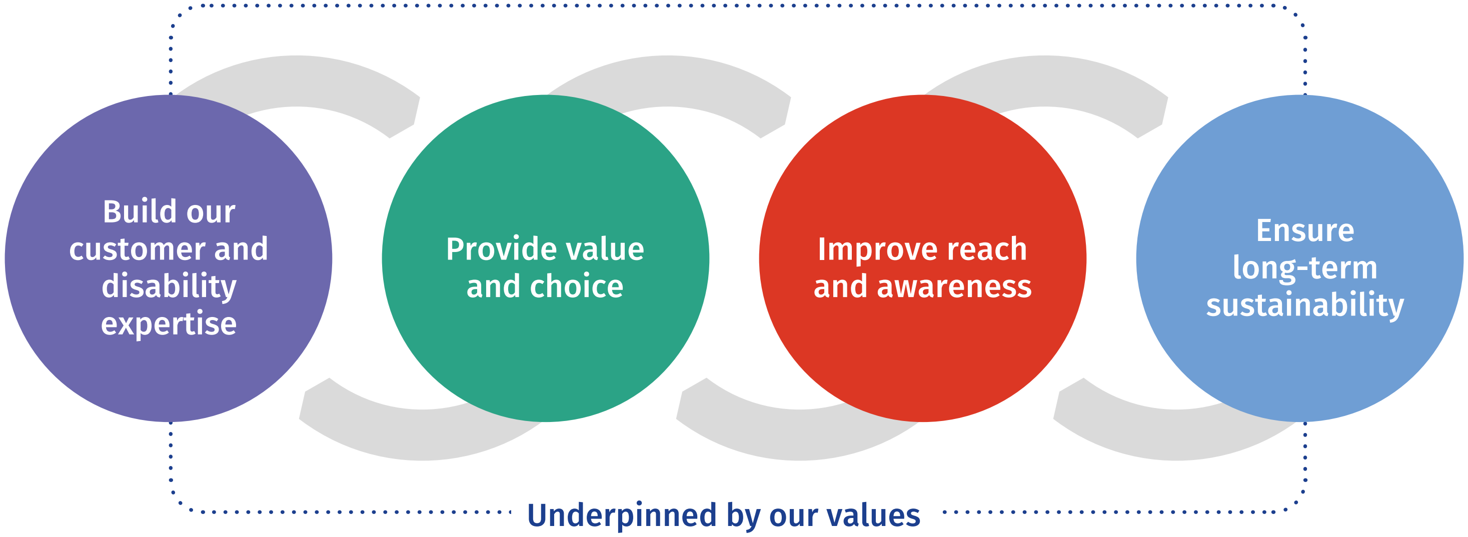
Matthew Hamilton-James
Chief Financial Officer

Our strategic framework

Our values help us deliver our strategy.

Our strategy

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



Our values

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

People and culture

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

Performance

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

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.

Building our customer and disability expertise

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

Goals

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.

KPI's

97%
Overall customer satisfaction
Target of >92%

21%
Calls answered within 20 seconds
Target of >80%

39.5 min
Roadside assistance av. response time
Target of <42 min

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

Progress

- We have made a continued investment in our front-line customer services team, to help address the more complex customer needs that have arisen during the pandemic. This is also helping us to manage the external supply side challenges which have undoubtedly impacted customers moving into a new lease.
- Speech analytics helps us to support and enhance our immediate understanding of a customer's needs and allows us to adapt our delivery and remain agile to any changing requirements.
- Continually expanding our digital offering, providing customers with options on how they want to interact with us, as well as enabling customers with the ability to manage their account online, and receive payments via BACs if they choose to.
- The Continuous Mobility programme has ensured that our customers can continue with their day-to-day lives; this has been vital given Covid-related repair backlogs and car supply shortages, leading to higher levels of customers' vehicles being off the road for longer periods of time.
- Delays in the availability of new vehicles caused by the global shortage semiconductors and increased repair times have inevitably led to increased pressure on our call centre to achieve our targets.

Provide value and choice

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

Goals

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

KPI's

>98
Affordable vehicle choice at 'nil advance payment'
Target of >200

>46%
Cheaper than alternative

65%
Of vehicles sold online at the end of lease
Target of >70%

Objectives

- Provide stability in pricing and choice throughout the economic cycle and 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
- Retain our market leadership for vehicle remarketing

Progress

- Pressures within the global car industry have had a significant impact on choice and affordability of models available on the scheme. We continue to work alongside car manufacturers to maximise vehicle options for our customers.
- We continue to recognise the increasing profile of electric as a vehicle choice and have been able to offer customers an average of 74 vehicle options during the first half of the year.
- We have continued to develop our processes of residual value forecasting, to ensure customer pricing is based on a fair and reasonable assessment of future market values.
- Ongoing checks associated with the WAV proposition such as familiarisation visits, and annual checks, remain in place to help ensure that customers are comfortable with their vehicle, and that technical aspects remain sound.
- The level of customers remaining in their vehicles longer than their initial lease term has led to delays in vehicle hand backs, in turn this has some impact upon the condition of vehicles returned. In addition, the proportion of vehicles sold via online channels has been constrained by refurbishment capabilities resulting in more vehicles being sold through auction channels.

Improve reach and awareness

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

Goals

Through promoting greater understanding of the Scheme proposition, we seek to better-inform potential customers who are well-positioned to evaluate its benefits. The loyalty and trust of our existing customers is of fundamental importance, with renewal rates being closely linked to our success in delivering sustained affordability and excellent customer service.

KPI's

97%
Trust in Motability
Target of >85%

90%
Customer renewal rate at the end of lease
Target of >85%

96%
Customer advocacy
Target of >85%

Objectives

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

Progress

- We provide operational and disability confidence training for several thousand dealer Motability specialists, through an online platform which was developed to replace our usual classroom environment. Our training courses are being adapted further to enhance our services and align them to a multi-channel approach.
- Continued improvements to the Scheme website, offering users a simpler, cleaner journey in line with our updated branding and redesigning the way key information is ordered and displayed.
- Developing an online 'self-service' portal, further broadening the opportunities for customers to contact us and to tailor their package to their own specific requirements.
- Continued to work with the Family Fund, the UK's largest charity providing grants for low-income families raising disabled or seriously ill children and young people, to deliver a scheme providing vehicles to families with children under the age of three, who are seriously ill or disabled but do not yet qualify for a government mobility allowance.

Ensure long-term sustainability

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

Goals

We endeavour to operate efficiently and responsibly to support our customers and stakeholders. We regard the enhancement of our reputation and the continuation of the support we enjoy across our stakeholder groups as pivotal to our sustained success.

KPI's

94%
Employee engagement
Target to benchmark 84%

A/A1
Credit rating
Both ratings reaffirmed with a stable outlook

8.4 yrs
Debt maturity profile

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**
- **Ensure that our premises and information technology infrastructure are robust and future-proof**
- **Attract and retain quality people**
- **Continue to nurture effective partnerships with key stakeholders**
- **Maintain a forward-looking environmental policy, providing a choice of environmentally friendly vehicles on the Scheme, balancing customer needs with fuel economy and emissions**

Progress

- The strong financial results in the first half of the year have been buoyed by significant used-car values, caused by demand from online dealers and the short supply of semi-conductors in the new car market.
- Continued development aligned to our strategic IT roadmap that will secure systems sustainability (replacing aged legacy systems) with linked benefits flowing across business operations.
- Given the high-performance levels expected of individuals who work to deliver the Scheme we have invested resources to ensure we maintain and develop an appropriate environment that supports their needs and that recognises and embraces the benefits of a diverse workforce.
- We remain committed to our £300m five-year Investment which supports the 'worry free' transition to electric vehicles for current and future generations of customers.
- In January 2022 we successfully secured new bond finance for £500m (20 year issue) in adherence with the company's Social Bond Framework. The new finance obtained will provide sufficient liquidity to support our existing customers as well as supporting anticipated fleet growth.

Our dynamic and robust approach

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

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

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

We have a Director with specific responsibility for risk, as well as a dedicated Risk Management function. The business's appetite for risk is managed through a comprehensive and independently verified Risk Appetite Framework.

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

We have designed our risk management framework around the `three lines model' for risk governance. We have ensured that our approach remains aligned to the revision of the three lines model, published by the Chartered Institute of Internal Auditors (IIA) in July 2020.

Risk identification and monitoring

Consistent with the three lines model approach, we have a dedicated Risk 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. Responsibility for managing the risks and control activities sits firmly within the first line responsibilities.

We regularly review our risk management framework to ensure that it remains appropriate to the business and its strategy. 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.

The framework is designed to identify and mitigate risks to the business and its operation, which continues to be proven through unprecedented economic and operating environments.

In line with the business strategy for a `Glide Path to Green', we have enhanced the risk management framework to ensure the business remains focused on risk and controls through strategic change and transition activity.

Risk management framework

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

1st line
Primary risk management

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

2nd line
Risk control

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

3rd line
Assurance

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

Risk Appetite Framework

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

The framework builds on our strong risk management culture and aligns our strategic planning and risk management activities. The RAF captures the business's risk appetite against all key risk components and leverages our governance culture to provide an alert system against the set appetite levels which now includes over 160 risk metrics.

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

The responsibility for monitoring and review of the RAF is embedded within our governance framework.

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

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

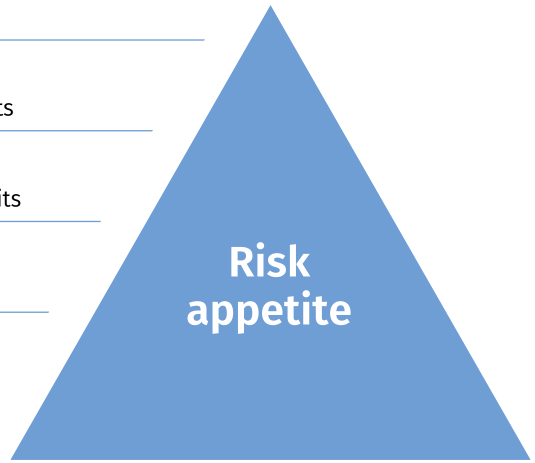
Strategic plan, business model, objectives and risk strategy

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

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

Specific
Principles and policies to operationalise risk appetite

Detailed
Detailed risk appetite measures and limits



Business dimensions

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

Principal risks

Key risk	1. Residual values	2. Insurance	3. Treasury risk	4. Credit risk	5. Operational
Description	We provide our customers with a fixed price over their lease term, predominantly covering a three-year period; this underpins our most significant risk as we underwrite the exposure to unforeseen and material movement in the market value of second-hand vehicles. Total residual value risk is measured as the difference between the forecast values used for pricing and the net proceeds we ultimately realise on disposal.	Insurance is the second biggest risk we face, and as we fix this cost for our customers for between three and five years our exposure is larger than is typical in the market.	The availability of sustainable funding and liquidity is critical to our ongoing operation. Risks include those associated with exposure to interest and exchange rate movements, liquidity, funding, counterparty and operational risk.	Customers assign their allowances to us, and this is paid directly from the DWP or Social Security Scotland. As a result, the credit risk is considered to be low. If the Government did transfer responsibility of payment to the customer, as with Housing Benefit under Universal Credit, MO could be exposed to significant credit risk.	The efficiency of our business is key to delivering excellent customer service and also ensuring we maximise and protect the value of our assets.
Potential impact	• Volatility in profitability, reserves and pricing • Potential impact on affordability and choice	• Financial impact of claims exceeding priced expectations • Failure of a reinsurer could transfer risk back to Motability Operations • Potential operational, financial and reputational risk	• Volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• Potential impact on cash inflows and consequent write-off to income statement	• Potential operational, financial and reputational risk • Risk of business disruption
Mitigation	• Sophisticated in-house residual value setting and forecasting process • Risk capital management for asset risk using Economic Capital principles • Market-leading remarketing approach	• Conservatively placed reinsurance programme effectively limits the Group's net risk • Risk capital in place to cover net risk • Access to extensive expertise • Diversification of supply across highly rated reinsurers	• Successful execution of a dual tranche bond issuance in January. Positive feedback from investors on robust response to Covid-19 and interest in the newly established Social Bond Framework • Majority of funding on fixed rates or fixed through interest rate and/or foreign currency swaps • Balanced portfolio of funding maturities and diversification into bond market • Maintenance of strong credit rating • Robust treasury system, controls and governance	• Principal income stream received directly from DWP or Social Security Scotland – therefore minimal credit risk • Residual credit risks are managed through credit assessments and an effective credit control function	• Robust control environment • Active monitoring and testing of Business Continuity and Disaster Recovery plans • Focus and investment in IT infrastructure providing a stable and resilient operating platform • Controlled and governed process changes to support the business through Covid-19 (now reverted)
Link to strategy	• The setting of residual values is one of our core competencies. Our strategic approach ensures that we invest appropriately to maintain a market-leading capability (in terms of people, methodology and technology)	• Our insurance arrangement has been carefully designed to ensure that the structure delivers value for customers and is sustainable into the long term • Transition to new insurance provider managed by a dedicated team and overseen by the Executive will drive long-term benefits for our Scheme customers	• The strategic pillar of ensuring long-term sustainability guides our approach to determining treasury policy, which is designed to be 'vanilla' and risk-averse	• The assignment of customers' allowances directly to the Group is a fundamental strategic underpinning of the effective and efficient operation of the Scheme	• We ensure that we make appropriate strategic investments in our infrastructure, systems and processes

Risk management continued

Key risk	6. Cyber risk and information security	7. Supplier failure	8. Business continuity	9. Climate risk	10. Inadequate skills
Description	Cyber risk and information security are key priorities for the business. We have a sophisticated layered approach to IT security and have implemented enhanced controls. We continue to monitor the ever-changing nature of the external threats faced and have established controls and an ongoing programme of development in this area.	Our core product offering is delivered through contracts with key suppliers who provide the vehicles, the vehicle insurance services, roadside assistance, and tyre and windscreen replacement services. The failure of a key supplier would create difficulty for customers and potentially have significant financial implications as we seek alternative service providers.	Business operations are reliant upon people, and the systems and activities performed by our employees in conjunction with our key suppliers and partners. Any major and sustained disruption to these business activities caused by fire, flood, extreme weather, contamination, business systems, telecommunication or a natural or physical disaster such as a pandemic could have a significant impact on the customers and the wider business objectives.	Climate change and sustainability are key issues for UK businesses. We could experience losses and/or reputational damage as a result of climate change. This could be directly, through our customers and/or our third-party engagements. In addition, impacts could be seen through an increase in economic disruption from extreme weather events.	Loss of highly skilled employees and/or the inability to develop, retain or attract skilled employees to support operations and growth activity.
Potential impact	• Potential impacts to customer and stakeholder confidence • Potential financial and reputational risk • Risk of business disruption	• Compromised customer service provision and potential financial impact of securing alternative supplier • In case of a manufacturer failure, likely impairment of residual values and threatened availability of parts and warranties	• The impact of a continuity event could have severe operational, financial and reputational effects on our ability to operate the Scheme	• Potential financial and reputational risk • Risk of business disruption • Volatility in funding costs, with knock-on effects on lease pricing, and lack of availability of growth or replacement funding	• Potential operational risk • Delays to project and strategic activity • Could lead to failure to deliver Scheme KPIs
Mitigation	• Information security framework aligned to best practice and industry standards • Dedicated security operations model in place monitoring threats 24/7 • Designated data protection officer • Ongoing employee awareness programme • Cyber Insurance and Incident Response plan in place and regularly reviewed	• Strong supplier relationships and communication • Active monitoring of performance, credit ratings and market announcements • Diversification of supply • Diversified portfolio • Temporary revision of payment terms through Covid-19 to support key suppliers (now reverted)	• Well-established continuity response plans including homeworking, system resilience and disaster recovery • Dedicated cross-functional Business Continuity Committee in place • Controlled and governed process changes to support the business through continuity events	• The Company strategy process has identified key areas of focus, including the transition to battery electric vehicles (BEV); they will underpin the Scheme proposition over the long term • We established an ESG committee to look at the wider green agenda and define the key considerations for the business • The management approach and oversight being taken to ensure strategic opportunities are maximised through balanced risk-based decisions	• Business transitioned to hybrid working post-Covid, offering greater flexibility • Remuneration Committee oversees pay and benefits packages with market benchmarking • Diversity and Inclusion and Gender Pay Gap reviewed with defined action plans • Ethnicity, Diversity and Inclusion Committee established reporting to the Executive • Training and support delivered for employees in supporting mental health and wellbeing
Link to strategy	• Customer confidence in the Scheme underpins our strategy • The strategic pillar of ensuring long-term sustainability ensures compliance with key regulation	• Through our annual strategic review we assess the performance and stability of all main Scheme suppliers, including contingency planning in the event that a major failure occurs	• Investment in our infrastructure ensures the effective and efficient operation of the Scheme and long-term sustainability in providing excellent customer service	• The Glide Path to Green will underpin the strategic approach and initiatives that will support the development of the long-term customer proposition	• Delivery of the operational and strategic activity is dependent on highly skilled people

Independent review report to Motability Operations Group plc

Conclusion

We have been engaged by the company to review the condensed set of financial statements in the half year financial report for the six months ended 31 March 2022 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half year financial report for the six months ended 31 March 2022 is not prepared, in all material respects, in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK and the Disclosure Guidance and Transparency Rules (“the DTR”) of the UK’s Financial Conduct Authority (“the UK FCA”).

Scope of review

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

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

Directors’ responsibilities

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

As disclosed in note 1, the latest annual financial statements of the group were prepared in accordance with International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 |and the next annual financial statements will be prepared in accordance with UK-adopted international accounting standards. The directors are responsible for preparing the condensed set of financial statements included in the half year financial report in accordance with IAS 34 as adopted f or use in the UK.

Our responsibility

Our responsibility is to express to the company a conclusion on the condensed set of financial statements in the half year financial report based on our review.

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

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

Simon Clark
for and on behalf of KPMG LLP

Chartered Accountants
15 Canada Square
Canary Wharf
London
E14 5GL
27 May 2022

Financial statements
Half Year Report 2022

Consolidated income statement

For the six months ended 31 March 2022

	Note	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Revenue	4	2,313.9	2,169.0
Net operating costs excluding charitable donations		(1,509.3)	(1,935.2)
Charitable donations		–	–
Net operating costs	6	(1,509.3)	(1,935.2)
Profit from operations		804.6	233.8
Finance costs	7	(86.7)	(81.7)
Profit before tax		717.9	152.1
Taxation			
Taxation excluding the impact of changes in the UK corporation tax rate	8	(89.4)	(28.9)
Re-measurement of deferred tax due to changes in the UK corporation tax rate	8	(29.8)	–
Profit for the period		598.7	123.2

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

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

Consolidated statement of comprehensive income

For the six months ended 31 March 2022

	Note	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Profit for the period		598.7	123.2
Other comprehensive income – items that may be reclassified subsequently to profit or loss			
Losses on movements in fair value of cash flow hedging derivatives	14	(22.2)	(95.7)
Gains on cash flow hedges reclassified to the income statement	14	37.2	112.2
Tax relating to components of other comprehensive income		(3.0)	(3.1)
Other comprehensive income for the period, net of tax		12.0	13.4
Total comprehensive income for the period		610.7	136.6

The notes on pages 30 to 56 form part of these financial statements

Consolidated balance sheet

As at 31 March 2022

	Note	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Assets				
Non-current assets				
Intangible assets		87.1	94.1	85.7
Property, plant and equipment		67.0	67.8	67.3
Assets held for use in operating leases	9	9,100.6	8,790.7	8,184.1
Financial assets at amortised cost		171.5	126.4	135.3
Trade and other receivables		15.4	20.7	20.7
Derivative financial instruments	15	64.5	70.5	64.0
		9,506.1	9,170.2	8,557.1
Current assets				
Corporation tax receivable		–	11.0	–
Inventories	10	127.7	109.8	137.4
Financial assets at amortised cost		105.0	80.9	67.7
Cash and bank balances		1,164.5	484.8	516.4
Insurance receivables		58.3	46.2	51.9
Trade and other receivables		239.5	209.8	263.7
Reinsurers' share of insurance provisions		472.1	454.5	434.5
Derivative financial instruments	15	2.4	–	0.1
		2,169.5	1,397.0	1,471.7
Total assets		11,675.6	10,567.2	10,028.8
Liabilities				
Current liabilities				
Corporation tax payable		(24.0)	–	(26.2)
Deferred rental income	11	(185.1)	(190.9)	(176.6)
Provision for customer rebates	12	(132.7)	(157.9)	(143.2)
Insurance payables		(68.8)	(71.4)	(74.1)
Trade and other payables		(145.5)	(156.0)	(164.1)
Provision for insurance claims outstanding	13	(622.5)	(584.0)	(543.8)
Financial liabilities	14	(507.8)	(487.0)	(112.6)
Derivative financial instruments	15	–	(0.3)	(0.9)
		(1,686.4)	(1,647.5)	(1,241.5)
Net current assets / (liabilities)		483.1	(250.5)	230.2
Non-current liabilities				
Deferred rental income	11	(253.0)	(252.8)	(253.9)
Provision for customer rebates	12	(79.1)	(75.5)	(68.5)
Financial liabilities	14	(5,815.3)	(5,360.2)	(5,734.8)
Derivative financial instruments	15	(61.6)	(42.7)	(65.0)
Deferred tax liabilities		(289.0)	(308.0)	(230.1)
		(6,498.0)	(6,039.2)	(6,352.3)
Total liabilities		(8,184.4)	(7,686.7)	(7,593.8)
Net assets		3,491.2	2,880.5	2,435.0
Equity				
Ordinary share capital		0.1	0.1	0.1
Hedging reserve	14	11.0	(1.0)	(9.8)
Restricted reserves (*)		3,480.1	2,881.4	2,444.7
Total equity		3,491.2	2,880.5	2,435.0

(*) 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 25 to 56 were approved by the Board of Directors on 27 May 2022 and signed on behalf of the Board.

Andrew Miller

Andrew Miller
Chief Executive

The notes on pages 30 to 56 form part of these financial statements

Consolidated statement of changes in equity

For the six months ended 31 March 2022

	Ordinary share capital £m	Hedging reserve £m	Restricted reserves £m	Total £m
At 1 October 2020	0.1	(23.2)	2,321.5	2,298.4
Comprehensive income				
Profit for the period	–	–	123.2	123.2
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(95.7)	–	(95.7)
Gains on cash flow hedges reclassified to the income statement	–	112.2	–	112.2
Tax relating to components of other comprehensive income	–	(3.1)	–	(3.1)
Total comprehensive income	–	13.4	123.2	136.6
At 31 March 2021	0.1	(9.8)	2,444.7	2,435.0
At 1 October 2021	0.1	(1.0)	2,881.4	2,880.5
Comprehensive income				
Profit for the period	–	–	598.7	598.7
Other comprehensive income – items that may be reclassified subsequently to profit or loss				
Losses on movements in fair value of cash flow hedging derivatives	–	(22.2)	–	(22.2)
Gains on cash flow hedges reclassified to the income statement	–	37.2	–	37.2
Tax relating to components of other comprehensive income	–	(3.0)	–	(3.0)
Total comprehensive income	–	12.0	598.7	610.7
At 31 March 2022	0.1	11.0	3,480.1	3,491.2

The notes on pages 30 to 56 form part of these financial statements

Financial statements continued

Consolidated statement of cash flows

For the six months ended 31 March 2022

	Note	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Cash flows from operating activities			
Cash generated from/(used in) operations	16	435.9	(35.6)
Interest paid		(82.8)	(78.3)
Income tax paid		(106.0)	(40.7)
Charitable donations		–	–
Net cash generated from/(used in) operating activities		247.1	(154.6)
Cash flows from investing activities			
Purchase of intangible assets		(3.7)	(13.3)
Purchase of property, plant and equipment		(0.3)	(1.3)
Proceeds from sale of property, plant and equipment		–	0.2
Net (investment in)/divestment of financial assets at amortised cost		(69.1)	0.6
Net cash used in investing activities		(73.1)	(13.8)
Cash flows from financing activities			
New loans raised		–	–
Loans settled		–	(400.0)
Bonds issued		487.7	787.9
Bonds redeemed		–	–
Payments of principal portions of lease liabilities		(0.3)	(1.8)
Net cash generated from financing activities		487.4	386.1
Net increase in cash and cash equivalents		661.4	217.7
Cash and cash equivalents at beginning of period		432.4	220.1
Cash and cash equivalents at end of period	16	1,093.8	437.8

The notes on pages 30 to 56 form part of these financial statements

Notes to the financial statements

1. General information

Motability Operations Group plc is a company incorporated and domiciled in the United Kingdom, whose shares are privately owned. The address of the registered office is City Gate House, 22 Southwark Bridge Road, London SE1 9HB.

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

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

This condensed set of financial statements does not comprise statutory accounts within the meaning of section 434 of the Companies Act 2006. The comparative figures for the financial year ended 30 September 2021 are not the Company's statutory accounts for that financial year. Those accounts have been reported on by the Company's auditor and delivered to the registrar of companies. The report of the auditor was (i) unqualified, (ii) did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying their report, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

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

Accounting convention

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

2. Significant accounting policies

Basis of preparation

This condensed set of financial statements for the six months ended 31 March 2022 has been prepared in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority and IAS 34 *Interim Financial Reporting* as adopted for use in the UK. The condensed set of financial statements should be read in conjunction with the Group's annual financial statements for the year ended 30 September 2021, which have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006. The Group's significant accounting policies are contained within the Group's annual financial statements but an explanation of where changes have been made to previous policies on the adoption of new accounting standards in the period is set out below. The annual financial statements of the Group for the year ended 30 September 2022 will be prepared in accordance with UK-adopted international accounting standards.

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

Except as described below, the accounting policies applied are consistent with those of the annual financial statements for the year ended 30 September 2021, as described in those annual financial statements.

Going concern

The Group's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic report of the latest Annual Report on pages 2 to 65. In addition, note 36 to the annual financial statements includes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposures to credit, liquidity and foreign exchange risk. The Directors continue to adopt the going concern basis in preparing the financial statements, which is deemed appropriate for the reasons described below.

The Group has considerable financial resources, with restricted reserves of £3,480.1m as at 31 March 2022, together with a long-term contract with Motability to operate the 'Motability Scheme'.

2. Significant accounting policies continued

Throughout the half-year period ended 31 March 2022 there have been additional local and national restrictions in response to the global Covid-19 pandemic. Business operations have been uninterrupted throughout this period as all employees are capable working remotely where possible. In addition, the used-car market has remained operational and due to key component shortages, exacerbated by the Russia-Ukraine conflict, constraining new vehicles supplies, used-car values remain buoyant and in line with management expectations.

The Directors have prepared budgets and cash flow forecasts for the period to 30 September 2023, at least 12 months from the date of approval of the financial statements, by means of a baseline forecast. The baseline forecast from 31 March 2022 is based on the most recent economic conditions and forecasts.

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

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

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

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

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

Taxation

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

Seasonality

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

Adoption of new or revised standards

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

IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 (Amendments)	*Interest Rate Benchmark Reform – Phase 2*

Future accounting developments

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

IFRS 17	*Insurance Contracts*
IAS 16 (Amendments)	*Property, Plant and Equipment: Proceeds before Intended Use*
IAS 37 (Amendments)	*Provisions, Contingent Liabilities and Contingent Assets: Onerous Contracts – Cost of Fulfilling a Contract*
IAS 8 (Amendments)	*Accounting Policies, Changes in Accounting Estimates and Errors: Definition*
Annual Improvements to IFRS Standards 2018-2020	
IAS 1 (Amendments)	*Amendments to IAS 1 Presentation of Financial Statements: Classification of Liabilities as Current or Non-current*
IAS 1 and IFRS Practice Statement 2 (Amendments)	*Disclosure of Accounting Policies*
IFRS 3 (Amendments)	*Reference to Conceptual Framework*
IAS 12 (Amendments)	*Deferred Tax related to Assets and Liabilities Arising from a Single Transaction*

2. Significant accounting policies continued

IFRS 17 *Insurance Contracts*

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

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

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

Interest Rate Benchmark Reform

The Group has adopted *Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16)* (the Phase 2 amendments) and applied the Phase 2 relief for the first time in the period to 31 March 2022.

Historically, the variable rate paid or received on interest rate swap contracts used by the Group has been based on LIBOR. Upon the cessation of the LIBOR benchmarks in 2021 the Group updated its bank facilities to reference the market-standard risk-free rate. The replacement of LIBOR with the SONIA benchmark has been applied to the Group's syndicated bank facility and bilateral bank facility; both facilities remain in operation as at 31 March 2022. The adoption of SONIA as the reference rate also required both facilities to adopt Credit Adjustment Spreads ("CAS"). The CAS eliminate, as can be best achieved, any economic value transferring between the lenders and the Group resulting from this change. All other critical terms within the facilities are unaffected.

None of the Group's derivatives contracts were impacted by the switch as the only open derivative positions in place at the time of the transition were executed on a 'fixed pay, fixed received' basis. These derivates (swaps designated in eligible hedge relationships) therefore do not reference a floating rate. All pre-existing floating rate derivative contracts had expired prior to the cut-over date.

The Phase 2 amendments provide practical relief from certain requirements in the standards related to modifications of financial instruments, lease contracts or hedging relationships when a benchmark interest rate is replaced with a new alternative benchmark rate when the modifications are a direct consequence of interest rate benchmark reform and are made on an economically equivalent basis. As this is the case with the Group's modifications, the reliefs have been adopted and the Group has also elected not to restate the prior period to also reflect the application of these amendments.

3. Critical accounting judgements and key sources of estimation uncertainty

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

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

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

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

Key estimate: residual values of operating lease assets

The method by which the Directors have determined the Group's residual values of the operating lease assets is described in note 9 and the impact of the change in estimates during the year is also disclosed in note 6. Included in the estimate of residual values at 31 March 2022 is an adjustment of £nil (30 September 2021: £98.1m; 31 March 2021: £107m) with regards to downside risk to vehicle resale values due to uncertainty around Covid-19 and the future economic disruption and ramifications for the used-car market.

Sensitivity analysis

Because of the inherent uncertainty associated with such valuation methodology and in particular the volatility of the prices of second-hand vehicles, the carrying value of the operating lease assets may differ from their realisable value (see note 9). As at 31 March 2022, if the value of the expected net sale proceeds for our existing portfolio of operating leases were to decrease/increase by 1% from our estimates (1% being a reasonable, scalable base unit for movements in the used-car market), the effect would be to increase/decrease the depreciation on these vehicles by £83.2m (30 September 2021: £75.9m; 31 March 2021: £67.6m). Approximately 25% of this will crystallise at the end of the contracts (in particular in cases where the leases terminate early) but for the majority of the fleet a revaluation exercise is undertaken in order to prospectively adjust the depreciation expense over the remaining terms of the leases. This would be booked from the start of the current accounting year onwards. A 1% fall would increase this year's depreciation charge by approximately £16.8m (30 September 2021: £15.1m; 31 March 2021: £25.6m). A 1% rise would decrease this year's depreciation charge by approximately £15.9m (30 September 2021: £14.8m; 31 March 2021: £25.6m).

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

Key estimate and judgement: insurance contracts

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

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

Valuation of liabilities of insurance contracts

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

During 2021 the new measures from the UK Civil Liability Act relating to whiplash-related injury claims came into effect. The new regulations have so far led to a reduction in this type of claim though there is some uncertainty about the longer-term effect.

The Group has assessed the continuing impact of Covid-19 on repair delays and the time claims take to be progressed and settled, which have resulted in slower loss development and the potential for higher costs. In addition, the Group has recognised that repair cost inflation continues to increase, together with key-to-key times on repairs. For these reasons, the Group has determined that it is appropriate to continue to apply a higher risk margin than in a normal period.

The risk margin would normally be calibrated at the 80th percentile, but since 30 September 2020 it has been temporarily moved to a higher confidence interval (85th), giving an additional risk margin on the retained risk layer of £3.3m. The actuary has provided the Directors with a number of models and sensitivity tests to evaluate the adequacy of this risk margin. The conclusion of the analysis was that the risk margin at the 85th percentile would be adequate in a range of scenarios. This has given the Group assurance that a range of downside scenarios, including repair cost inflation and increasing delays in loss development impacts, is not expected to exceed the margin applied.

The reserves held in the financial statements of the Group are adequate and match the best estimates calculated by the independent actuaries. See note 13 for details of claims reserves balances.

Sensitivity analysis

A 1% change in the insurance loss ratio would impact pre-tax profits by £1.4m in the period (March 2021: £1.4m). The precise outcome of such changes would depend on the impacted layer and frequency of claims in each scenario. Note 13 describes in more detail the sources of uncertainty in the estimation of future claims payments.

4. Revenue

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

	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Proceeds from disposal of operating lease assets (I)	1,219.3	1,124.5
Rentals receivable from operating lease assets	681.8	663.8
Rentals receivable from operating lease in-life services	110.9	106.7
Rentals receivable from operating lease insurance (II)	276.8	254.7
Insurance reimbursements from disposal of operating lease assets	22.2	17.0
Finance income	2.1	1.1
Other income	0.8	1.2
Total revenue	2,313.9	2,169.0

(I) During the six months ended 31 March 2022 the Group made a gain of £403.9m on the disposal of operating lease assets (six months ended 31 March 2021: £78.4m). See note 16.
(II) 2021 was presented net of £32.0m insurance related rental rebates (2022: £nil).

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

5. Segmental analysis

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

Scheme Operations

The main responsibilities of the Scheme Operations segment are:

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

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

Fleet Reinsurance

The main responsibilities of the Fleet Reinsurance segment are:

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

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

5. Segmental analysis continued

Segmental performance

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

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

The following tables present revenue and profit information and certain asset and liability information regarding business operating segments for the six months ended 31 March 2022 and 31 March 2021.

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

Six months ended 31 March 2021	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
Rentals receivable for operating lease assets	663.8	–	–	663.8
Rentals receivable for operating lease in-life services	106.7	–	–	106.7
Rentals receivable for operating lease insurance	254.7	–	–	254.7
Proceeds from disposal of operating lease assets (including insurance reimbursements):				
Proceeds from external parties	1,141.5	–	–	1,141.5
Inter-segment proceeds	22.0	–	(22.0)	–
Insurance income	–	135.1	(135.1)	–
Other revenue	1.2	1.1	–	2.3
Total revenue	2,189.9	136.2	(157.1)	2,169.0
Net book value of disposed operating lease assets	(1,076.8)	–	–	(1,076.8)
Fleet operating costs	(389.3)	–	135.1	(254.2)
Insurance claims and commission costs	–	(117.4)	22.0	(95.4)
Depreciation on assets used in operating leases	(403.6)	–	–	(403.6)
Other operating costs	(104.6)	(0.6)	–	(105.2)
Charitable donations	–	–	–	–
Net operating costs	(1,974.3)	(118.0)	157.1	(1,935.2)
Profit from operations	215.6	18.2	–	233.8
Finance costs	(81.7)	–	–	(81.7)
Profit before tax	133.9	18.2	–	152.1
Taxation	(25.4)	(3.5)	–	(28.9)
Profit for the period	108.5	14.7	–	123.2

5. Segmental analysis continued

The following tables show certain asset and liability information as at 31 March 2022, 30 September 2021 and 31 March 2021 regarding business operating segments.

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

30 September 2021	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	161.9	–	–	161.9
Assets held for use in operating leases (including inventories)	8,900.5	–	–	8,900.5
Derivative financial instruments	70.5	–	–	70.5
Insurance receivables	–	46.2	–	46.2
Reinsurers' share of insurance provisions	–	405.7	48.8	454.5
Trade and other receivables including corporation tax	241.5	–	–	241.5
Financial assets	442.5	350.8	(101.2)	692.1
Total assets	9,816.9	802.7	(52.4)	10,567.2
Deferred rental income and provisions for rebates	(677.1)	–	–	(677.1)
Insurance payables	–	(71.4)	–	(71.4)
Trade and other payables	(155.7)	(0.3)	–	(156.0)
Financial liabilities	(5,847.2)	–	–	(5,847.2)
Deferred taxation	(308.0)	–	–	(308.0)
Provision for insurance claims outstanding	–	(535.2)	(48.8)	(584.0)
Derivative financial instruments	(43.0)	–	–	(43.0)
Total liabilities	(7,031.0)	(606.9)	(48.8)	(7,686.7)
Net assets	2,785.9	195.8	(101.2)	2,880.5
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(1.0)	–	–	(1.0)
Restricted reserves	2,786.8	94.6	–	2,881.4
Total equity	2,785.9	195.8	(101.2)	2,880.5

Notes to the financial statements continued

5. Segmental analysis continued

31 March 2021	Scheme Operations £m	Fleet Reinsurance £m	Consolidation adjustments £m	Total £m
PPE & intangible assets	153.0	–	–	153.0
Assets held for use in operating leases (including inventories)	8,321.5	–	–	8,321.5
Derivative financial instruments	64.1	–	–	64.1
Insurance receivables	–	51.9	–	51.9
Reinsurers' share of insurance provisions	–	392.4	42.1	434.5
Trade and other receivables	284.4	–	–	284.4
Financial assets	468.1	352.5	(101.2)	719.4
Total assets	9,291.1	796.8	(59.1)	10,028.8
Deferred rental income and provisions for rebates	(642.2)	–	–	(642.2)
Insurance payables	–	(74.1)	–	(74.1)
Trade and other payables	(163.8)	(0.3)	–	(164.1)
Corporation tax payable	(26.2)	–	–	(26.2)
Financial liabilities	(5,847.4)	–	–	(5,847.4)
Deferred taxation	(230.1)	–	–	(230.1)
Provision for insurance claims outstanding	–	(501.7)	(42.1)	(543.8)
Derivative financial instruments	(65.9)	–	–	(65.9)
Total liabilities	(6,975.6)	(576.1)	(42.1)	(7,593.8)
Net assets	2,315.5	220.7	(101.2)	2,435.0
Ordinary share capital	0.1	101.2	(101.2)	0.1
Hedging reserve	(9.8)	–	–	(9.8)
Restricted reserves	2,325.2	119.5	–	2,444.7
Total equity	2,315.5	220.7	(101.2)	2,435.0

6. Net operating costs

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

	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Net book value of disposed operating lease assets	815.4	1,046.1
Net book value of operating lease assets derecognised as insurance write-offs	32.2	30.7
Fleet operating costs including insurance, maintenance and roadside assistance costs (*)	265.8	254.2
Insurance claims expense	109.5	95.4
Other product costs including continuous mobility costs, adaptations support and communications	46.3	30.5
Employee costs	34.0	30.0
Other operating costs	23.5	18.4
Legal and professional fees	25.2	14.0
Bad debt charges and movement in bad debt provisions	0.3	0.6
Management fees	0.4	0.4
Charitable donations	–	–
Net operating costs before depreciation	1,352.6	1,520.3
Depreciation on assets used in operating leases	141.7	403.6
Depreciation and amortisation on property, plant and equipment and intangible assets	15.0	11.3
Net operating costs	1,509.3	1,935.2

(*) These costs are presented net of insurance premium rebates.

The depreciation charge on assets used in operating leases includes a £311.4m release (six months ended 31 March 2021: £61.6m release) relating to changes in estimates during the period of future residual values (see note 9).

Notes to the financial statements continued

7. Finance costs

	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Interest and charges on bank loans and overdrafts	5.0	5.1
Interest on debt issued under the Euro Medium Term Note Programme	81.0	75.9
Interest on right-of-use leased assets	0.3	0.3
Preference dividends	0.4	0.4
Total finance costs	86.7	81.7

8. Taxation

The major components of the consolidated tax charge are:

	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Current tax		
Charge for the period	141.1	58.2
Total	141.1	58.2
Deferred tax		
Origination and reversal of temporary differences	(51.7)	(29.3)
Re-measurement of deferred tax due to change in rate of corporation tax	29.8	–
Total	(21.9)	(29.3)
Tax on profit	119.2	28.9

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

The Group's effective tax rate (excluding the impact of changes to future UK tax rates and prior year adjustments) is 12.5% (2021: 19.0%). This is different to the standard rate of tax (19%), due primarily to non-taxable capital gains on disposals of motor vehicles for sales proceeds values exceeding the original cost of the vehicles purchased.

Tax paid

Under HMRC's quarterly instalments regime for corporation tax, two of the four instalments for this year are payable in the first half of the year. The Group has paid £106.0m of corporation tax relating to the current financial year (2021: £32.0m). The Group paid no tax relating to prior years during the six months to 31 March 2022 (2021: paid £8.7m of tax relating to prior years).

9. Assets held for use in operating leases

Cost	Motor vehicle assets £m
At 1 October 2020	9,425.3
Additions	1,849.6
Transfer to inventory	(1,462.2)
At 31 March 2021	9,812.7
At 1 October 2021	10,145.4
Additions	1,317.1
Transfer to inventory	(1,145.7)
At 31 March 2022	10,316.8
Accumulated depreciation	
At 1 October 2020	1,613.3
Charge for the period	408.7
Impairment releases	(5.1)
Eliminated on transfer to inventory	(388.3)
At 31 March 2021	1,628.6
At 1 October 2021	1,354.7
Charge for the period	141.7
Eliminated on transfer to inventory	(280.2)
At 31 March 2022	1,216.2
Carrying amount	
At 1 October 2020	7,812.0
Additions	1,849.6
Depreciation	(408.7)
Impairment releases	5.1
Transfer to inventory (note 10)	(1,073.9)
At 31 March 2021	8,184.1
At 1 October 2021	8,790.7
Additions	1,317.1
Depreciation	(141.7)
Transfer to inventory (note 10)	(865.5)
At 31 March 2022	9,100.6

Residual values

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

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

9. Assets held for use in operating leases continued

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

Years in which unguaranteed residual values are recovered

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	3,247.8	2,753.1	2,060.2
Later than one year and no later than two years	2,777.4	2,290.4	2,316.3
Later than two years and no later than three years	2,188.3	2,436.5	2,277.6
Later than three years and no later than four years	52.6	52.7	51.8
Later than four years and no later than five years	50.9	55.6	49.7
Total exposure	8,317.0	7,588.3	6,755.6

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

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

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Total adjustments to depreciation carried at 31 March/30 September (*)	748.8	472.0	91.0
Amounts to be released in future years	582.1	302.7	106.7
Total increase in estimated residual value	1,330.9	774.7	197.7

* The total adjustment to depreciation carried at 31 March 2022 of £748.8m (30 September 2021: £472.0m) is included within the accumulated depreciation balance of £1,216.2m (30 September 2021: £1,354.7m) on assets held for use in operating leases.

Impairment charges included in the net book value of operating leases

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Impairment charges brought forward at 1 October	–	(16.6)	(16.6)
Impairment charges arising during the year	–	–	–
Impairment releases during the year	–	16.6	5.1
Impairment charges carried at 31 March	–	–	(11.5)

The impairment charges carried at 31 March 2021 of £11.5m were included within the accumulated depreciation balance of £1,628.6m on assets held for use in operating leases.

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

In terms of the leased fleet, this is done by an evaluation by tranches of leases based on their month of inception. Where the net book value at the balance sheet date is too high an impairment charge is booked to bring the carrying amount into line with the value in use. No impairment charges were required to be carried at 31 March 2022 or 30 September 2021.

9. Assets held for use in operating leases continued

The Group as lessor

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

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	1,001.2	1,045.3	1,035.5
Later than one year and no later than two years	535.2	530.8	513.3
Later than two years and no later than three years	164.7	170.8	173.2
Later than three years and no later than four years	12.1	10.0	9.1
Later than four years and no later than five years	3.7	3.1	3.0
Total	1,716.9	1,760.0	1,734.1

10. Inventories

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Ex-operating lease assets held for sale	127.7	109.8	137.4

Inventories represent operating lease assets previously held for rental to customers which have ceased to be rented and become held for sale as of the balance sheet date. As of the balance sheet date, £nil has been provided against irrecoverable vehicles (30 September 2021: £nil; 31 March 2021: £nil). During the period there was no change to the provision and no write off (period to 31 March 2021: no change to the provision and no write off).

The total value of inventories recognised as expense and included in net operating costs amounted to £847.6m (31 March 2021: £1,076.8m).

The movements of inventories in the six-month periods ended 31 March 2022 and 2021 are as follows:

	£m
At 1 October 2020	140.3
Transfer from operating lease assets (note 9)	1,073.9
Disposals (including insurance write-offs)	(1,076.8)
At 31 March 2021	137.4
At 1 October 2021	109.8
Transfer from operating lease assets (note 9)	865.5
Disposals (including insurance write-offs)	(847.6)
At 31 March 2022	127.7

11. Deferred rental income

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Current			
Customers' advance payments (*)	167.2	167.9	163.2
Vehicle in-life service income	13.6	19.9	12.7
Vehicle insurance income	4.3	3.1	0.7
Total current	185.1	190.9	176.6
Non-current			
Customers' advance payments (*)	171.6	177.7	176.1
Vehicle in-life service income	65.3	61.6	68.7
Vehicle insurance income	16.1	13.5	9.1
Total non-current	253.0	252.8	253.9
Total	438.1	443.7	430.5

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

Deferred income balances

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

	In-life services income £m	Insurance income £m	Total £m
At 1 October 2020	83.0	22.5	105.5
Revenue recognised that was included in the deferred income balance at the beginning of the period	(23.3)	(13.2)	(36.5)
Increases due to cash received, excluding amounts recognised as revenue during the period	21.7	0.5	22.2
At 31 March 2021	81.4	9.8	91.2
At 1 October 2021	81.5	16.6	98.1
Revenue recognised that was included in the deferred income balance at the beginning of the period	(22.7)	(2.9)	(25.6)
Increases due to cash received, excluding amounts recognised as revenue during the period	20.1	6.7	26.8
At 31 March 2022	78.9	20.4	99.3

Transaction price allocated to the remaining performance obligations

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

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	155.1	164.9	167.9
Later than one year and no later than two years	98.2	106.0	107.3
Later than two years and no later than three years	32.9	37.6	44.3
Later than three years and no later than four years	5.8	5.9	5.8
Later than four years and no later than five years	1.8	1.9	2.1
Total	293.8	316.3	327.4

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

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	383.0	401.1	403.4
Later than one year and no later than two years	245.5	260.2	254.3
Later than two years and no later than three years	75.0	87.8	102.2
Later than three years and no later than four years	6.3	6.5	6.3
Later than four years and no later than five years	1.9	2.1	2.3
Total	711.7	757.7	768.5

Notes to the financial statements continued

12. Provision for customer rebates

	Rental refund liability £m	Good condition bonuses £m	Return to dealer payments £m	WAV support £m	Total £m
At 1 October 2020	–	159.7	2.0	5.5	167.2
Additional provisions accrued during the period	32.0	54.4	1.8	1.3	89.5
Utilised during the period	–	(42.5)	(1.4)	(1.1)	(45.0)
At 31 March 2021	32.0	171.6	2.4	5.7	211.7
At 1 October 2021	38.6	187.0	2.0	5.8	233.4
Additional provisions accrued during the period	–	51.4	1.4	1.3	54.1
Utilised during the period	(38.6)	(34.6)	(1.3)	(1.2)	(75.7)
At 31 March 2022	–	203.8	2.1	5.9	211.8

Analysis of provisions

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Included in non-current liabilities	79.1	75.5	68.5
Included in current liabilities	132.7	157.9	143.2
Total	211.8	233.4	211.7

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

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

These balances are always subject to some degree of uncertainty as the Board keeps the amounts of the bonus payments under review.

13. Provision for insurance claims outstanding and insurance risk management

Insurance risk management

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

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

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

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

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

Motor insurance risks

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

Sources of uncertainty in the estimation of future claim payments

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

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

Reinsurance contracts

The Group has limited its motor risk exposure by the purchase of reinsurance. Quota-share reinsurance has been purchased to protect the Group against any individual losses exceeding the Group’s net retention of £40,000 (2021: £30,000) each and every claim. Excess of loss reinsurance protects the Group and ceding insurer against individual losses exceeding £5,000,000 (2021: £5,000,000) each and every claim. Stop loss reinsurance protects the Group against accumulation of losses exceeding 123.11% (2021: 122.16%) of the Group’s net earned premium income or £392,627,000 (2021: £357,435,000) in the aggregate, whichever is the lesser. Stop loss reinsurance cover is limited to a maximum of 131.35% (2021: 132.58%) of net premium earned or £26,290,000 (2021: £30,500,000) in aggregate, whichever is the lesser. The Group’s exposure above these limits is unlimited.

Claims which have not been recovered from reinsurers at the balance sheet date are included in insurance receivables in the balance sheet and are deemed to be fully recoverable. The Group manages its reinsurance risk through:

- regular Board and insurance steering committee meetings, at which the reinsurance markets are considered;
- the Group’s policy to only select those reinsurers that have a minimum credit rating of A- or better;
- significant individual losses being notified separately and the development of the claim being monitored; and
- independent third-party reinsurance brokers being appointed on the basis of their ability to negotiate, recommend and place reinsurance with appropriate markets.

Provision for insurance claims outstanding

These provisions are comprised of specific claims reserves including adjustments for insurance claims incurred but not reported (“IBNR”).

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

Claims reserves including IBNR

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

Motor quota-share reinsurance	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Claims outstanding	502.2	494.2	487.5
IBNR reserve	120.3	89.8	56.3
IBNR recoveries	(71.7)	(58.3)	(41.8)
Third-party recoveries reserve	(57.2)	(48.8)	(42.1)
Claims outstanding reinsurance recoveries	(343.2)	(347.4)	(350.6)
Total net retained claims reserves	150.4	129.5	109.3
Included in liabilities	622.5	584.0	543.8
Included in assets	(472.1)	(454.5)	(434.5)
Total net retained claims reserves	150.4	129.5	109.3

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

Chain ladder method

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

Expected burning cost method

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

Bornhuetter-Ferguson method

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

Average cost per claim method

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

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

Line items in the Group accounts

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

Insurance claims and commission costs	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Current year claims including IBNR	126.4	193.9	100.7
Prior year claims	(3.1)	7.0	(14.0)
Reinsurance commissions, MIB levies and administration fees	(13.8)	6.0	8.7
Insurance claims and commission costs	109.5	206.9	95.4

During the period reinsurance commissions receivable were increased by £19.4m comprising a guaranteed element of £2.5m and an increase in variable commission of £16.9m (2021: Guaranteed element of £2.9m with a reduction in variable commission of £6.5m).

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

Motor quota-share reinsurance

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

Estimate of ultimate claims cost	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting year ended 30 September 2021 £m	Underwriting period ended 31 March 2022 £m	Total £m
At end of reporting period	290.6	348.5	401.3	354.8	373.8	205.4	
One year later	326.9	384.5	399.0	364.2	391.2		
Two years later	313.9	391.5	396.0	360.0			
Three years later	313.0	382.2	396.0				
Four years later	308.3	370.9					
Five years later	308.9						
Current estimate of cumulative claims	308.9	370.9	396.0	360.0	391.2	205.4	2,032.4
Cumulative payments to date	(303.9)	(344.0)	(334.6)	(272.6)	(260.2)	(75.5)	(1,590.8)
Rebates	25.0	26.4	25.9	26.4	26.7	14.1	144.5
Claims reserves in balance sheet	30.0	53.3	87.3	113.8	157.7	144.0	586.1
Claims reserves in respect of prior periods							36.4
Total liability included in the balance sheet							622.5

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

The decrease in estimated ultimate claims in 2018 is due to favourable movements in reserves relating to some large losses.

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

Estimate of ultimate claims cost net of reinsurance	Underwriting year ended 30 September 2017 £m	Underwriting year ended 30 September 2018 £m	Underwriting year ended 30 September 2019 £m	Underwriting year ended 30 September 2020 £m	Underwriting year ended 30 September 2021 £m	Underwriting period ended 31 March 2022 £m	Total £m
At end of reporting period	193.6	227.8	247.1	209.7	220.6	140.5	
One year later	194.5	236.0	235.0	209.0	219.2		
Two years later	197.4	232.8	239.8	208.4			
Three years later	197.6	234.6	239.6				
Four years later	198.1	234.2					
Five years later	198.0						
Current estimate of cumulative claims	198.0	234.2	239.6	208.4	219.2	140.5	1,239.9
Cumulative payments to date	(221.6)	(256.4)	(253.9)	(215.1)	(214.3)	(73.7)	(1,235.0)
Rebates	25.1	26.4	25.9	26.4	26.7	14.1	144.6
Claims reserves included in balance sheet net of recoveries	1.5	4.2	11.6	19.7	31.6	80.9	149.5
Claims reserves in respect of prior periods							0.9
Total net liability included in the balance sheet							150.4
Comprises:							
Specific claims reserves including IBNR							622.5
Third-party recoveries reserve							(57.2)
Reinsurance recoveries reserve							(414.9)
Total							150.4

The ultimate claims costs development during the six months ended 31 March 2022 for prior underwriting years has moved very little overall.

Movements in insurance liabilities

	Period ended 31 March 2022			Year ended 30 September 2021		
	Gross £m	Recoveries £m	Net £m	Gross £m	Recoveries £m	Net £m
Claims						
Notified claims including IBNR	584.0	(405.6)	178.4	512.9	(360.1)	152.8
Notified claims recoveries	(48.8)	–	(48.8)	(44.2)	–	(44.2)
Total at beginning of period	535.2	(405.6)	129.6	468.7	(360.1)	108.6
Cash paid for claims settled						
In the period	(125.4)	22.9	(102.5)	(211.3)	31.4	(179.9)
Movement in liabilities						
Current period claims including IBNR	166.8	(40.4)	126.4	294.8	(100.9)	193.9
Prior period claims	(11.4)	8.3	(3.1)	(17.0)	24.0	7.0
Total at end of period	565.2	(414.8)	150.4	535.2	(405.6)	129.6
Notified claims including IBNR	622.5	(414.9)	207.6	584.0	(405.6)	178.4
Notified claims recoveries	(57.2)	–	(57.2)	(48.8)	–	(48.8)
Total at end of period	565.3	(414.9)	150.4	535.2	(405.6)	129.6

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

Notes to the financial statements continued

14. Financial liabilities

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Current			
Accrued interest and coupon	32.7	31.1	30.2
Cash in the course of transmission	70.7	52.4	78.6
Right-of-use asset lease liabilities	4.5	3.8	3.8
Bank overdrafts	–	–	–
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	399.9	399.7	–
Total current	507.8	487.0	112.6
Non-current			
Bank loans	399.5	399.5	399.3
Right-of-use lease liabilities	39.9	37.7	40.5
Debt issued under the Euro Medium Term Note Programme (less unamortised discount and transaction costs)	5,359.0	4,906.1	5,285.0
Provision for restoration works	6.9	6.9	–
Preference shares	10.0	10.0	10.0
Total non-current	5,815.3	5,360.2	5,734.8
Total	6,323.1	5,847.2	5,847.4
The financial liabilities are repayable as follows:			
On demand and no later than one year	507.8	487.0	112.6
Later than one year and no later than two years	866.0	875.1	403.4
Later than two years and no later than five years	1,533.8	1,255.4	1,303.3
Later than five years	3,415.5	3,229.7	4,028.1
Total	6,323.1	5,847.2	5,847.4

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

Bank borrowings

All bank borrowings as at 31 March 2022, 30 September 2021 and 31 March 2021 are at floating rates.

As at 31 March 2022 the Group has the following principal bank loans:

a) A five-year term loan of £0.4bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018; and

b) A five-year revolving credit facility of £1.5bn taken out on 28 September 2016, extended for a second time by one year effective 28 September 2018, of which £nil was drawn at 31 March 2022 (30 September 2021: £nil). The facility repayment date is 28 September 2023.

All bank borrowings carry interest rates (compounded SONIA, including a Credit Adjustment Spread), plus bank margins at a mark rate.

14. Financial liabilities continued

Debt issued under the Euro Medium Term Note Programme

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

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
5.375% Sterling bond due 2022	399.9	399.7	399.5
1.625% Eurobond due 2023 (I)	462.5	471.6	466.6
0.875% Eurobond due 2025 (II)	421.0	429.6	425.3
0.375% Eurobond due 2026 (III)	505.0	515.3	510.1
3.750% Sterling bond due 2026	298.8	298.6	298.5
4.375% Sterling bond due 2027	298.1	297.9	297.7
0.125% Eurobond due 2028 (IV)	420.6	429.2	424.8
1.750% Sterling bond due 2029	395.2	394.8	394.5
5.625% Sterling bond due 2030	299.0	298.9	298.8
2.375% Sterling bond due 2032	345.9	345.7	345.5
3.625% Sterling bond due 2036	591.6	591.3	591.0
2.375% Sterling bond due 2039	489.7	489.4	489.1
1.500% Sterling bond due 2041	343.8	343.8	343.6
1.500% Sterling bond due 2041	487.8	–	–
	5,758.9	5,305.8	5,285.0

(I) The repayment obligation in respect of the Eurobonds of €550m (£463.3m) is hedged by cross-currency swap contracts (note 15) for the purchase of €550m and for the sale of £402.5m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(II) The repayment obligation in respect of the Eurobonds of €500m (£421.2m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £433.8m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(III) The repayment obligation in respect of the Eurobonds of €600m (£505.4m) is hedged by cross-currency swap contracts (note 15) for the purchase of €600m and for the sale of £538.2m and is carried in the balance sheet net of the unamortised balance of the issuance costs.
(IV) The repayment obligation in respect of the Eurobonds of €500m (£421.2m) is hedged by cross-currency swap contracts (note 15) for the purchase of €500m and for the sale of £445.0m and is carried in the balance sheet net of the unamortised balance of the issuance costs.

The Company has a £6.5bn Euro Medium Term Note Programme with denominations of €100,000. The bonds were admitted to trading on the London Stock Exchange's regulated market and have been admitted to the Official List. The £6.5bn Euro Medium Term Note Programme of the Company is unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited, a wholly-owned subsidiary. The payments of all amounts due in respect of notes will be unconditionally and irrevocably guaranteed on a joint and several basis by Motability Operations Limited.

During the period ended 31 March 2022 and the previous two financial years the Group has issued the following bonds:

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

Other comprehensive income and the hedging reserve

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

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

When exchange rates or expected interest rates change, this can lead to large fluctuations in these valuations. At 31 March 2022, the Eurobond debt liability was decreased by £8.3m (30 September 2021: was increased by £28.8m). This movement of £37.2m is a result of Sterling strengthening against the Euro for the bonds in issue at both 31 March 2022 and 30 September 2021. The associated assets and liabilities relating to derivatives at 31 March 2022 were a net asset of £5.3m (30 September 2021: net asset of £27.5m). This movement of £22.2m is a result of changes to the fair value during the period and derivatives set up to cover the new Eurobond. The net valuation difference at 31 March 2022 is therefore an asset of £13.6m which, after tax at 19%, leads to a hedging reserve of £11.0m.

14. Financial liabilities continued

Preference shares

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

The weighted average interest rates on borrowings as at 31 March 2022, 30 September 2021 and 31 March 2021 were as follows:

	31 March 2022 %	30 September 2021 %	31 March 2021 %
Non-current bank loans	1.3	0.8	0.8
Non-current debt issued under the Euro Medium Term Note Programme	2.8	2.9	2.6
Non-current preference shares	7.0	7.0	7.0

At 31 March 2022, 30 September 2021 and 31 March 2021, the Group had the following undrawn committed borrowing facilities:

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Working capital facility	100.0	100.0	100.0
Revolving credit facility	1,500.0	1,500.0	1,500.0
Total	1,600.0	1,600.0	1,600.0

Undrawn committed facilities expire as follows:

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	10.0	10.0	10.0
Later than one year and no later than two years	1,590.0	1,590.0	–
Later than two years and no later than five years	–	–	1,590.0
Total	1,600.0	1,600.0	1,600.0

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

	31 March 2022 £m	31 March 2021 £m
No later than one year	4.5	4.3
Later than one year and no later than five years	16.9	17.8
Later than five years and no later than ten years	15.1	15.1
Later than ten years	11.9	10.8
Total undiscounted cash flows	48.4	48.0
Current	4.5	4.3
Non-current	43.9	43.7

The total cash outflow for leases during the period was £2.1m.

Amounts recognised in the income statement

	Period to 31 March 2022 £m	Period to 31 March 2021 £m
Depreciation on the right-of-use assets	2.6	2.6
Interest expense	0.3	0.3
Total	2.9	2.9

15. Derivative financial instruments

	31 March 2022		30 September 2021		31 March 2021	
	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m	Fair value £m	Notional amounts £m
Cash flow hedges						
Cross-currency swaps	2.9	1,819.4	27.8	1,819.4	(1.0)	1,819.4
Interest rate swaps	2.4	400.0	(0.3)	400.0	(0.8)	400.0
Total	5.3	2,219.4	27.5	2,219.4	(1.8)	2,219.4
Included in non-current liabilities	(61.6)	1,417.0	(42.7)	1,417.0	(65.0)	1,417.0
Included in current liabilities	–	–	(0.3)	200.0	(0.9)	200.0
Derivative financial instrument liabilities	(61.6)	1,417.0	(43.0)	1,617.0	(65.9)	1,617.0
Included in non-current assets	64.5	–	70.5	402.4	64.0	402.5
Included in current assets	2.4	802.5	–	200.0	0.1	200.0
Derivative financial instrument assets	66.9	802.5	70.5	602.4	64.1	602.5

Cross-currency swaps

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

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

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

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

Interest rate swaps

At 31 March 2022, the fixed interest rate was 0.7425% (2021: the fixed interest rates ranged from -0.006% to 0.654%) and the main floating rates are compounded SONIA. Gains and losses recognised in the fair value reserve in equity on interest rate swap contracts as of 31 March 2022 will be continuously released to the income statement in accordance with the maturity of the swap contracts.

The following table details the contractual maturity of the Group's interest rate and cross-currency swap liabilities. The undiscounted cash flows are settled on a net basis.

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
No later than one year	(20.0)	(22.7)	(23.5)
Later than one year and no later than three years	(33.4)	(39.4)	(38.8)
Later than three years and no later than five years	(16.1)	(19.4)	(28.7)
Later than five years	(6.1)	(8.6)	(10.4)
Total	(75.6)	(90.1)	(101.4)

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

16. Cash generated from/(used in) operations

Reconciliation of profit to net cash flow from operating activities:

	Six months ended 31 March 2022 £m	Six months ended 31 March 2021 £m
Profit before tax	717.9	152.1
Adjustments for:		
Depreciation and amortisation charge on corporate assets	15.0	11.2
Depreciation charge on operating lease assets	141.7	408.7
Impairment release for assets used in operating leases	–	(5.1)
Impairment charge for financial assets at amortised cost	–	–
Finance costs	86.7	81.7
Gains on disposal of operating lease assets	(403.9)	(78.4)
Losses on operating lease assets written off through insurance	9.9	13.7
Gains on disposal of corporate assets	–	(0.1)
(Decrease)/increase in bad debt provisions	(0.1)	0.3
Operating cash flows before movements in working capital	567.2	584.1
Purchase of assets held for use in operating leases	(1,317.1)	(1,849.6)
Proceeds from sale of assets held for use in operating leases	1,219.3	1,124.5
Proceeds from insurance reimbursements of operating lease assets written off	22.2	17.0
Charitable donations paid	–	–
(Increase)/decrease in insurance receivables	(12.0)	23.8
(Increase)/decrease in other receivables	(24.1)	28.0
(Decrease)/increase in deferred rental income	(5.6)	18.7
(Decrease)/increase in provision for customer rebates	(21.6)	44.5
Increase in provision for net insurance claims	20.9	0.8
(Decrease)/increase in insurance payables	(2.7)	3.0
Decrease in payables	(10.6)	(30.4)
Cash generated from/(used in) operations	435.9	(35.6)

Cash and cash equivalents

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

17. Analysis of changes in net debt

	At 1 October 2021 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 31 March 2022 £m
Cash and bank balances	484.8	679.7	–	–	–	1,1,64.5
Bank overdrafts and cash in the course of transmission	(52.4)	(18.3)	–	–	–	(70.7)
Cash and cash equivalents	432.4	661.4	–	–	–	1,093.8
Borrowings due after one year	(399.5)	–	–	–	–	(399.5)
Debt issued under the Euro Medium Term Note Programme	(5,305.8)	(487.7)	37.2	–	(2.6)	(5,758.9)
Derivative financial instruments	27.5	–	–	(22.2)	–	5.3
Preference shares	(10.0)	–	–	–	–	(10.0)
Provision for restoration works	(6.9)	–	–	–	–	(6.9)
Right-of-use asset lease liabilities	(41.5)	0.5	–	(3.1)	(0.3)	(44.4)
Financing activities	(5,736.2)	(487.2)	37.2	(25.3)	(2.9)	(6,214.4)
Total net debt	(5,303.8)	174.2	37.2	(25.3)	(2.9)	(5,120.6)

	At 1 October 2020 £m	Cash flows £m	Foreign exchange £m	Fair value movements £m	Amortisation of premiums and discounts and provision charge £m	At 31 March 2021 £m
Cash and bank balances	316.2	200.2	–	–	–	516.4
Bank overdrafts and cash in the course of transmission	(96.1)	17.5	–	–	–	(78.6)
Cash and cash equivalents	220.1	217.7	–	–	–	437.8
Borrowings due after one year	(799.2)	400.0	–	–	(0.1)	(399.3)
Debt issued under the Euro Medium Term Note Programme	(4,607.0)	(787.9)	112.2	–	(2.3)	(5,285.0)
Derivative financial instruments	93.9	–	–	(95.7)	–	(1.8)
Preference shares	(10.0)	–	–	–	–	(10.0)
Right-of-use asset lease liabilities	(45.1)	1.8	–	–	(1.0)	(44.3)
Financing activities	(5,367.4)	(386.1)	112.2	(95.7)	(3.4)	(5,740.4)
Total net debt	(5,147.3)	(168.4)	112.2	(95.7)	(3.4)	(5,302.6)

	31 March 2022 £m	30 September 2021 £m	31 March 2021 £m
Cash and bank balances	1,164.5	484.8	516.4
Derivative financial instruments	5.3	27.5	(1.8)
Current financial liabilities	(507.8)	(487.0)	(112.6)
Non-current financial liabilities	(5,815.3)	(5,360.2)	(5,734.8)
Total	(5,153.3)	(5,334.9)	(5,332.8)
Less interest accruals included in financial liabilities	32.7	31.1	30.2
Total net debt	(5,120.6)	(5,303.8)	(5,302.6)

Notes to the financial statements continued

18. Retirement benefit schemes

The Motability Operations Limited pension plan is a non-contributory group personal pension (money purchase) scheme. The charge for the six months ended 31 March 2022 amounted to £4,145,553 (six months ended 31 March 2021: £3,540,733). Net contributions due at the balance sheet date were £703 (31 March 2021: £nil).

19. Related parties

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. The Group's corporate and finance structures are set out in the Annual Report on pages 3 to 92.

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

The relationship of the Company to the Motability Charity is set out on page 3 of the latest Annual Report.

Transactions

During the six months ended 31 March 2022 the Group paid £nil in donations to Motability (six months ended 31 March 2021: £nil).

The funding of the Group through bank loans is provided by the shareholder banks on commercial terms (see note 7 for details of financing costs of bank loans); £0.2m of bank charges were also paid in the period (six months ended 31 March 2021: £0.2m). Additionally, total fees of £0.8m (six months ended 31 March 2021: £0.8m) were paid to the shareholder banks in proportion to their shareholdings for management services.

During the period, the Group made preference share dividends payments of £0.7m to the shareholder banks (six months ended 31 March 2021: £0.7m).

At 31 March 2022, £235.8m of cash and cash equivalents were held with shareholder banks (30 September 2021: £371.1m; 31 March 2021: £418.7m). During the six months ended 31 March 2022, the Group received interest payments on these cash deposits totalling £0.2m (six months ended 31 March 2021: £nil).

The Group's bond issuances under the Euro Medium Note Term Programme (see note 14) are arranged by the shareholder banks. During the six months ended 31 March 2022 the Group has paid fees of £2.3m (six months ended 31 March 2021: £3.1m) in relation to bond issuances.

The Group enters into cross-currency and interest rate swap contracts (see note 15) with the shareholder banks to mitigate its exposure to interest rate risk and foreign exchange risk as part of its financial risk management policy. During the six months ended 31 March 2022 the Group made a net payment of £0.5m (six months ended 31 March 2021: net payment of £1.1m) in respect of interest rate swaps, and a net payment of £11.9m (six months ended 31 March 2021: made a net payment of £5.9m) in respect of cross-currency swaps.

20. Fair value of financial instruments

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

- the carrying value of cash and cash equivalents approximates to fair value due to its short-term nature;
- the carrying values less impairment provisions of trade and other receivables and payables are also assumed to approximate to their fair values due to the short-term nature of the trade receivables and payables;
- the fair value of preference shares for disclosure purposes is estimated by discounting the cash flows using market data at the balance sheet date;
- the fair value of debt issued under the Euro Medium Term Note Programme for disclosure purposes is based on market data at the balance sheet date; and
- the fair value of swaps is determined by discounting future cash flows using current market data at the balance sheet date.

Categories of financial instruments

	31 March 2022 carrying value £m	31 March 2022 fair value £m	30 September 2021 carrying value £m	30 September 2021 fair value £m	31 March 2021 carrying value £m	31 March 2021 fair value £m
Cash and bank balances (I)	1,164.5	1,164.5	484.8	484.8	516.4	516.4
Trade receivables (II)	77.2	77.2	71.8	71.8	88.3	88.3
Financial assets at amortised cost (III)	276.9	275.6	207.7	207.6	203.0	204.5
Trade and other payables (II)	(143.7)	(143.7)	(154.4)	(154.4)	(162.6)	(162.6)
Bank overdrafts (IV)	–	–	–	–	–	–
Cash in the course of transmission and accrued interest and coupon (II)	(103.4)	(103.4)	(83.5)	(83.5)	(108.8)	(108.8)
Bank loans – non-current (IV)	(399.6)	(399.6)	(399.5)	(399.5)	(399.3)	(399.3)
Debt issued under the Euro Medium Term Note Programme * (III)	(5,758.9)	(5,775.4)	(5,305.8)	(5,704.2)	(5,285.0)	(5,751.5)
Redeemable preference share liabilities (III)	(10.0)	(13.4)	(10.0)	(13.7)	(10.0)	(14.1)
Provision for restoration works (II)	(6.9)	(6.9)	(6.9)	(6.9)	–	–
Net non-derivative financial instruments	(4,903.9)	(4,925.1)	(5,195.8)	(5,598.0)	(5,158.0)	(5,627.1)
Interest rate swap – cash flow hedge	2.4	2.4	(0.3)	(0.3)	(0.8)	(0.8)
Cross-currency swap – cash flow hedge	2.9	2.9	27.8	27.8	(1.0)	(1.0)
Total financial instruments requiring fair value disclosure	(4,898.6)	(4,919.8)	(5,168.3)	(5,570.5)	(5,159.8)	(5,628.9)
Right-of-use asset lease liabilities (V)	(44.4)	n/a	(41.5)	n/a	(44.3)	n/a
Total	(4,943.0)	(4,919.8)	(5,209.8)	(5,570.5)	(5,204.1)	(5,628.9)

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

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

Fair value measurements

IFRS 13 requires that the classification of financial instruments at fair value be determined by reference to the source of inputs, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

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

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer. During the period £4,804.6m was transferred from Level 2 into Level 1 (2021: no transfers).

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

Notes to the financial statements continued

20. Fair value of financial instruments continued

	31 March 2022			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	275.6	–	–	275.6
	275.6	–	–	275.6
Non-derivative financial liabilities				
Financial liabilities	(5,788.7)	–	–	(5,788.7)
	(5,788.7)	–	–	(5,788.7)
Derivative financial instruments				
Interest rate swaps	–	2.4	–	2.4
Cross-currency swaps	–	2.9	–	2.9
	–	5.3	–	5.3
Total	(5,513.1)	5.3	–	(5,507.8)

	30 September 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	207.6	–	–	207.6
	207.6	–	–	207.6
Non-derivative financial liabilities				
Financial liabilities	(913.3)	(4,804.6)	–	(5,717.9)
	(913.3)	(4,804.6)	–	(5,717.9)
Derivative financial instruments				
Interest rate swaps	–	(0.3)	–	(0.3)
Cross-currency swaps	–	27.8	–	27.8
	–	27.5	–	27.5
Total	(705.7)	(4,777.1)	–	(5,482.8)

	31 March 2021			
	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Non-derivative financial assets				
Financial assets at amortised cost	204.5	–	–	204.5
	204.5	–	–	204.5
Non-derivative financial liabilities				
Financial liabilities	–	(5,765.6)	–	(5,765.6)
	–	(5,765.6)	–	(5,765.6)
Derivative financial instruments				
Interest rate swaps	–	(0.8)	–	(0.8)
Cross-currency swaps	–	(1.0)	–	(1.0)
	–	(1.8)	–	(1.8)
Total	204.5	(5,767.4)	–	(5,562.9)

Nature and characteristics of financial instruments in the fair value tables

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

Motability Operations | Group plc

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