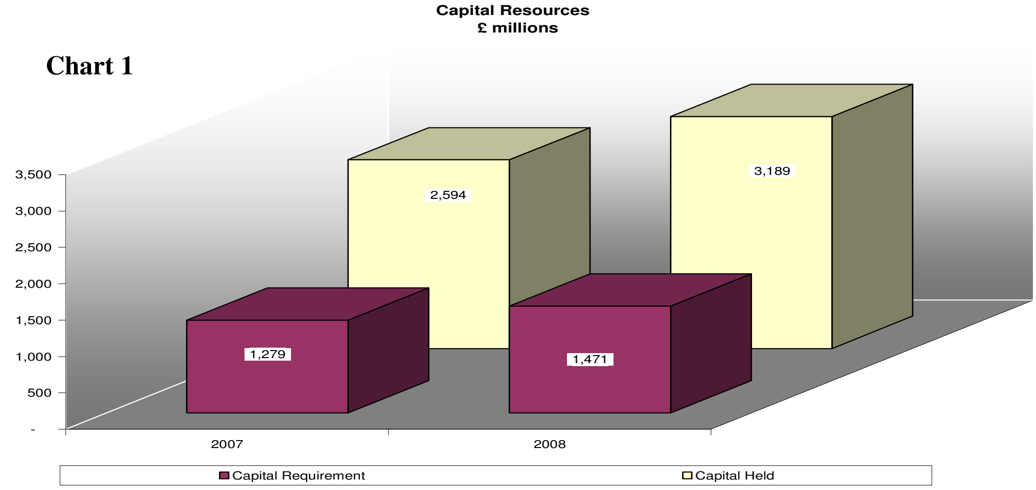
Basel II Pillar 3 Disclosure Document
for the year ended
December 31, 2008

www.fcebank.com

FCE Bank plc. Central Office, Eagle Way, Brentwood, Essex CM13 3AR. Registered in England and Wales no 772784

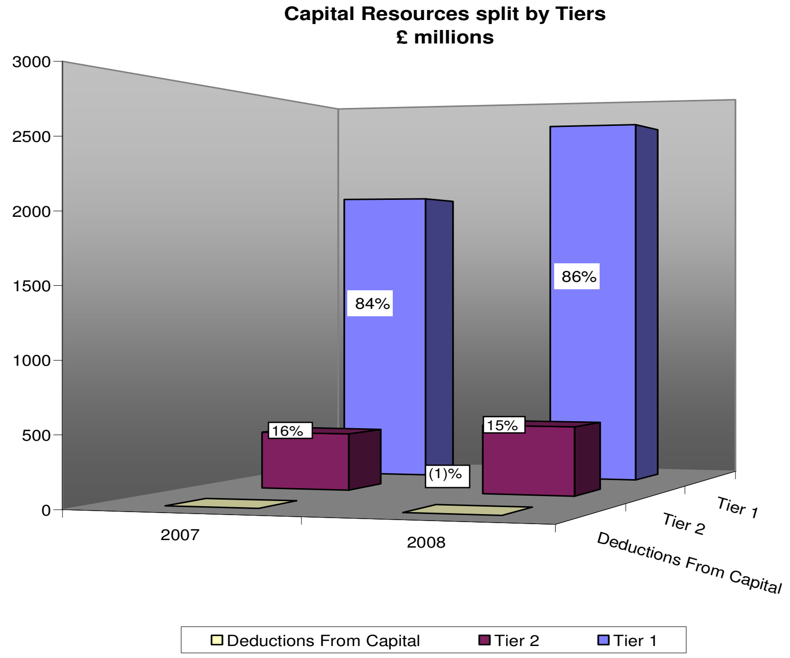
Highlights

Chart 1



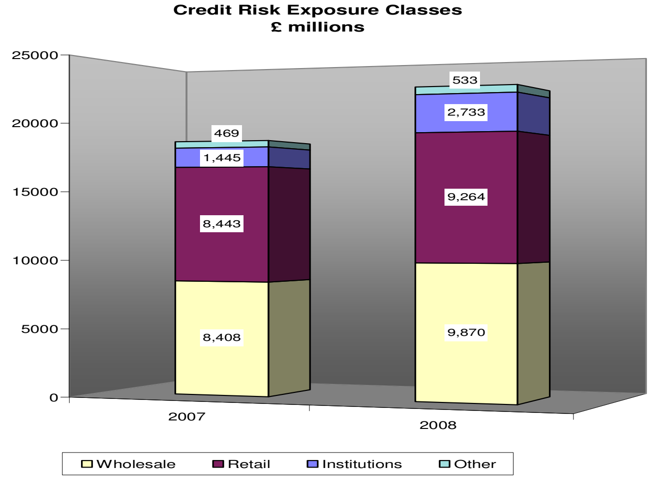
FCE is holding significantly more capital as identified by the 'Capital Held' column (refer to Table 2) than is required by the capital requirements as calculated under Basel Pillar 1 (refer to Table 4) and as identified by the 'Capital Requirements' column.

Chart 2



Tier 1 Capital has further strengthened to 86% (2007: 84%) as a percentage of 'Total Capital Resources Held' (refer to Table 2).

Chart 3



The above chart identifies that wholesale and retail counterparty exposures are evenly diversified and are the major exposure class (refer to Table 4).

FCE Bank plc

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for the year ended December 31, 2008

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This Pillar 3 document is not and does not replace the Company's statutory annual report and accounts which are available elsewhere on the website. This Pillar 3 document is based on management information and the document has not been externally verified by independent auditors, although some of the information within it is also disclosed within FCE's audited 2008 Annual Report and Accounts. The disclosures in this Pillar 3 document are based on the best available data at the time of issuance and will not be updated further until publication of FCE's 2009 Annual Report and Accounts in March 2010. This information has been published to comply with the regulations set out in the Financial Services Authority handbook section BIPRU 11 and should be viewed only in this context and for this purpose only.

Background

The Basel Committee on Banking Supervision has published a new framework for calculating minimum capital requirements. The European Union (EU) Capital Requirements Directive (CRD), commonly referred to as Basel II, replaces the 1988 Basel Capital Accord. Basel II provides a more robust and risk sensitive framework for determining the capital requirements of financial institutions.

The new framework not only encompasses capital requirements it also requires disclosures of key pieces of information, such as capital, risk exposures and risk assessment processes.

Basel II is structured around three main 'pillars' which are detailed below.

Capital Requirements Directive		
Pillar 1	**Pillar 2**	**Pillar 3**
Minimum Capital Requirements	**Internal Capital Adequacy Assessment (ICAAP) Process**	**Market Discipline**
Credit Risk	Independent validation	Disclosure
Operational Risk	Supervisory Review Process	
Financial Market Risk		

Basel II has been implemented in the EU through adoption of the provisions of the EU CRD in each EU Member State. The Pillar 3 disclosure requirements aim to complement the other two Pillars and to encourage market discipline to assist market transparency.

Basis of Disclosures

This document covers qualitative and quantitative disclosures required under Pillar 3 for FCE Bank plc (FCE) for the year ended 31 December 2008 and prior year figures for comparative purposes. This Pillar 3 disclosure document is FCE's first published report provided in accordance with the rules as laid out in the Financial Services Authority (FSA) Prudential Sourcebook for banks, building societies and investment firms (BIPRU) Chapter 11.

FCE has elected to:

- Use the Standardised Approach to Credit and Operational Risk when assessing Capital Resource Requirements for Pillar 1 reporting.

- Report its main credit risk exposure classes as 'Retail' and 'Wholesale' to ensure consistency with FCE's Annual Report and Accounts. Retail financing is provided predominately to individual customers for single vehicles. Retail financing also includes to a lesser extent loans and advances to Corporate and other institutional customers covering single as well as large and small fleets of vehicles. Wholesale financing is provided to Ford's dealers, primarily to finance stocks of new and used vehicles.

FCE's Annual Report and Accounts contain comprehensive disclosures of key pieces of information and are prepared in accordance with International Financial Reporting Standards (IFRS). The Annual Report can be obtained directly from FCE's corporate website, details of which are provided on page 46.

Frequency of reporting

FCE will publish Pillar 3 disclosures annually and the disclosures will be as at the accounting reference date. The Basel II Pillar 3 disclosure document will be published on FCE's corporate website as soon as practicable after publication of FCE's Annual Report and Accounts.

FCE's Interim Report and Financial Statement will disclose any material changes or items required under IFRS7, 'Financial Instruments: Disclosures'. The Interim report will also be available from FCE's corporate website.

Verification

This document has been reviewed and approved by the Board, Audit Committee and Regulatory Compliance Committee (refer to Committees of the Board (Page 10) for further information). The information contained in this document has not been audited by FCE's external auditors – PricewaterhouseCoopers LLP.

Consolidation Basis

FCE prepares both consolidated and solo consolidated regulatory reports to assess its capital resources and Large Exposure positions. FCE's liquidity position is reported on a solo consolidated basis (as per Table 1 'Capital Resources' page 32). Capital Adequacy, Large Exposure and Liquidity positions are reported to the FSA on a quarterly basis.

The consolidated regulatory reports are presented in Sterling in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee interpretations under IFRS. Assets and liabilities of each entity which are denominated in foreign currencies are translated into Sterling at the exchange rates published at the balance sheet date

FCE's consolidated reporting includes the following subsidiaries:

Subsidiary undertakings as at 31 December 2008	Beneficial interest	Accounting reference date	Country of incorporation/ registration	Principal activity
Automotive Finance Limited *	100%	30 June	England & Wales	Non trading
FCE Leasing (Holdings) Limited	100%	31 December	England & Wales	Holding company
FCE Leasing Limited *	100%	31 December	England & Wales	Non trading
Ford Automotive Leasing Limited *	100%	30 September	England & Wales	Non trading
Jaguar Financial Services Limited *	100%	31 March	England & Wales	Finance company
Meritpoint Limited	100%	30 June	England & Wales	Non trading
Primus Automotive Financial Services Limited	100%	31 December	England & Wales	Dormant
Volvo Car Finance Limited	100%	31 December	England & Wales	Finance company
FCE Credit s.r.o. ^	100%	31 December	Czech Republic	Finance company
FCE Credit Hungaria Zrt ^	100%	31 December	Hungary	Finance company
FCE Services Kft * ^	100%	31 December	Hungary	Finance company
FCE Bank Polska S.A.^	100%	31 December	Poland	Bank
FCE Credit Poland S.A.^	100%	31 December	Poland	Finance company
Saracen Holdco Ab^	100%	31 December	Sweden	Holding company

* Subsidiaries indirectly owned by the Company.

^ Subsidiaries not solo consolidated for regulatory reporting purposes.

In addition FCE via its subsidiary Saracen Holdco Ab has a 50% investment in a jointly controlled entity, Forso Nordic AB (Forso) which provides automotive financial services to Ford brands in Denmark, Finland, Sweden and Norway. For further information in regard to Forso, refer to FCE's Annual Report and Accounts for the year ended 31 December, 2008. FCE applies the equity method of accounting to its 50% investment in Forso. Forso is regulated in Sweden and is required to comply with all three pillars of Basel II.

FCE Bank Polska S.A is the only individually regulated subsidiary within FCE. FCE Bank Polska S.A. is a wholly owned subsidiary of a European Economic Area parent and as such is not required to disclose separate Pillar 3 information.

There are no current or foreseen material practical or legal impediments to the prompt transfer of capital resources or repayment of liabilities when due between the parent company and its subsidiaries. However, as noted above, FCE Bank Polska S.A is a regulated bank and is required, among other things, to maintain minimum capital reserves.

Introduction and Main Board and Committee Structure	Introduction

Consolidation Basis continued

As certain FCE subsidiaries are not subject to solo consolidation and are not considered significant (refer to Table 1 'Capital Resources') the quantitative disclosures in this document are reported on a consolidated basis, unless specified otherwise. The basis of presentation of the FCE consolidated regulatory reports is similar to the FCE Annual Report and Accounts except for the following key differences:

- Loans and advances to customers of £71 million (2007: £*273* million) relating to securitisation transactions completed prior to April 2004 are partially deducted from the 'exposures' reported in Table 4 'Analysis of Capital resources and requirements. As at 31 December 2008 only one (2007: three) of the remaining securitisation transaction completed prior to April 2004 has been deducted from risk weighted assets as detailed within Table 4 and from March 2009 this transaction is fully included in determining FCE's 'Capital requirements'. The related subordinated loans of £ nil (2007: £7 million) are deducted from regulatory capital, being classed as lending of a capital nature. For all securitisation transactions completed after April 2004 loans and advances to customers continue to be included within 'exposures' for regulatory reporting and for this report.

- For regulatory reporting and for this report derivative financial instruments are reported at nominal values. Derivative financial instrument asset balances as at December 2008 are £107 million (2007 £31 million) lower than those reported within the FCE Annual Report and Accounts, which are reported at fair value as required by IAS 39 'Financial instruments, recognition and measurement'.

- The collective impairment allowance (refer to Table 7 'Provision for Incurred Losses') of £123 million (2007 £102 million) represents incurred but not yet identified losses in relation to both the retail and wholesale portfolios. The collective impairment allowance is part of FCE's Tier 2 capital resources for regulatory reporting and in this report, whereas in the FCE Annual Report and Accounts the allowance is deducted from loans and advances to customers.

Introduction and Main Board and Committee Structure	Description of the Business

Who FCE is

FCE is a United Kingdom ('UK') registered bank regulated by the FSA and is a wholly-owned subsidiary of Ford Credit International (FCI), which is wholly-owned by Ford Motor Credit Company LLC (Ford Credit), which in turn is wholly-owned by Ford Motor Company (Ford). FCE is authorised by the FSA to carry on a range of regulated activities within the UK and through a branch network in eleven other European countries and is subject to consolidated supervision by the FSA. The FSA is FCE's home regulator for all its branch operations.

FCE Bank Polska S.A is a regulated bank and is required, among other things to maintain minimum capital reserves.

What FCE does

FCE's business is best described in the context of its three main customer groups – retail customers, dealers and Ford's automotive brands.

FCE helps Ford's customers acquire its vehicles by providing:

- Finance for retail customers to purchase or lease Ford vehicles
- Insurance products to protect customers when driving Ford vehicles
- Fleet / business customers with a wide range of financing options

Referred to as 'Retail' within this document.

FCE helps Ford's dealers sell its vehicles by providing:

- Finance to stock the forecourt with new and used Ford vehicles
- Finance for demonstrator and courtesy cars
- Finance to enable dealers to operate their business, and expand their premises

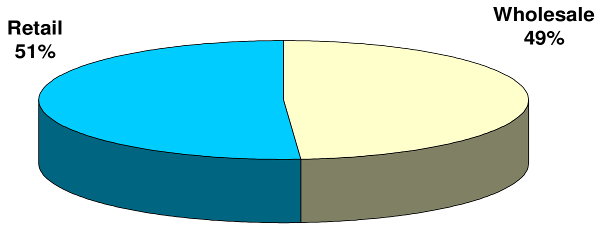
Referred to as 'Wholesale' within this document.

FCE helps Ford's automotive brands by providing:

- A pan-European, branded finance network dedicated to supporting the sale of their products
- Financial risk management support to ensure continuity of the distribution network
- Specialist support for key business and customer segments, and new market expansion

Analysis of net loans and advances to customers as at 31 December 2008 by product

Chart 4



Source: Data from Table 6 'Geographical Distribution of Exposures'

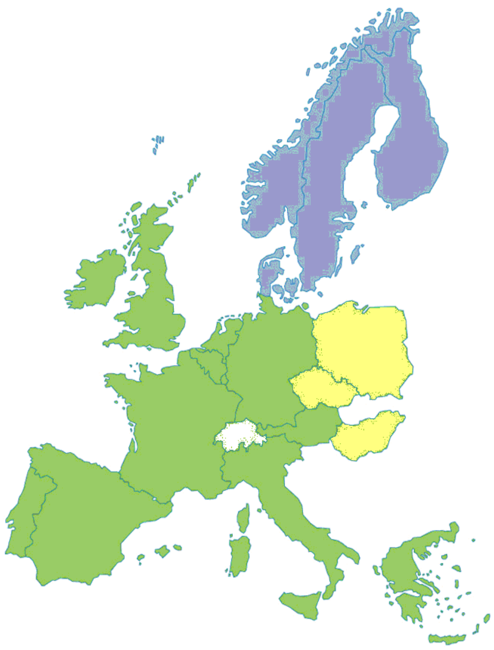
Introduction and Main Board and Committee Structure	Description of the Business

Where FCE operates

FCE operates directly in 15 European countries through a branch and subsidiary network, providing branded financial services for Ford and Volvo with transitional support for Jaguar, Land Rover and Mazda whilst they progressively move to alternative providers.

The Company also has a Worldwide Trade Financing division, which provides finance to distributors and importers in nearly 80 countries.

In addition FCE has a 50% interest in Forso Nordic AB (Forso) which provides automotive financial services for Ford brands in Denmark, Finland, Sweden and Norway. For further information about Forso refer to FCE's Annual Report and Accounts.



FCE employs around 2,400 staff in 15 European countries to serve over 3,800* dealers.

- **FCE Company and branches**
- **FCE Subsidiaries**
- **Forso Nordic AB joint venture**

*represents number of legal entities

Analysis of net loans and advances to customers as at 31 December 2008 by major market and brand

Chart 5

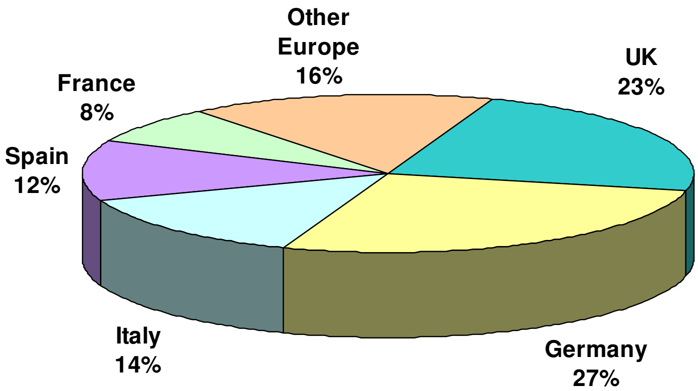
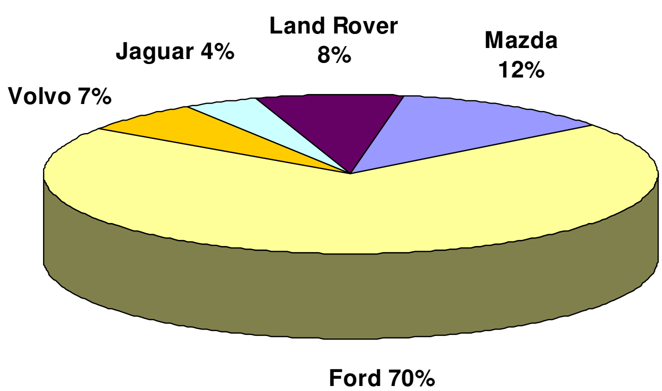


Chart 6



Introduction and Main Board and Committee Structure	Board of Directors

The Board of Directors

The Company is controlled through its Board of Directors whose main roles are to:

- create value to the shareholder,
- provide leadership to the Company,
- approve the Company's strategic objectives
- ensure that the necessary financial and other resources are made available to the management to enable them to meet those objectives and
- operate within a framework of effective controls which enables the assessment and management of principal risks.

In addition, the Board has the ultimate responsibility for ensuring that the Company has systems of corporate governance and internal control appropriate to the various business environments in which it operates. The Board regularly evaluates all risks affecting the business and the processes put in place within the business to control them. The process is focused on the key risks, with formal risk mitigation, transfer or acceptance documented.

FCE controls are based on Ford standard controls to safeguard assets, check the accuracy and reliability of financial and non-financial data, promote operational efficiency and encourage adherence to prescribed managerial policies. Policy statements governing credit and treasury risk management are reviewed at least annually.

The Board also reviews the Group's commercial strategy, business and funding plans, annual operating budget, capital structure and dividend policy and statutory accounts. The Board also reviews the financial performance and operation of each of the Company's businesses and other business reports and presentations from senior management. The Board is responsible for the appropriate constitution of Committees of the Board and reviews their activities and terms of reference as part of an annual review of corporate governance.

Within the financial and overall objectives for the Company, the management of the Company is delegated to Directors and management through the Chairman. Each of the five Executive Directors is accountable for the conduct and performance of their particular business within the agreed business strategy. They have full authority to act subject to the reserved powers and sanctioning limits laid down by the Board and Company policies and guidelines.

Currently the Board of Directors comprises four independent Non-Executive directors (NEDs), one shareholder representative director and five Executive Directors who together, with their different financial, commercial and operational expertise and cultures, bring with them a wide range of experience to the Company.

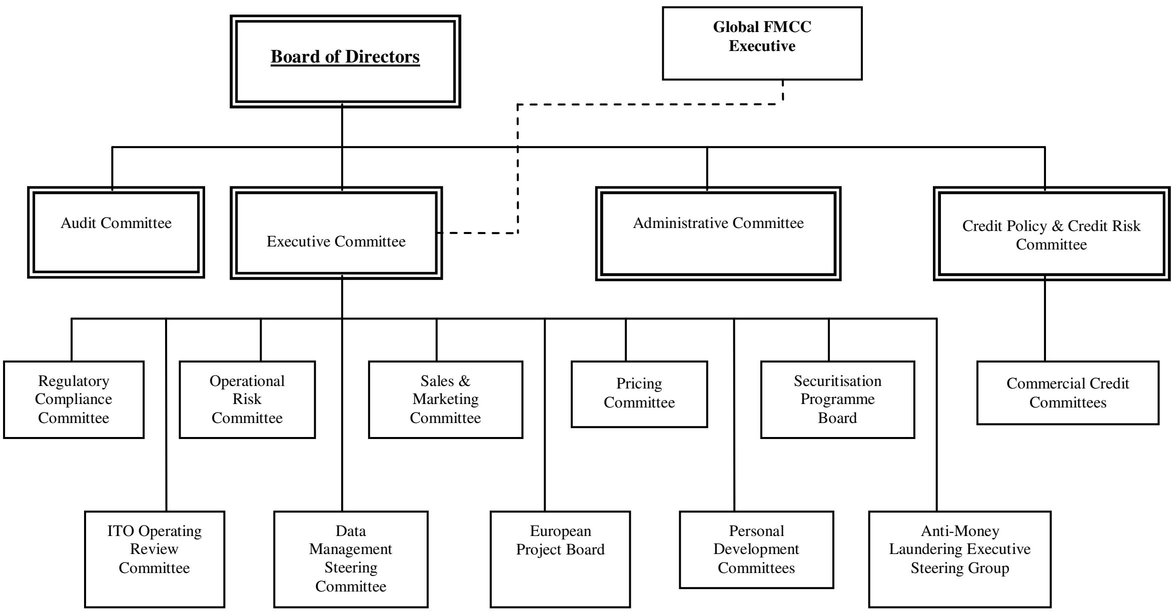
All Directors are equally accountable under the law for the proper stewardship of the Company's affairs. The Directors have access to the advice and services of the Company Secretary and can obtain independent professional advice at the Company's expense in furtherance of their duties, if required.

Committees of the Board

Four Committees report directly into the Board. Each of the Committees has specific delegated authority and detailed terms of reference which are reviewed annually with a report on the activities of each Committee presented to each meeting of the Board of Directors. FCE reviews the balance and composition of the Committees regularly to ensure that there is an appropriate balance and a good mix of skills and experience. FCE also considers the need to refresh the Committees. A review of all Committees, their ongoing operation and efficiency was conducted by the Company Secretary during 2008 to streamline the structure, terms of reference, frequency and membership.

The following chart shows the interrelationship of the Board and the Committees that deal with corporate governance. FCE has an integrated approach to Risk Governance and the terms of reference for each of the Committees shown below includes details of the risks covered:

Chart 7



The **Administrative Committee** on behalf of the Board is responsible for:

- the review and approval of the terms and conditions of securitisation and debt issuance transactions in line with applicable policy statements established by the Board of Directors from time to time.

- consideration and approval of other day-to-day business matters delegated to it for which formal deliberation and/or documentation is legally required to evidence approval rather than approval under general management delegated authorities.

The membership of the Administrative Committee comprises all statutory directors of the Company but excludes the President of Global Marketing and Sales at Ford Credit, and the NEDs, with any two directors constituting a quorum. The Administrative Committee has no formal meeting schedule and meets as required.

The Audit Committee (AC) terms of reference, a copy of which can be found on the Company's website, are reviewed at least annually and approved by the Board. They are based on the model terms of reference set out in the Guidance Note produced by the Institute of Chartered Secretaries and Administrators. The terms of reference cover membership and appointment, meetings, duties and responsibilities, authority and a number of other matters. The AC's objectives include assisting the Board in meeting its responsibilities to create an effective system of internal control and compliance, provision of accurate external financial reporting, and assisting management in conducting and reporting effective risk management.

Committees of the Board continued

The **Credit Policy and Credit Risk Committee** (Credit Policy Committee), usually chaired by the FCE Chairman, determines on behalf of the Board, the general credit policy of the Group on a pan-European basis. It oversees and reviews retail and commercial credit risk and vehicle residual value risk. It reports to each full Board meeting held during the year. Five of the ten members of the Credit Policy Committee are members of the Board of Directors. The Credit Policy Committee consists of individuals responsible for the key components of the business; British, German and European markets, brand directors and pan-European and cross-brand functions such as credit policy and credit risk, sales, and finance.

There are quorum requirements for the Credit Policy Committee, with different combinations of attendees permitted, to ensure that a member of the Board of directors is always in attendance in addition to appropriate representation from key areas of the business. The Credit Policy Committee aims to meet monthly and met eleven times in 2008.

The **Commercial Credit Committees** have been established as sub-committees of the Credit Policy Committee to review and approve commercial lending requests across Europe. The Commercial Credit Committees are constituted and operate at district, country, European and international levels according to delegated approval authorities and risk assessment.

The **Executive Committee** ('EC') usually chaired by the FCE Chairman, reviews, on behalf of the Board, the Group's strategic direction and policy and the enhancement of shareholder and customer value whilst improving growth, efficiency and profitability. The Executive Committee reports to the Board at each of the full Board meetings held during the year. The Executive Committee has fourteen members, five of whom are members of the Board of Directors.

The EC consists of individuals responsible for the key components of the business; British, German and European markets and brand directors, as well as pan-European and cross-brand functions such as credit policy and credit risk, information technology, sales, general counsel, strategy and finance. Either the Chairman or the Executive Director Finance and Strategy are required in attendance as one of seven members needed to constitute a quorum. The EC meets monthly and held 12 meetings during 2008.

Several sub-committees have been established and meet regularly and cover all areas of the business. These sub-committees report into the EC:

- The **Regulatory Compliance Committee** informs senior management and the Audit Committee on regulatory compliance issues. Its responsibilities include monitoring and evaluating regulatory changes and determining the Company's response or changes needed. The Committee also oversees communication with the FSA.
- The **Information Technology Office Operating Review Committee** monitors, aligns and resolves plans and priorities across FCE to support key information technology related projects and initiatives.
- The **Operational Risk Committee** has the overall responsibility for reviewing and monitoring major operational risks and for promoting the use of sound operational risk management across FCE.
- The **Data Management Steering Committee** provides a co-ordinated input to process and IT application development to meet business requirements through data solutions that are consistent with strategic priorities.
- The **Sales and Marketing Committee** facilitates regular and timely information exchanges between business units and functional areas covering sales, marketing and operational matters.
- The **European Project Board** oversees the management of FCE's strategic projects. This sub-committee meets on a monthly basis to review, approve and prioritise large / strategic projects.
- The **Pricing Committee** reviews and approves pricing strategies and policies on a national, regional and European basis.

Committees of the Board continued

- The **Personnel Development Committees** drive personnel development and career and vacancies planning. The sub-committees are comprised of members of management, who are assisted by Human Resources representatives.
- The **Securitisation Programme Board** approves and reviews structural and policy matters concerning planned securitisation transactions and securitisation issues raised at other committees and forums may be referred to it for further deliberation.
- The **Anti-Money Laundering Executive Steering Group** oversees compliance with the provisions of the relevant European Community Money Laundering and related directives as applied to those markets in which FCE operates.

In addition, the EC may from time-to-time appoint working groups or steering committees to address specific business risks and opportunities.

Risk Exposures and Risk Assessment Processes	Risk Appetite and Risk Management

Risk Appetite

In the normal course of business, FCE is exposed to several types of risk. These risks include primarily credit, vehicle residual value, financial market (including interest rate, currency, counterparty and liquidity risks) and operational risk.

FCE's appetite for risk is generally low. FCE has strong risk governance and integrated risk management practices. Each form of risk is uniquely managed in the context of its contribution to overall risk. Business decisions are evaluated on a risk-adjusted basis and products are priced to be consistent with these risks. FCE continuously reviews and improves its risk management practices.

FCE has over forty years of experience in the specialist field of automotive sector related lending and seeks security for its lending to minimise the risk of unexpected losses. Lending is confined to automotive sector related products and in the case of customer default, the value of the re-possessed vehicle provides a source of protection.

Risk Management

FCE considers effective corporate governance to be a key factor underlying the strategies and operations of the Group. Since only some of the Company's debt securities are listed on Stock Exchanges there are significantly fewer reporting obligations on the Company compared with a company with listed equity. Nevertheless the Company chooses to comply with many of the provisions of the Combined Code on Corporate Governance applicable to UK listed companies except for those provisions that are not appropriate for a wholly-owned subsidiary.

The Company annually undertakes a benchmarking exercise against the latest guidelines on corporate governance making any adjustments it deems necessary and appropriate.

The Company has developed internal standards to ensure that the Group's business is conducted within a strong and defined control framework. These internal standards are well suited to the evolving demands of corporate governance in highly regulated, multi-national environments.

Principal Risks and Uncertainties

In addition to the risks faced by FCE in the normal course of business, some risks and uncertainties are outside FCE's direct control. This section outlines specific areas where FCE is particularly sensitive to business risk.

- The credit ratings of FCE and FMCC have been closely associated with the rating agencies' opinions of Ford. The lower credit ratings assigned to FCE and FMCC over the past several years are primarily a reflection of those opinions, including concerns regarding Ford's automotive cash flow, profitability, declining market share in North America and product and portfolio strength, excess industry capacity and industry pricing pressure.

  Lower credit ratings generally result in higher borrowing costs and reduced access to capital markets. The Company has the benefit of a support agreement from FMCC (see below). In addition, FCE has the benefit of:

  - Access to on-lent debt from Ford, FMCC and FCI from time to time; and
  - Interest supplements and other support payments from Ford provided for certain financing transactions.

  The elimination, reduction or non-availability of support from FMCC or Ford could negatively impact FCE's business and results of operations.

- FCE must compete effectively with other providers of finance in Europe. Ford in Europe currently provides a number of marketing programmes that employ financing incentives to generate increased sales of vehicles. These financing incentives generate significant business for FCE. If Ford chose to shift the emphasis from such financing incentives, this could negatively impact FCE's share of financing related to Ford's automotive brand vehicles.

- FCE's business has been built as a pan-European, multi-brand organisation, deriving efficiencies from common back-office and IT platforms. The transition of Jaguar, Land Rover and Mazda to alternative finance providers requires FCE to accelerate cost efficiency actions to adjust for the loss of scale. The sale of further automotive brands by Ford would require additional cost efficiency actions.

Support Agreement

Pursuant to a support agreement between FMCC and the Company dated 30 September 2004, FMCC has agreed to maintain, directly or indirectly, a controlling interest of not less than 75% of the issued share capital of the Company and to maintain or procure the maintenance of the Company's net worth of not less than US$ 500 million initially until 31 January 2010.

The agreement provides for the termination date to be extended automatically on 1 February of each year for an additional one-year period ending on 31 January of the following year. Either party can give notice one month before automatic extension of their wish to prevent the automatic extension of the termination date and terminate the agreement, in which case it will terminate as of the termination date set on the last preceding extension date. However as neither party provided written notice on subsequent 1 February anniversaries, the termination date was automatically extended each time by one year and now is 31 January 2015.

Principal Risks and Uncertainties continued

Liquidity Risks and Capital Resources

Liquidity risk is the possibility of being unable to meet present and future financial obligations as they become due. To mitigate its liquidity risk and augment its capital resources, FCE currently relies on the following forms of financing: securitisation, short-term funding under the European Central Bank's open market operations programme, unsecured debt, liquidity facilities (i.e. committed lines of credit from major banks), and inter-company funding. One of FCE's major objectives is to maintain funding availability through any economic or business cycle. FCE focuses on developing funding sources to support both growth and refinancing of maturing debt. FCE also issues debt that on average matures later than assets liquidate, further enhancing overall liquidity.

FCE closely monitors the amount and mix of short-term funding to total debt, the overall composition of total debt and the availability of committed credit facilities in relation to the level of outstanding short-term debt. FCE has the ability to use committed lines of credit from major banks, providing additional levels of liquidity. These facilities do not contain restrictive financial covenants (e.g. debt-to-equity limitations) or material adverse change clauses that could preclude borrowing under these facilities. FCE's liquidity position is reported to the FSA on a quarterly basis.

In the normal course of funding transactions, FCE may generate more proceeds than are necessary for immediate funding needs. These excess amounts are maintained primarily as highly liquid investments, providing liquidity for short-term funding obligations and flexibility in the use of other funding programmes. FCE monitors cash levels daily and adjusts them as necessary to support short-term liquidity needs.

Despite FCE's various sources of liquidity, its ability to maintain this liquidity may be affected by the following factors (not necessarily listed in order of importance or probability of occurrence):

- Credit ratings assigned to FCE;
- Prolonged disruption of financial markets;
- Market capacity for Ford, FMCC and FCE sponsored investments;
- General demand for the type of securities FCE offer, including ability to access central banks and government funding;
- The Company's ability to continue funding through asset-backed financing structures;
- Performance of the underlying assets within the existing asset-backed financing structures;
- Regulatory changes; and
- Failure of financial institutions to fulfil commitments under various credit facilities;
- The Company's ability to maintain credit facilities;
- FCE's ability to obtain derivatives to manage risk.

Consistent with the overall market, the Company has been impacted by reduced investor appetite for asset-backed securities and has experienced higher credit spreads. Given present market conditions, FCE expects its credit spreads and the cost of renewing committed liquidity programmes will continue to be higher in the near future. In addition, worsening economic conditions and increased credit losses may adversely impact the Company's existing asset-backed funding transactions.

Principal Risks and Uncertainties continued

Sales of Automotive Brand Vehicles

FCE's business is substantially dependent upon the sale of Ford and affiliated manufacturers' vehicles in Europe and its ability to offer competitive financing on those vehicles.

Fluctuations in the volume of sales of such vehicles resulting from governmental action or geo-political events, changes in consumer demand, increased competition, changes in the pricing of imported units due to currency fluctuations, or other events, could impact the level of finance operations of Ford, including FCE. The automotive industry is sensitive to factors such as disposable income, interest rates, currency exchange rates, national and international trade, economic growth or decline, environmental and health and safety regulations, vehicle safety and emissions regulation and commodity prices such as oil and steel. Adverse changes to any of these factors could cause downturns in the industry and negatively impact the demand for Ford and affiliated manufacturers' vehicles. Furthermore, the automotive industry is highly competitive and has experienced significant consolidation over the past decade, leading to lower prices and tighter margins within the industry. Sales of Ford vehicles could decline if Ford is unable to respond to price pressure in the industry.

In addition, constraints on the supply of components or materials to Ford and affiliated manufacturers, or work stoppages at Ford and affiliated manufacturer or supplier facilities could adversely affect the production and sale of Ford vehicles.

Financing Incentives in the Sale of Ford Group Vehicles

FCE must compete effectively with other providers of finance in Europe. For many years, Ford has sponsored special-rate financing programmes available through FCE. Under these programmes, Ford makes interest supplements or other support payments to FCE. These programmes tend to increase our financing volume and share of financing sales of Ford vehicles. As FCE's funding costs have increased, FCE's reliance on Ford-sponsored special-rate financing programmes offered through FCE has grown in importance. If Ford were to adopt marketing strategies in the future that de-emphasised such programmes in favour of other incentives, our financing volume could be reduced.

Operational Risk

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people or systems, or from external events. This definition of operational risk captures events such as Information Technology problems, human error and shortcomings in the organisational structure, legal changes and lapses in internal controls, fraud or external threats.

FCE takes a proactive approach to operational risk management, seeking to anticipate risks and minimise exposure through risk identification, assessment, monitoring, control and mitigation. FCE seeks to maintain a strong and open operational risk management culture throughout the organisation, embodied within a sound corporate governance structure and supported by company-wide operational risk management processes, policies and procedures.

FCE is indemnified under insurance policies for certain operating risks that include health and safety and employee fraud. Nevertheless, notwithstanding these control measures and this insurance coverage, FCE remains exposed to operational risk that could negatively impact its business and results of operations.

Regulatory Risk

New or increased credit, consumer or data protection, or other regulations could result in higher costs and/or additional financing restrictions. The Company is a regulated banking institution and is required, among other things, to maintain minimum capital reserves. Compliance with these regulations imposes significant costs on FCE, and affects the conduct of FCE's business. Additional regulation could add significant cost or operational constraints that might impair the profitability of FCE's business.

Principal Risks and Uncertainties continued

Counterparty Credit Risk

Counterparty risk is the risk that FCE could incur a loss if the counterparty to an investment, interest rate or foreign currency derivatives with FCE defaults. For more detail on how FCE manages these risks refer to 'Financial market risk management' section which commences on page 22.

Counterparty exposure limits are established in order to minimise risk and provide counterparty diversification. Exposures to counterparties, including the mark to market on derivatives, are monitored on a regular basis. FCE's Large Exposures position is reported to the FSA on a quarterly basis and is reported and reviewed monthly at the Regulatory Compliance Committee.

Due to the nature of FCE's customers, very few are rated by External Credit Assessment Institutions (ECAI's), therefore under the rules in BIPRU 3.3.1 FCE have opted not to nominate any ECAI's for Credit Risk reporting.

FCE currently has netting agreements with certain Ford affiliates. Where there is both a current enforceable legal right and an intention to settle on a net basis, financial liabilities are offset against financial assets for both regulatory and IFRS reporting. (See Table 4 'Analysis of Capital Resources and Requirements').

Vehicle Residual Value Risk

Vehicle residual value risk is the risk that the actual proceeds realised by FCE upon the sale of a returned vehicle at the end of the contract will be lower than that forecast at the beginning of the contract.

FCE establishes expected residual values based on input from independent consultants (who forecast residual values), current and forecast trade guide valuations and FCE's own proprietary knowledge (historical experience and forward-looking information). This information includes new product plans, marketing programmes and quality metrics. Any unfavourable variance between FCE's forecast and expected residual values for existing contracts results in an adjustment to the carrying value of the asset on the balance sheet. Vehicle residual value provision adequacy is reviewed quarterly to reflect changes in the projected values. At contract end, FCE seeks to maximise residual value proceeds by using various resale channels including auctions, trade sales and resales through dealerships.

Declining consumer confidence and increasing unemployment have contributed to lower consumer spending and reduced demand for new and used vehicles which has resulted in increased wholesale receivables. Lower demand for vehicles has also resulted in lower used vehicle values, which has resulted in realised vehicle residual value losses of £8 million (2007: £6 million) and increased vehicle residual value provisions of £46 million (2007: £1 million). Of the vehicle residual value losses and provision increases £15 million is reclaimable from third parties under a residual value loss sharing arrangements. Net credit losses have also increased due to higher credit casualties in FCE's retail portfolio particularly in the Spanish market.

FCE is subject to residual value risk on certain retail or finance lease balloon payment products where the customer may choose to return the financed vehicle to FCE at the end of the contract. Residual values are established by reference to various sources of independent and proprietary knowledge. Guaranteed Minimum Future Values ('GMFV's) on retail plans are set below the future market value to protect customer equity and promote Trade Cycle Management products. FCE policy is that the GMFV must be a minimum of 5 per cent below the future market value and is increased to 8 per cent for terms less than 24 months. This policy is a key factor behind the annual rate of return (for vehicles financed under retail finance plans where FCE is subject to residual risk) being less than 4 per cent (2007: less than 3 per cent) of the maturing portfolio.

All operating lease vehicles are subject to return at the end of the lease period unlike retail plans. FCE's exposure to operating lease has reduced following the outsourcing of the Full Service Leasing (FSL) portfolio in most European markets). The most significant operating lease portfolio remains in Germany which is the primary source of the operating lease residual value risk for FCE.

Vehicle Residual Value Risk continued

The GMFV of FCE's retail and operating lease portfolio where FCE is subject to vehicle residual value risk as at 31 December 2008 were: Retail £1,626 million (2007: £1,390 million) and operating leases £147 million (2007: £151 million). The GMFV figures reported for retail assumes that all vehicles will be returned to FCE.

Vehicle Residual Value Sensitivity Analysis

If future resale values of FCE's existing portfolio of retail and operating lease vehicles were to decrease this would reduce income for retail vehicles and increase depreciation for operating leases. At 31st December 2008 if future resale values reduced by 1 per cent from the current resale values it is estimated this would increase the annual rate of return from the current position of 3.7 per cent to 4 per cent of the maturing portfolio and would have an adverse profit impact to the Company of approximately £3million (2007: £2 million).

Credit Risk management

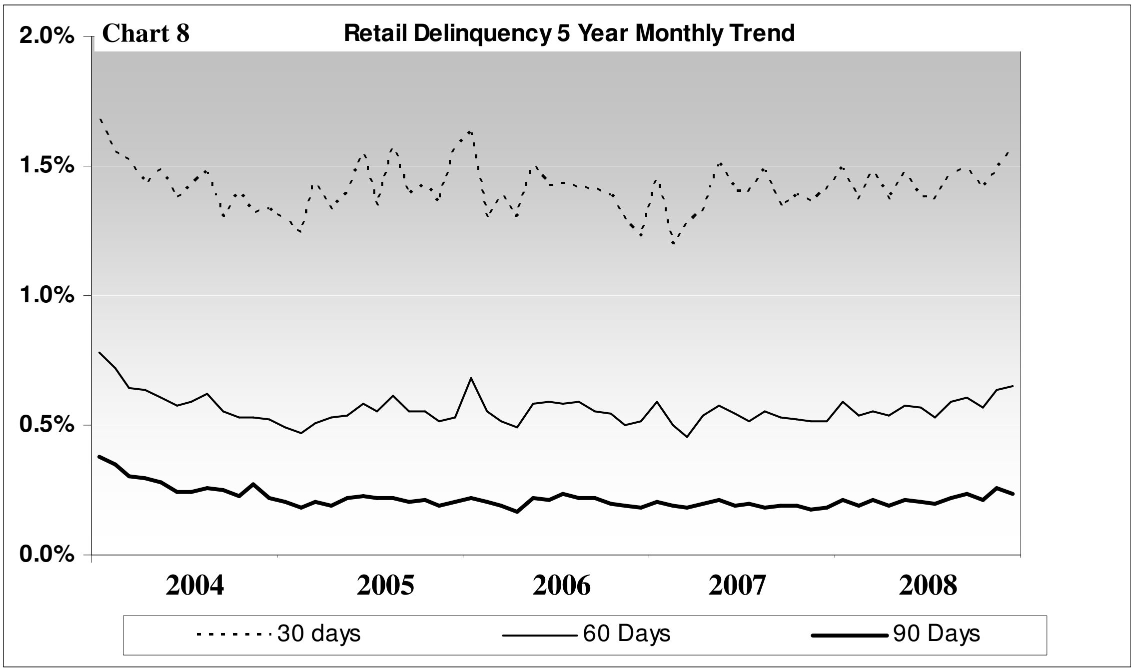
Credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms. Whilst credit risk has a significant impact on FCE's business, it is mitigated by the majority of FCE's retail, leasing and wholesale financing plans having the benefit of a title retention plan or a similar security interest in the financed vehicle. In the case of customer default the value of the re-possessed collateral provides a source of protection. FCE actively manages the credit risk on retail and commercial portfolios to balance the levels of risk and return.

Retail

Retail products (vehicle instalment sale, hire purchase and conditional sale and lease contracts) are classified by term and whether the vehicle financed is new or used. This segmentation is used to assist with product pricing to ensure risk factors are appropriately considered. Retail credit underwriting typically includes a credit bureau review of each applicant together with an internal review and verification process. Statistically based retail credit risk rating models are typically used to determine the creditworthiness of applicants. Portfolio performance is monitored regularly and FCE's originations processes and models are reviewed, revalidated and recalibrated as necessary. Retail credit loss management strategy is based on historical experience of many thousands of contracts over many years.

All locations now have centralised originations, servicing and collections activities. Centralisation offers economies of scale and enhances process consistency. The British and German Customer Service Centres employ advanced servicing technology and enhanced risk management techniques and controls. These include customer behavioural models that are used in contract servicing to ensure contracts receive appropriate collection attention.

Detailed below is a retail delinquency monthly trend graph for the last five years which highlights the percentage of retail contracts which are 30, 60 and 90 days overdue. The graph highlights a slight upward trend in delinquent accounts in the latter half of 2008 reflecting the adverse economic conditions. FCE's consistent underwriting and servicing practices has enabled its portfolio to perform well in an extremely difficult market. Targeted resources have been deployed to maintain this strong performance and every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current.



Source: internal information for all FCE markets.

Repossession is considered a last resort. A repossessed vehicle is sold and proceeds are applied to the amount owing on the account. Collection of the remaining balance continues after repossession until the account is paid in full or is deemed by FCE to be economically uncollectable.

Risk Exposures and Risk Assessment Processes	Credit Risk

Wholesale

FCE extends commercial credit to franchised dealers selling Ford vehicles primarily in the form of approved lines of credit to purchase stocks of new and used vehicles and financing for dealer vehicles (e.g. demonstrator or courtesy vehicles). FCE also provides automotive financing for other commercial entities, including daily rental companies.

Each commercial lending request is evaluated, taking into consideration the borrower's financial condition, supporting security, debt servicing capacity, and numerous other financial and qualitative factors. All credit exposures are scheduled for review at least annually at the appropriate credit committee. Asset verification processes are in place and include physical audits of vehicle stocks with increased audit frequency for higher risk dealers. In addition, stock-financing payoffs are monitored to detect adverse deviations from typical payoff patterns, in which case appropriate actions are taken.

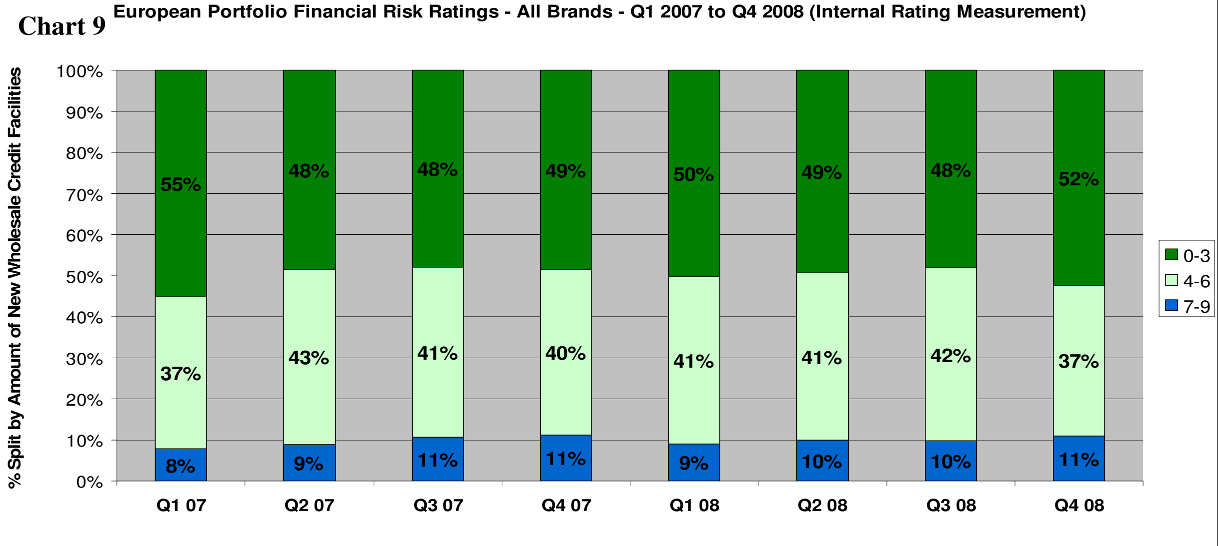
Financial and judgmental internal risk evaluation ratings are assigned to each dealer from 0 (best) to 9 (worst). The internal risk ratings are as follows:

Risk Rating Description

- 0 to 3 Excellent
- 4 to 6 Satisfactory
- 7 to 9 Marginal

The bar chart below provides a high-level summary of dealer risk ratings at the end of each quarter during 2008, 2007 and 2006. Percentages displayed in the chart below are calculated by dividing the total approved lines of credit for new wholesale lending to dealers of a particular risk rating group, by the total approved amount of lines of credit provided for new wholesale financing. This chart indicates that the percentage of better risk categories continues to remain high despite the adverse economic conditions.

Chart 9



Source: internal information for all FCE markets.

FCE actively manages risk concentration in the commercial portfolios and has an established House Limit policy based on levels of exposure and risk ratings. Reports on the largest concentrations are prepared monthly and are regularly reviewed at the Credit Policy and Credit Risk Committee as well as at each scheduled Board of Directors meeting.

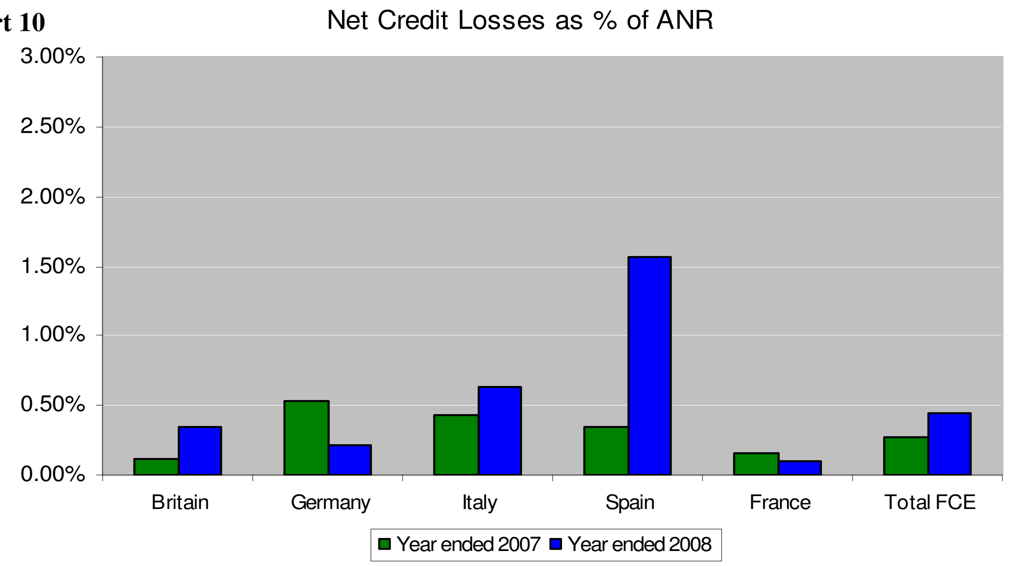
Further details of the payment status, related collateral and provisions for incurred losses for both wholesale and retail loans can be found in Table 7 'Provisions for incurred losses' and Table 8 'Exposures analysed by payment status'.

Net Credit Losses

FCE's net credit losses for wholesale and retail, which are expressed as a percentage of Average Net Receivables (ANR), increased to 45 basis points (bpts) in 2008 from the record low of 27 bpts in 2007 but remains well below the peak of over 100 bpts in 2002/3. The 2008 performance reflects adverse economic conditions particularly in Spain and to a lesser extent in Britain and Italy as shown in the bar chart below. Note that the 2007 performance was also positively impacted by higher recoveries from previously written-off dealer accounts and by receipts from debt sales in respect of previously written-off retail accounts.

Credit Loss Cover in 2008 at 1.6 years has decreased from the previous year, as actual losses were at a record low in 2007 due to the exceptionally high level of recoveries. The coverage ratio exceeds FCE's average loss emergence period of 1.2 years. FCE has increased reserves to £123 million (2007: £102 million) due to higher anticipated future credit losses – refer to analysis of Collective impairment allowance as detailed in Table 7 'Provision for incurred losses'. FCE judges that its credit loss provision is appropriate for the current adverse economic conditions.

Chart 10



This bar chart expresses net credit losses for both wholesale and retail as a percentage of average net receivables (ANR) and reflects the 2008 adverse economic conditions particularly in Spain. The continued application and enhancement of risk management tools and enhanced dealer risk monitoring has ensured that 2008 actual credit losses are still low when compared to historical levels. However in the light of the present deteriorating economic environment FCE's underwriting practices are subject to increased monitoring, further enhancements and targeted incremental resources have been deployed to further strengthen servicing and risk management. As already mentioned 2007 performance was positively impacted by higher recoveries.

Risk Exposures and Risk Assessment Processes	Financial Market Risk

Financial market risk management

The objective of financial market risk management is to lock-in the financing margin while limiting the impact of changes in interest rate and foreign exchange rates. Interest rate and currency exposures are monitored and managed by FCE as an integral part of its overall risk management programme, which recognises the unpredictability of financial markets and seeks to reduce potential adverse effects on FCE's operating results. Exposure to financial market risk is reduced through the use of interest rate and foreign exchange derivatives. FCE's derivatives strategy is defensive; derivatives are not used for speculative purposes.

All derivatives entered into by FCE are entered into for the purpose of matching or minimising risk.

Interest rate risk

FCE's asset base consists primarily of fixed-rate retail instalment sale, hire purchase, conditional sale and lease contracts, with an average life of approximately three years, and floating rate wholesale financing receivables with an average life of about 90 days. Funding sources consist primarily of receivable sales (including securitisation and other structured financing transactions), and term debt (public and inter-company).

To ensure funding availability over a business cycle, FCE normally issues debt with a longer maturity than the maturity of its assets. It is FCE's policy to execute interest rate swaps to change the interest characteristics of the debt to match, within a tolerance range the interest rate characteristics of FCE's assets. This matching policy seeks to maintain margins and reduce profit volatility. Since a portion of assets is funded with equity, some income volatility can occur as changes in interest rates impact the repricing of FCE's assets.

FCE's ability to obtain derivatives to manage market risk has significantly reduced due to the financial crisis and deterioration of FCE's credit ratings. During the fourth quarter of 2008, FCE prioritised the use of limited derivative capacity for funding transactions and currency exposure, and placed hedging for interest rate risk management on hold. The sensitivity of interest income to changes in interest rates continues to be insignificant as is shown in the section 'Interest risk sensitivity analysis' shown below. The interest rate sensitivity of FCE's assets and liabilities, including derivatives, is evaluated each month.

Given present market conditions, FCE does not foresee a material improvement to its derivative capacity in the near term and plans to continue prioritisation of its derivative capacity to protect funding. This may impact ongoing currency and interest rate exposures. If these conditions continue, this may result in increased income volatility. In the longer term, if the financial crisis continues, FCE will seek to implement alternate hedging arrangements to manage currency as well as interest rate exposure.

Interest rate risk sensitivity analysis

As a result of FCE's interest rate risk management processes that utilise hedging derivatives and as some of assets are funded by equity, the total level of assets re-pricing is greater than the level of debt re-pricing. Other things being equal, this means that during a period of rising interest rates, the interest income received on FCE's assets will increase more rapidly than the interest expense paid on its debt, thereby increasing pre-tax net interest income. Correspondingly, during a period of falling interest rates, FCE would expect its pre-tax net interest income to initially decrease.

In addition to enhancing liquidity, one of the main reasons that the Company has increased its use of securitisation as a funding source over the last few years has been that interest rate spreads ('spreads') on securitisation transactions have typically been stable and lower than FCE's unsecured long-term debt funding. Consistent with the overall market during 2008, FCE was impacted by a re-pricing of all credit risk that caused fixed income investors to demand higher risk premium for the funding they provide. In 2008 the Company's securitised spreads (based on the creditworthiness of the underlying securitised asset and enhancements) on the notes for newly issued transactions increased (from between 70 to 270 basis points compared to between 14 to 125 basis points in 2007) but remained lower and less volatile than unsecured spreads.

Interest rate risk sensitivity analysis continued

To provide a quantitative measure of the sensitivity of pre-tax net interest income to changes in interest rates, FCE use interest rate scenarios. These scenarios assume a hypothetical, instantaneous increase or decrease in interest rates of one hundred basis points across all maturities and all currencies (a 'parallel shift'), as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios are based on historical trends. FCE's view is that a one hundred basis point instantaneous shift in interest rates is reasonable; however this does not represent an expectation of future interest rate movements. The differences in pre-tax net interest income between these scenarios and the base case over a twelve-month period represent an estimate of the sensitivity of FCE's pre-tax net interest income. FCE's ability to obtain derivatives to manage market risk has significantly reduced due to the financial crisis and deterioration of FCE's credit ratings. During the fourth quarter of 2008, FCE prioritised the use of limited derivative capacity for hedging asset-backed funding transactions and hedging currency exposure. Despite the challenges in obtaining derivatives, FCE's overall exposure to changes in interest rates as of year-end 2008 is comparable to year-end 2007 as detailed below.

GROUP	**Pre-tax Net Interest Income impact given a one percentage point instantaneous increase in interest rates**	**Pre-tax Net Interest Income impact given a one percentage point instantaneous decrease in interest rates**
	£ mil	**£ mil**
2008	**£ 14.4**	**£ (14.4)**
2007	11.6	(11.6)

The sensitivity analysis presented previously assumes a one hundred basis point rate change to the year-end yield curve that is both instantaneous and parallel. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed. As a result, the actual impact to pre-tax net interest income could be higher or lower than the results detailed above.

While the sensitivity analysis presented is FCE's best estimate of the impacts of the specified assumed interest rate scenarios, actual results could differ from those projected. The model used to conduct this analysis is heavily dependent on assumptions. Embedded in the model are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, and predicted repayment of retail installment sale and lease contracts ahead of the contract end date. Repayment projections ahead of contractual maturity are based on historical experience. If interest rates or other factors change, the actual prepayment experience could be different than projected. FCE has presented its sensitivity analysis on a pre-tax rather than an after-tax basis, to exclude the potentially distorting impact of assumed tax rates.

Currency risk

FCE faces exposure to currency exchange rate fluctuations if a mismatch exists between the currency of receivables and the currency of the debt funding those receivables. Whenever possible, FCE funds receivables with debt in the same currency, minimising exposure to exchange rate movements. When funding is in a different currency, FCE uses foreign currency derivatives to convert foreign currency debt obligations to the currency of the receivables.

Refer to Table 6 'Geographical Distribution of Exposures' for analyses of Retail loans and advances to customers as at 31 December 2008 by currency.

Risk Exposures and Risk Assessment Processes	Financial Market Risk

Use of Derivatives

The following table provides examples of certain activities undertaken, the related risks associated with such activities and the types of derivatives used in managing such risks.

Activity	Risk	Type of derivative
Investment and funding in foreign currencies	Sensitivity to change in foreign exchange rates	• Cross currency interest swaps • Foreign exchange contracts
Investment in Floating and Fixed-Rate Assets	Repricing characteristics of assets not matching repricing of liabilities	• Pay fixed rate and receive floating-rate swaps • Pay floating rate and receive fixed rate swaps

The use of derivatives is an integral part of FCE's risk management programme, providing reduced exposure to financial market volatility and substantial funding flexibility at an acceptable cost. Company policies and controls are in place, including derivative effectiveness testing at each reporting date, to manage these risks.

The key derivative policies are:

- Prohibition of use for speculative purposes
- Prohibition of use of leveraged positions
- Requirement for regular in-depth exposure analysis
- Establish and document accounting treatment at onset of trade
- Establish exposure limits (including cash deposits) with counterparties
- Treasury employee's compensation not being tied to trader's individual profits and losses

The key derivative controls are:

- Regular management reviews of policies, positions and planned actions
- Transactional controls including segregation of duties, approval authorities, competitive quotes and confirmation procedures
- Regular management review of portfolio mark to market valuations and potential future exposures
- Monitoring of counterparty creditworthiness
- Internal audits to evaluate controls and adherence to policies

Exposure to counterparty risk is managed by diversifying derivative activity amongst highly rated counterparties. FCE does transact with certain Ford related parties, which are non-rated entities. Substantially all of FCE's activities are transacted with financial institutions.

FCE applies the settlement date of accounting for the purchase or sale of a financial asset.

Transactions are undertaken in derivative financial instruments, ('derivatives'), which include interest rate and cross currency interest rate swaps and foreign exchange forward contracts. All derivatives entered into by FCE are entered into for the purpose of matching or minimising risk from potential movements in foreign exchange rates and interest rates inherent in FCE's financial assets and liabilities.

Interest rate swaps are used to manage the effects of interest rate fluctuations. Foreign currency exchange agreements, including forward contracts and swaps, are used to manage foreign exchange exposure.

Risk is reduced as follows:

(i) through the use of funding instruments that have interest and maturity profiles similar to the assets they are funding, and

(ii) through the use of interest rate and foreign exchange derivatives.

(iii) exposure to counterparty risk is managed by diversifying derivative activity amongst highly rated counterparties. The Company also undertakes transactions with certain Ford subsidiaries that are non-rated entities.

Risk Exposures and Risk Assessment Processes	Operational Risk

Operational risk management

The Operational Risk Committee (ORC) has responsibility for reviewing and monitoring major operational risks and for promoting the use of sound operational risk management across FCE. The main areas of focus for the ORC are the implementation of appropriate policies, processes and procedures to control or mitigate material exposure to losses, and the maintenance of suitable contingency arrangements for all areas to ensure that FCE can continue to function in the event of an unforeseen interruption.

The guiding principle is that management at all levels is responsible for managing operational risks. FCE also maintains a strong internal control culture across the organisation through the Operations Review Programme, a self-assessment control process used by the locations, which is reinforced by central controls from the Internal Control Office (ICO) and Ford's General Auditors Office (GAO).

FCE manages its operational risk through a variety of techniques, including monitoring key risk indicators, internal controls, Sarbanes Oxley compliance, insurance, compliance committees (RCC) and business continuity planning. The group has adopted the standardised approach for calculating the Pillar 1 capital requirements for operational risk.

Capital and Funding	Capital Adequacy

FCE implemented Basel II from January 1, 2008 and now has a robust and risk-sensitive framework for determining capital requirements. Key elements of the framework include improved operational risk management, enhanced internal capital adequacy assessment and improved credit risk reporting processes based on management information systems.

FCE's policy is to manage its capital base to targeted levels that exceed all regulatory requirements and support anticipated changes in assets and foreign currency exchange rates. FCE considers that is has fully complied with this policy for the year ended 31 December 2008. FCE actively monitors its capital structure, including the balance of Tier 1 and Tier 2 capital, through the use of monthly management reports and forecasts.

Capital adequacy is measured by FCE's capital resource requirements. The FSA provides Individual Capital Guidance (ICG) for each individual regulated institution. FCE manages its capital level to its ICG plus a cushion for unexpected volatility. FCE's consolidated regulatory capital is managed by its Regulatory Compliance Committee (RCC). A sub-committee of the RCC meets and reports into the RCC on a monthly basis and is responsible for monitoring actual and projected Capital Adequacy positions.

FCE's solvency ratio is reported within FCE's Basel Pillar 3 disclosures and was 217% at 31 December 2008 (2007: 203%). The solvency ratio demonstrates that FCE is holding significantly more capital than required by its ICG, internally assessed Basel II minimum capital requirements under Pillar 1 and that indicated by its Pillar 2 Internal Capital Adequacy Assessment Process (ICAAP). The additional capital held supplements the funding program and is a source of reassurance to investors in FCE's unsecured debt.

FCE's capital base remains strong and any changes must be approved by both its Board of Directors and the FSA. There was no change to the Company's issued share capital during 2008 or 2007. Regulatory capital is defined by tiers. FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill. FCE's Tier 2 capital comprises of subordinated debt and collective impairment losses. As FCE does not have a trading book, its capital structure does not include any Tier 3 capital (see Table 2 'Analysis of Capital Resources Held' for further details of FCE's regulatory capital).

FCE Bank Polska S.A, a wholly owned subsidiary of the Company, is a regulated bank and is also subject to separate regulatory capital requirements set by the National Bank of Poland requiring maintenance of certain minimum capital levels.

Capital and Funding	Internal Capital Adequacy Assessment Process

Internal Capital Adequacy Assessment Process (ICAAP) is an assessment by management of the required total economic capital necessary to operate its business. FCE undertakes an internal assessment of its capital requirements and this is approved annually by the Board of Directors in an ICAAP document. This process is undertaken more frequently if the need arises.

In November 2007, the Board of Directors approved FCE's first Internal Capital Adequacy Assessment Process (ICAAP) declaration and submitted it to the FSA for review and approval. FCE has chosen to use a Risk-Based Equity (RBE) approach to its analysis. The assessment is completed after analysis of FCE's primary risks and risk mitigation, its risk appetite, and stress testing and scenario planning. Stress testing and scenario planning cover both probable and more extreme events and includes such items as large dealer failure and severe economic recession. The ICAAP, including the recommended capital overlays, has been further developed in 2008 and reviewed and approved by the Board of Directors.

The basis of FCE's capital planning over the five-year Business Plan horizon is the optimisation of the cost and use of capital, to enable FCE to endure unforeseen circumstances, support investor confidence in FCE's business, meet regulatory requirements and provide a reasonable return to the shareholder. FCE's capital adequacy assessment is based on its RBE study and forms an important part of capital planning.

Funding

During 2008 the Company continued to meet a significant portion of its funding requirements through securitisation taking advantage of the cost efficiency of the market for asset-backed securities compared to unsecured debt and the further diversity of funding it provides. In doing so the Company utilised a variety of both amortising and revolving structures as well as other forms of structured financing and factoring.

In 2008 FCE raised approximately £4.5 billion of funding from external sources as detailed below

External funding raised for the year ended 31 December 2008	**2008 £ bil**
Securitisation:	
- Sale of wholesale automotive receivables	**£ 2.3**
- Sale of retail and lease automotive receivables	**1.0**
	3.3
Unsecured debt:	
- Bank loans	**0.5**
- Euro Medium Term Note (EMTN) programme	**0.5**
- Renewal of bank guarantees to support European Investment Bank loans	**0.2**
	1.2
Total funding raised	**£ 4.5**

In addition, FCE raises funds through local bank borrowing and private and public debt offerings.

Funding Strategy

FCE's funding strategy is to maintain a high level of liquidity and access to diverse funding sources that are cost effective. In recent years, lower credit ratings generally have resulted in higher borrowing costs. While FCE continues to access the unsecured debt market, the Company has also increased the use of securitisation funding as it is presently more cost effective than unsecured funding and allows access to a broader investor base. The Company plans to continue to meet a significant portion of its 2009 funding requirements through private and public securitisation transactions and the access to European Central Bank funding programmes.

In addition, FCE has various alternative business arrangements for select products and markets, such as partnerships with various financial institutions for Full Service Leasing (FSL) and retail and wholesale financing, which reduce funding requirements while allowing continued support to Ford. FCE continues to explore opportunities that provide alternative sources of funding while ensuring ongoing support for Ford vehicle sales.

Funding Sources

FCE's funding sources primarily are securitisation and unsecured debt. FCE issues both short- and long-term debt that is held by both institutional and retail investors.

FCE has unsecured commercial paper programmes in a number of European markets, including France, Poland and Sweden. In addition, the Company has an unsecured Euro commercial paper program that can issue in various currencies. Given that the Company's credit rating remains below investment grade, active issuance in most programmes has stopped. The Company also participates in the European Central Bank's short-term tender programme through its German branch and continues to issue a relatively small amount of long-term debt under its EMTN programme.

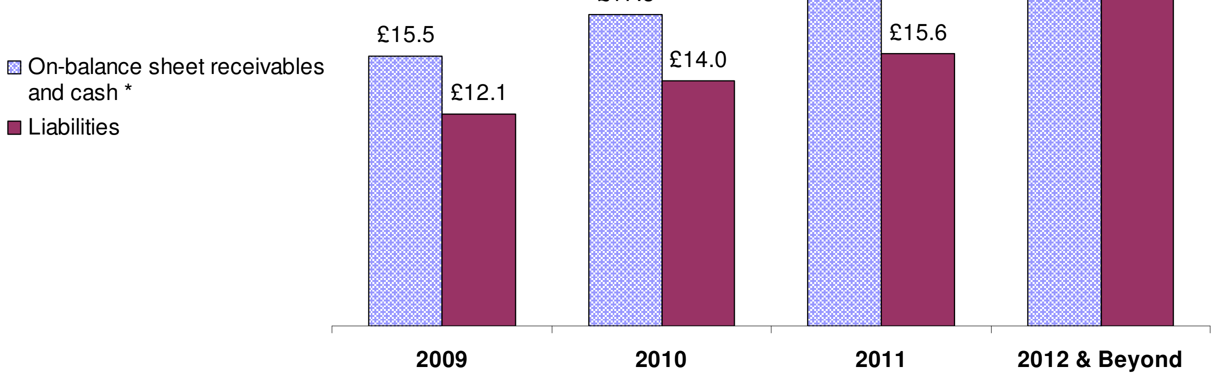
Funding Sources continued

The Company securitises retail, leasing and wholesale receivables through a variety of structures, including amortising, variable funding, and revolving structures as well as other forms of structured financing and factoring. The Company's transactions are aimed at investors in both public and private markets and are structured to meet central banks' eligibility criteria. FCE's funding policy is to optimise the Company's securitisation capabilities for each of its primary asset classes (retail and lease contracts, wholesale loans) in a wide range of European markets. With 11 years experience in the securitisation of its receivables, the Company has developed a strong expertise and solid working relationships with partner banks and in public markets.

Liquidity Sources

- The Company has committed bank lines with a diverse group of major banks. The Company's policy is to minimise utilisation of these lines so they can serve as back-up liquidity. They comprise three year and 364-day revolving credit facilities without any material adverse change clauses or ratings triggers.
- Committed capacity in securitisation transactions allows the Company to continue to sell receivables for a period of time (usually two to three years), which then amortise.
- Balance sheet profile: FCE's balance sheet is inherently liquid because of the short-term nature of finance receivables and cash, compared to debt. For additional information in regard to contractual maturities of receivables and debt.

Chart 11
Cumulative Contractual Maturities as of 31 December 2008 £ bils.



Source: FCE's Annual Report and Accounts ~ Group data from Note 40 'Liquidity Risk'

*Includes cash and advances to banks, gross loans and advances to customers, other assets and gross cash flows relating to operating leases reported on the balance sheet within property and equipment. Excludes off balance sheet 'available for use credit facilities'.

Capital and Funding	Securitisation

FCE funding sources include securitisation programmes that generally include the transfer of retail, leasing and wholesale receivables through a variety of programmes, utilising both amortising and revolving structures. The Company also engages in other structured financing and factoring transactions that have similar features to securitisation and are referred to as securitisation in this report.

As part of these transactions the Company provides various forms of credit enhancements to reduce the risk of losses to investors. Credit enhancements include over-collateralisation; segregated cash reserve funds, subordinated securities and excess spread. Excess spread occurs when interest collections on the securitised assets exceed related fees and expenses, including interest payments on the related asset-backed securities.

The Company retains interests in its securitisation transactions, including senior and subordinated securities issued by Special Purpose Entities (SPEs), rights to restricted cash held for the benefit of the SPE (for example, a reserve fund) and residual interests. Residual interests represent the right to receive excess spread otherwise not utilised under the transaction. The Company's ability to realise the carrying amount of its retained interests depends on actual credit losses and prepayment rate on the securitised assets.

By providing these enhancements and retained interests the Company has entered into transfers (as described in IAS 39 'Financial instruments, recognition and measurement') that do not qualify for derecognition of the underlying assets. The Company therefore continues to recognise the carrying value of the securitised assets within its balance sheet. The securitised assets represent receivables that have been sold legally to other entities. Such receivables are available only for the repayment of debt issued by SPEs, to pay other securitisation investors and other participants. The receivables are not available to pay the Company's other obligations or the claims of other creditors.

In a securitisation transaction, legally the securitised assets are generally held by a bankruptcy-remote SPE in order to isolate the securitised assets from the claims of the Company's creditors and ensure that the cash flows on the securitised assets are available for the benefit of securitisation investors. As a result, payments to securitisation investors are based on the creditworthiness of the securitised assets and any enhancements, and not the Company's creditworthiness.

Securitisation SPEs have limited purposes and generally are only permitted to purchase the securitised assets, issue asset-backed securities, receive all cash relating to the securitised assets and make payments on the securities. The SPEs utilised by the Company conduct their activities solely to meet the securitisation requirements of the Company. In accordance with the scope of Interpretation SIC-12 'Consolidation – Special Purpose Entities' the entity is consolidated as a subsidiary within the FCE Group balance sheet. Where applicable, the liabilities reported within the Group balance sheet represent the legal liabilities of SPEs. Where the Company has entered into a structured financing arrangement with a third party finance provider, and no SPE structure is involved, a liability is recognised within the Company and Group balance sheet within the caption 'Due to Banks and Other Financial Institutions', representing the proceeds received from the finance provider.

The Company is engaged as servicer to collect and service the securitised assets that it has originated. While servicing securitised assets, the Company applies the same servicing policies and procedures that apply to the Company's owned assets. The Company makes no distinction between securitised and non-securitised assets, and the related portfolio performance contained in this report is based on a total portfolio basis in line with FCE internal management reporting. The Company continues to include its securitisation assets within Exposures (except for transactions completed prior to April 2004 – as explained in the following paragraph). Securitised assets are therefore included within Wholesale and Retail reported exposure classes within Table 4 'Analysis of Capital Resources and Requirements' and are weighted based on the standardised approach detailed in BIPRU 3 as though the assets had never been sold.

As at 31 December 2008 The Company had one transaction (2007: three transactions) of receivables totalling £71 million (2007: £273 million) completed prior to April 2004 that are partially deducted from Exposures. In addition the related subordinated loans of £ nil (2007: £7 million) are deducted from capital resources, being classed as lending of a capital nature. At the end of 2008 there was only one transaction outstanding for which a deduction from 'Exposures' has been made. This transaction (referred to as Globaldrive Series F) is a retail public offering for which Globaldrive Germany IV Limited issued interest-bearing securities. Full investor reports are available for this and other transactions at the Ford Motor Credit Company website (refer to page 46 'website addresses').

Capital and Funding	Dividend Policy

The Company's Board of Directors has approved a policy statement with respect to the payment of dividends. The statement reconfirms FCE's approach to capital management so as to maintain sufficient capital to meet regulatory minimum requirements and Ford group policy.

The Board of Directors declared a dividend for the year ended 31 December 2007 of £190 million, equating to approximately to 30.93 pence per ordinary share and paid the dividend to its sole shareholder FCI on 29 July 2008.

The directors have not declared any dividends for the year ended 31 December 2008.

BY ORDER OF THE BOARD
Peter R Jepson
Executive Director, Finance & Strategy
March 25, 2009

Quantitative Information	Quantitative Information Index

All data reported within the Quantitative information section is stated on a FCE consolidated regulatory basis unless stated otherwise.

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Figures in bold font within the Tables on the following pages relate to balances as at 31 December 2008 or revenue, expenditure or other information for the year ended 31 December 2008.

Quantitative Information	Consolidated and Solo Consolidated Reporting

TABLE 1 Capital Resources

The primary regulatory reporting basis presented in this document for FCE is on a consolidated basis. The following table details:

- FCE subsidiaries excluded from solo consolidated reporting
- Capital Resource Requirements on a solo consolidated and consolidated basis as at 31 December 2008 and 31 December 2007.
- Capital Resources held as at 31 December 2008 and 31 December 2007 on a consolidated basis
- Solvency Ratio as at 31 December 2008 and 31 December 2007 on a consolidated basis

Subsidiary undertakings	**Country of incorporation/ Table No**	**Capital Resources**	
		2008	2007
		£ mil	**£ mil**
Solo consolidated basis	Various	**£ 3,033**	£ 2,549
Subsidiaries excluded from solo consolidated reporting:			
FCE Credit s.r.o.	Czech Republic	**£ 58**	£ 7
FCE Credit Hungaria Zrt	Hungary	**11**	8
FCE Services Kft	Hungary	**1**	1
FCE Bank Polska S.A.	Poland	**21**	18
FCE Credit Poland S.A.	Poland	**12**	11
Saracen Holdco Ab	Sweden	**48**	-
Eliminations		**5**	-
Consolidated basis	Table 4	**£ 3,189**	£ 2,594

The above-mentioned Eastern European subsidiaries are excluded from solo consolidated reporting as these subsidiaries obtain funding from local sources rather than from FCE. Saracen Holdco Ab is a holding company that has a 50% investment in a jointly controlled entity, Forso Nordic AB (Forso). Forso provides automotive financial services to Ford brands in Denmark, Finland, Sweden and Norway.

Quantitative Information	Components of capital

TABLE 2 ANALYSIS OF CAPITAL RESOURCES HELD

The components of FCE's Capital Resources as at 31 December 2008 are detailed below:

	Table No:	2008	2007
Tier 1		**£ mil**	£ mil
Share capital		**£ 614**	£ 614
Share premium		**352**	352
Retained earnings		**1,794**	1,257
Goodwill and other Intangible assets		**(20)**	(35)
Total Tier 1		**2,740**	2,188
Tier 2			
Collective impairment allowances		**125**	102
Qualifying subordinated loans	3	**369**	311
Total Tier 2		**494**	413
Total Tier 3		**-**	-
Deductions:			
Investment in jointly controlled entity		**(45)**	-
Subordinated loan receivable from SPE		**-**	(7)
Total Capital Resources Held	**1**	**£ 3,189**	£ 2,594
End of period risk weighted exposures (Basel II basis)*		**£ 17,224**	£ 14,760
Tier 1 ratio (%)		**15.9%**	14.8%
Tier 2 ratio (%)		**2.9%**	2.8%
Total capital ratio (%)		**18.5%**	17.6%

*End of period risk weighted exposures is calculated as 'Exposures' multiplied by the appropriate percentage risk weighting, for further information refer to Table 4 'Analysis of Capital Resources and Requirements'

The increase of FCE's regulatory capital in 2008 million to £3,189 million (2007: £2,594 million) and the increase in the Tier 1 ratio is primarily attributable to an increase in retained earnings and qualifying subordinated loans that has been partially offset by increased deductions. FCE is holding significantly more capital than is required by either the regulatory minimum or FCE's internal risk-based capital policy.

FCE's policy is to manage its capital base to targeted levels that meet all regulatory requirements and support anticipated changes in assets and foreign currency exchange rates. For further details refer to 'Capital and Funding' section which commences on page 26. FCE Bank Polska S.A. is a regulated bank and is also subject to regulatory capital requirements requiring maintenance of certain minimum capital levels. During the two years being reported, the individual entities within FCE complied with all of the externally imposed capital requirements to which it is subject.

Regulatory capital is divided into Tiers 1 and 2 that cover credit risk and Tier 3 which supports market risk. Further information in regard to regulatory capital is detailed below:

- **Tier 1** comprising of share capital, share premium, retained earnings and reserves created by appropriations of retained earnings. The book value of intangible assets is deducted in arriving at Tier 1 capital.
- **Tier 2** comprising of qualifying subordinated loans and collective impairment allowances.
- **Tier 3** is not applicable to FCE as no trading book is held. Tier 3 capital is restricted to trading activities and is not eligible to support counterparty or settlement risk.
- **Deductions** comprising mainly of investment in the Forso JV.

Retained earnings included within regulatory capital are net of tax, dividends and other appropriations and exclude the profit for the financial year and unrealised fair value adjustments to financial instruments. The profit for the financial year for 2008 of £204 million (2007 £203 million) is included within the following year's regulatory capital once verified by external auditors.

TABLE 3 SUBORDINATED LOANS QUALIFYING AS TIER 2 CAPITAL

Details of subordinated loans provided to the Company as at 31 December are as follows:

Type / Maturity Date	Currency Amount (Mils)	Loan amount 2008 £ mil	Tier 2 Value 2008 £ mil	Loan amount 2007 £ mil	Tier 2 Value 2007 £ mil
Perpetual Loans:					
Undated	US$ 218.6*	**£150**	**£ 150**	£ 109	£ 109
Undated	EUR€ 46.0	**44**	**44**	34	34
Undated	EUR€ 35.8	**34**	**34**	26	26
Undated	EUR€ 12.8	**12**	**12**	9	9
Undated	EUR€ 5.6	**5**	**5**	4	4
Undated	EUR€ 5.6	**5**	**5**	4	4
Undated	EUR€ 0.8	**1**	**1**	1	1
	Total perpetual loans	**£ 251**	**£ 251**	£ 187	£ 187
Dated qualifying loans:					
Loan 2010	US$ 250*	**172**	**69**	125	75
Loan 2011	US$ 45*	**31**	**19**	22	22
Loan 2012	US$ 55*	**38**	**30**	27	27
	Total dated qualifying loans	**£241**	**£ 118**	£ 174	£ 124
Total loan amounts		**£ 492**		£ 361	
Total Tier 2 Value			**£ 369**		£ 311

* Indicates a drawdown under subordinated loan facility with FCI.

Early repayment of the loans, which are all due to fellow Ford subsidiaries, requires the prior written consent of the FSA and as such these loans qualify for Tier 2 capital for regulatory reporting purposes, refer to Table 2 'Analysis of Capital Resources Held'. Dated qualifying loans are amortised on a straight line basis by 20 per cent per annum in the final four years to maturity when calculating the amount to be included in Tier 2 capital as included in the 'Tier 2 Value' column above. The US dollar loans are due to FCI, the Company's immediate parent undertaking. The Company may repay or FCI may request repayment of the US dollar loans by giving one month's written notice. The Euro loans are due to FMCC. The Company may terminate the agreement at any time by giving one month's written notice. FMCC may terminate the agreement by giving five years and one day's prior written notice. Cross currency swaps are used to minimise currency risks on US dollar denominated funding.

The Company has a US$1 billion subordinated loan facility with FCI. This facility enables the Company to respond quickly if additional capital support is required. Under the terms of the facility, the Company is able to take draw downs up to the maximum principal amount of the facility. Any undrawn amount of the facility will be available until it is cancelled either by the Company or FCI. At the end of 2008, the amount drawn under the facility totalled US$ 568.6 million (2007: US$568.6 million), and comprised the US$ 218.6 million (2007: US$218.6 million) perpetual loans and three dated loans totalling US$350 million (2007: US$350 million) as indicated by asterisks in the above table.

The rights of FCI and FMCC to payment and interest in respect of all subordinated loans will, in the event of winding up of the Company, be subordinated to the rights of all unsubordinated creditors of the Company with respect to their senior claims.

TABLE 4 ANALYSIS OF CAPITAL RESOURCES AND REQUIREMENTS

FCE has followed BIPRU 3.5.3 guidelines and has applied the simplified approach, applying a single risk weighting to all exposures in each exposure class, when calculating the capital requirements below. The FSA guidelines, BIPRU 3.5.2, permit an organisation to nominate an External Credit Assessment Institution (ECAI). FCE has the FSA's agreement not to elect an ECAI as the majority of our financed customers are not rated by any ECAI's. Therefore FCE internal rating models are used as described in the Credit Risk section of this report (see pages 19 to 21).

Details of the exposures and capital requirements, along with the average amount of exposure during the period as at 31 December are detailed below. Any exposures relating to over the counter derivative values are included in the relevant categories in the table.

		2008			2007	
		As at 31 December			As at 31 December	
	Risk Weighting	**Exposure**	**Capital Requirement***	**Average Capital Resources Required**	Exposure	Capital Requirement*
Credit Risk Exposure Classes		**£ mil**	**£ mil**	**£ mil**	£ mil	£ mil
Wholesale	**100%**	**£ 9,306**	**£ 745**	**£ 687**	£ 7,784	£ 622
Wholesale	**20%**	**130**	**2**	**3**	433	7
Wholesale	**0%**	**434**	**-**	**-**	191	-
Retail	**75%**	**9,264**	**556**	**526**	8,443	507
Institutions	**50%**	**336**	**13**	**11**	249	10
Institutions	**20%**	**2,397**	**38**	**27**	1,196	19
Multilateral development banks	**0%**	**213**	**-**	**-**	217	-
Central governments and Central banks	**0%**	**168**	**-**	**-**	187	-
Administrative Bodies and non-commercial undertakings	**100%**	**7**	**1**	**-**	1	-
Loans & advances over 90 days past due	**150%**	**119**	**14**	**9**	52	6
Other items	**100%**	**6**	**1**	**1**	7	1
Other items	**20%**	**20**	**-**	**-**	5	-
Sub-total		**£ 22,400**	**£ 1,370**	**£ 1,264**	£ 18,765	£ 1,172
Other items for which capital is held:						
Market Risk (Foreign exchange exposure)			**£ 6**	**£ 5**		£ 2
Operational Risk Capital			**95**	**99**		105
Total Capital Requirement			**£ 1,471**	**£1,368**		£ 1,279
			Capital Held			Capital Held
Total Capital Resources held	**Table 2**		**£ 3,189**			£ 2,594
Solvency Ratio			**217%**			203%

* Capital Requirement = Exposure *x* Risk Weighting *x* minimum capital requirement (8%)

** Average Capital Resources Required are calculated by adding the Capital requirement at the beginning of the year and the end of each six month period and dividing by three.

FCE's ten largest counterparty exposures, including undrawn commercial credit facilities, totaled £ 1,279 million as at 31 December 2008 (2007: £ 1,295 million). Deposits received from FCI of £ 585 million as at 31 December 2008 (2007: £ 585 million) and from an independent third party of £30 million (2007: nil) are utilised to mitigate certain exposure concentrations. In the event of default by the counterparty the deposits received can be offset against the amounts due to FCE.

Netting agreements have been utilised for some Ford affiliated companies. In total the value of the financial liabilities that have been offset against financial assets with these counterparties was £ 1 million at 31 December 2008 (2007: £ 4.4 million). The benefit of these netting agreements has reduced wholesale exposures.

The increase in the Solvency Ratio in 2008 to 217% from 203% is primarily attributable to increased retained earnings. FCE continues to hold significantly more capital than is required by either the regulatory minimum or FCE's internal risk-based capital policy.

Quantitative Information	Risk Weighted Exposures and Operational Risk Capital

TABLE 5 MATURITY ANALYSIS OF EXPOSURES

Maturity analysis of exposures as at 31 December analysed into the relevant maturity analysis as detailed below:

At 31 December 2008 **Non-Derivative cash flows**	Note	**0-3 Mths £ mil**	**4-12 Mths £ mil**	**1-5 Years £ mil**	**5+ Years £ mil**	**Total £ mil**
Cash and advances to banks	A	**£ 1,797**	**£ 299**	**£ 439**	**£ 160**	**£ 2,695**
Other assets	D	**469**	**9**	**-**	**-**	**478**
Loans and advances to customers	B	**3,473**	**9,403**	**5,757**	**29**	**18,662**
Operating leases	B	**3**	**17**	**70**	**-**	**90**
Assets		**£ 5,742**	**£ 9,728**	**£ 6,266**	**£ 189**	**£ 21,925**

At 31 December 2007	Note	0-3 Mths £ mil	4-12 Mths £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Cash and advances to banks	A	£ 730	£ 11	£ 774	£ 86	£ 1,601
Other assets	D	248	27	10	-	285
Loans and advances to customers	B	5,338	5,469	5,110	27	15,944
Operating leases	B	7	19	67	-	93
Assets		£ 6,323	£ 5,526	£ 5,961	£ 113	£ 17,923

Note	**cash flows from assets and liabilities are allocated to the appropriate time bands as follows:**
A	Based on availability of 'cash and advances to banks' as follows: • 'Cash and cash equivalents' classified by contractual maturity date • 'Cash associated with securitisation transactions' classified according to the anticipated repayment date • 'Other deposits' which are typically not available for use in day to day operations classified based on the latest possible repayment date
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer early settlements: • Retail finance and lease contracts and operating lease vehicles generally require customers to pay equal monthly instalments over the life of the contract. • Wholesale financing for new and used vehicles held in dealers inventory - A bullet repayment schedule is utilised as the principal is typically repaid in one lump sum at the end of the financing period
C	Classified to the earliest possible repayment date which means the first rollover date, or the shortest period of notice required to withdraw the funds or exercise a break clause where applicable
D	Classified according to the remaining period to maturity

Quantitative Information	Risk Weighted Exposures and Operational Risk Capital

TABLE 6 GEOGRAPHICAL DISTRIBUTION OF EXPOSURES

Analysis of exposures as at 31 December analysed into geographical segments:

	UK		Germany		Italy		Spain		France	
	2008 £ mil	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil
- Retail assets	**£ 1,847**	£ 1,829	**£ 3,327**	£ 2,403	**£ 1,131**	£ 962	**£ 1,184**	£ 1,106	**£ 359**	£ 314
- Wholesale assets	**2,130**	1,873	**1,301**	945	**1,264**	929	**940**	863	**953**	758
- Other assets	**3,946**	3,254	**4,256**	3,254	**863**	623	**1,859**	802	**1,055**	327
Total assets:	**£ 7,923**	£ 6,956	**£ 8,884**	£ 6,602	**£ 3,258**	£ 2,514	**£ 3,983**	£ 2,771	**£ 2,367**	£ 1,399
Loan impairment losses	**14**	1	**(3)**	17	**13**	8	**48**	6	**2**	1
Past Due Exposures	**51**	43	**94**	61	**87**	77	**108**	72	**10**	6

	Other Euro Currency locations		Other locations		Central Office		Eliminations		Total Group	
	2008 £ mil	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil	**2008 £ mil**	2007 £ mil
	-		**-**		**-**		**-**		**-**	
- Retail assets	**£ 721**	£ 772	**£ 214**	£ 811	**£-**	£-	**£-**	£-	**£ 8,783**	£ 8,197
- Wholesale assets	**1,212**	1,127	**702**	808	**-**	-	**-**	-	**8,502**	7,303
- Other assets	**3,065**	1,988	**414**	267	**6,630**	4,917	**(17,733)**	(12,763)	**4,355**	2,669
Total assets	**£ 4,998**	£ 3,887	**£ 1,330**	£ 1,886	**£ 6,630**	£ 4,917	**£ (17,733)**	£ (12,763)	**£ 21,640**	£ 18,169
Loan impairment losses	**2**	(2)	**-**	1	**-**	1	**-**	-	**76**	33
Past Due Exposures	**96**	64	**4**	-	**-**	-	**-**	-	**450**	323

For further details of the Company's geographical segments refer to the table below:

Primary Segment	**Description**
United Kingdom	FCE Bank plc excluding WTF division (which is included within 'Other locations), Central Office operations as detailed below, UK subsidiaries as detailed on page 5 and SPEs supporting UK securitisation transactions.
Germany, Italy, Spain and France	SPEs supporting each locations securitisation transactions.
Other Euro currency locations	Austria, Belgium, Greece, Ireland, Netherlands, Portugal and SPEs supporting securitisation transactions in the Netherlands and Ireland. As at 31 December 2007 'Other Euro locations' included FCE's branch and subsidiary (Volvo Car Finance Limited) in Finland, the business and assets of which have subsequently been transferred.
Other locations	Includes Worldwide Trade Financing (WTF) a UK division and an amortising receivable portfolio in Norway, Czech Republic, Hungary, Poland and a Swedish holding company Saracen Holdco Ab which includes income from the Nordic JV. As at 31 December 2007 'Other locations' included FCE's branches in Denmark, Norway, Sweden and Switzerland, the majority of the business and assets of which have subsequently been transferred.
Central office	Relates to various operations providing support to the Company's branches and subsidiaries. Other assets include funding provided to the Company's subsidiaries where provided.
Eliminations	Eliminates inter company transactions between the Company and its subsidiaries.

For further details of 'past due exposures' and 'impaired loans and advances' refer to Table 8 'Exposures analysed by payment due status'.

Table continues on next page

Quantitative Information	Risk Weighted Exposures and Operational Risk Capital

TABLE 6 GEOGRAPHICAL DISTRIBUTION OF EXPOSURES continued

Analysis of Group Retail and Wholesale net loans and advances to customers as at 31 December 2008 by major market

Retail	Wholesale

Chart 12

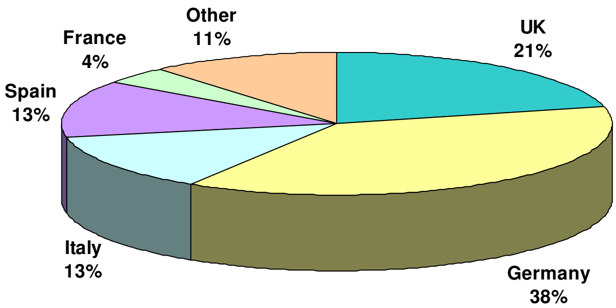
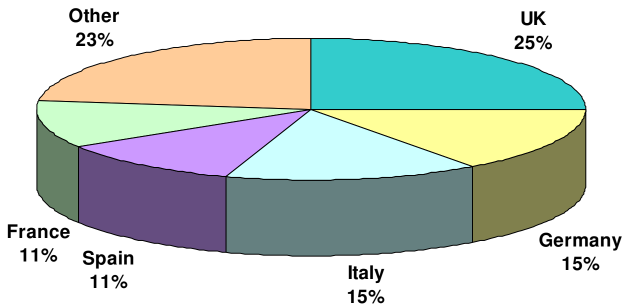
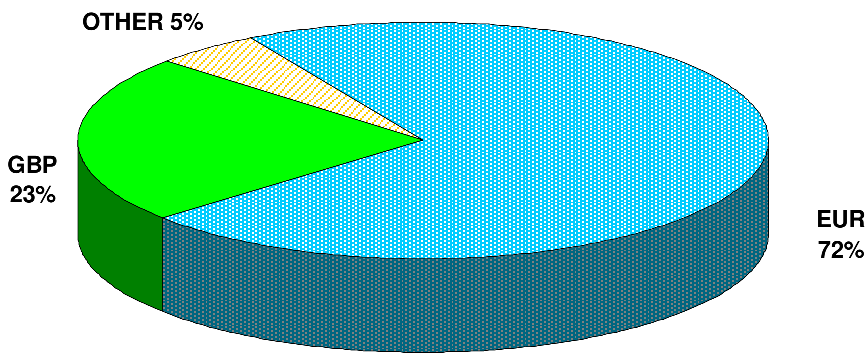


Chart 13



Analysis of Group Retail net loans and advances to customers as at 31 December 2008 by currency

Chart 14



Additional charts which provide further Group segmental data as at 31 December 2008 are contained on pages 8 and 9. Page 8 analyses retail and wholesale segments as a percentage of net loans and advances to customers. Page 9 analyses net loans and advances to customers for both retail and wholesale by major market and brand.

Quantitative Information	Provision for Incurred Losses

TABLE 7 PROVISION FOR INCURRED LOSSES

The movement in the provision for incurred losses is as follows:

	Retail £ mil	Wholesale £ mil	**Total £ mil**
Balance at 1 January 2007	£ 83	£ 23	£ 106
Impairment losses charged to income statement	29	4	33
Deductions:			
- Losses written-off	(94)	(12)	(106)
- Recoveries	62	3	65
Net losses	(32)	(9)	(41)
Other:			
- Exchange adjustments	6	2	8
Balance at 31 December 2007 / 1 January 2008	**£ 86**	**£ 20**	**£ 106**
Impairment losses charged to income statement	**73**	**3**	**76**
Deductions:			
- Losses written-off	**(108)**	**(4)**	**(112)**
- Recoveries	**35**	**2**	**37**
Net losses	**(73)**	**(2)**	**(75)**
Other:			
- Exchange adjustments	**21**	**5**	**26**
- Provision transfer relating to a sale of interests in a jointly controlled entity	**(2)**	**-**	**(2)**
- Provision transfer relating to a sale of interests to another Ford entity	**(1)**	**-**	**(1)**
Balance at 31 December 2008	**£ 104**	**£ 26**	**£ 130**
Analysis of provision for incurred losses:			
Collective impairment allowance	**£ 104**	**£ 19**	**£ 123**
Specific impairment allowance	**-**	**7**	**7**
Balance at 31 December 2008	**£ 104**	**£ 26**	**£130**
Collective impairment allowance	£ 86	£ 15	£ 102
Specific impairment allowance	-	4	4
Balance at 31 December 2007	£ 86	£ 20	£ 106

The collective impairment allowance as detailed above represents incurred losses in relation to both the retail and wholesale portfolios forms part of FCE's Tier 2 regulatory capital as disclosed in Table 2 'Analysis of Capital Resources Held'.

The provision for incurred losses represents management's estimate of the losses incurred in the loan portfolios at the balance sheet dates. The retail and wholesale portfolios are segregated due to the difference in nature and performance of these asset pools and statistical techniques are applied to each of the asset pools. Subjective judgements are made in this process. Changes in these estimates could result in a change to the provision and have a direct impact on the provision.

Table continues on next page

TABLE 7 PROVISION FOR INCURRED LOSSES continued

A provision for incurred losses is established when FCE considers the credit-worthiness of an individual borrower or lessee has deteriorated such that the recovery of the whole or part of an outstanding advance or group of loan assets is in doubt. The criteria that FCE uses to determine that there is objective evidence that an impairment loss has occurred include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position;
- Deterioration in the value of collateral.

The provision takes into consideration the financial condition of the borrower or lessee, the value of the collateral, recourse to guarantors and other factors. Loan assets with similar credit characteristics are grouped together and evaluated for impairment on a collective basis.

Following the impairment of a retail financing contract the carrying value of the loan is reduced to reflect the average vehicle recovery value. The average vehicle recovery value is calculated by multiplying the expected sale proceeds of the vehicle by historical vehicle recovery percentages. Following vehicle recovery and prior to vehicle resale, the carrying value of the loan is eliminated and the vehicle is recorded in 'Other Assets' at the estimated realisable value net of disposal costs. Any further recoveries for contracts previously charged off as uncollectible are written back to 'provision for incurred losses' on loans and advances to customers.'

At the point of impairment of a wholesale loan the carrying value of the loan is reduced by the use of a 'specific impairment allowance' for the estimated uncollectible amount. If the final loss at settlement is greater than expected then a further 'write-off ' or if lower a further 'recovery' is recorded and the 'specific impairment allowance is eliminated and the carrying value of the loan is reduced to reflect the estimated collectable amount.

A provision for incurred losses is made against loans and advances and operating lease assets to cover bad and doubtful debts which have been incurred and not separately identified, but which are known from experience to be present in portfolios of loans and advances and operating leases. The provision is determined based on a number of factors including historical loss trends, the credit quality of the present portfolio and general economic factors. Provisions for incurred losses relating to operating lease assets are presented as an adjustment to accumulated depreciation.

Provision for incurred losses is deducted from loans and advances to customers and property and equipment and is included in the income statement under the caption 'Impairment losses on loans and advances' and 'Depreciation of property and equipment' respectively. The provision for incurred losses comprises the brought forward balance at the beginning of the period plus the income statement charge as referred to above less 'Net losses' and includes exchange adjustments relating to foreign currency translation. 'Net losses' comprises of loans that have been written off when there is no realistic prospect of recovery, less any subsequent recoveries of bad debts which had previously been written off.

Retail and wholesale loans whose terms have been renegotiated in the normal course of business and for which no objective evidence of impairment loss has occurred are not considered as past due or impaired.

Quantitative Information	Analysis of Past Due Exposures

TABLE 8 EXPOSURES ANALYSED BY PAYMENT DUE STATUS

The table below analyses retail loans and advances to customers by payment due status.

	Retail	
As at 31 December	**2008**	2007
Past due but not impaired retail contracts	**£ mil**	£ mil
Past due under 30 days	**£ 283**	£ 209
Past due over 30 < 60 days	**102**	72
Past due over 60 < 90 days	**44**	29
Past due over 90 < 120 days	**21**	13
Total	**£ 450**	£ 323
Total retail loans and advances to customers	**£ 8,783**	£ 8,197
Past due but not impaired retail contracts as a % of loans & advances to customers	**5.1%**	3.9%
Fair value of collateral held for past due but not impaired	**£ 444**	£ 321

	Retail	
As at 31 December	**2008**	2007
Impaired retail loans and advances	**£ 119**	£ 61
Amounts written off	**(76)**	(25)
Fair value of collateral held for impaired retail loans	**£ 43**	£ 36

Methodology of calculating fair values was revised in 2008 and 2007 comparatives have been prepared on the same basis.

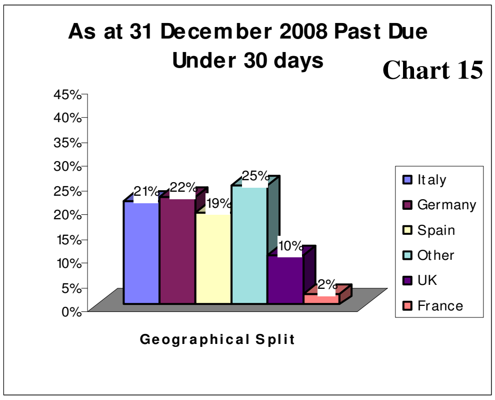
Retail - consists mainly of retail finance and lease contracts provided to individual customers. Credit underwriting typically includes use of an application scorecard and credit bureau review of each applicant together with an internal review and verification process. Following the impairment of a retail financing contract the carrying value of the loan is reduced to reflect the average vehicle recovery value and the loan is included within the table above under the caption 'Impaired retail loans and advances'. For further details in regard to the percentage of past due but not impaired contracts in relation to the total portfolio see page 19. The value of renegotiated loans being previously past due or impaired at 31 December 2008 was £ 1.6 million (2007: £ 0.6 million).

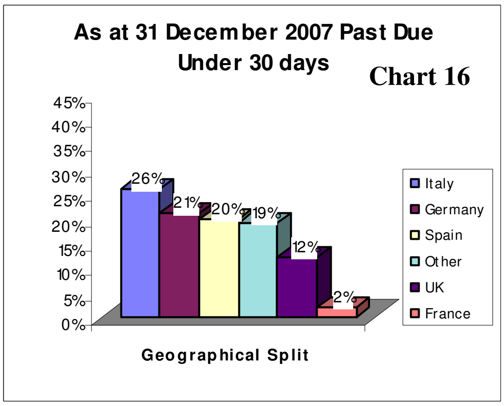
Quantitative Information	Analysis of past due exposures

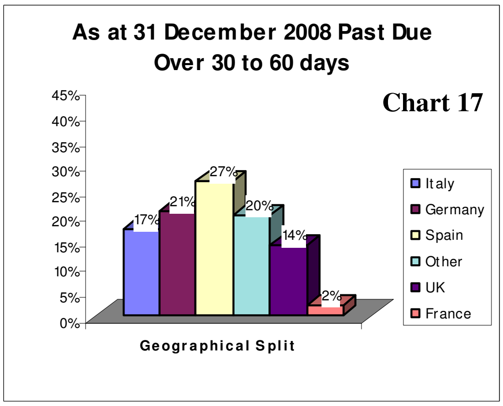
TABLE 9 GEOGRAPHICAL ANALYSIS OF EXPOSURES PAST DUE

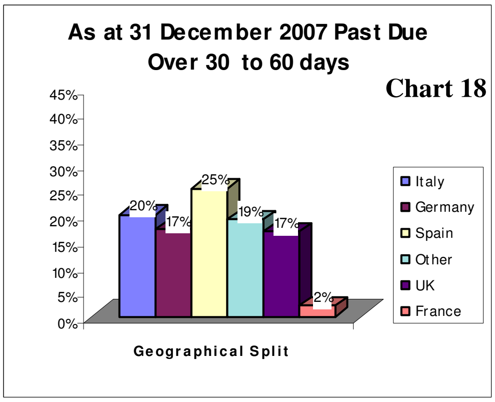
Retail

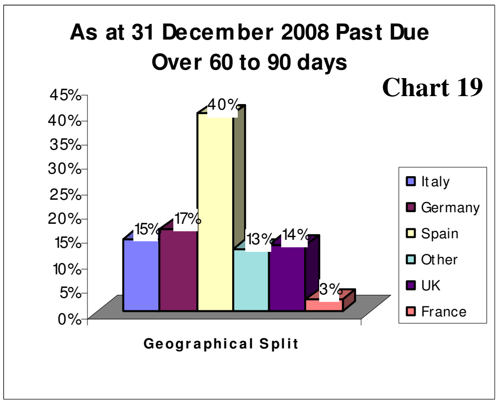
The charts below and on the following page provide a geographical analysis of retail contracts which are past due but not impaired for the largest five locations plus all other locations which are reported under the caption 'Other'. The retail past due contracts are analysed by payment due status and are expressed as a percentage of total FCE past due receivables.











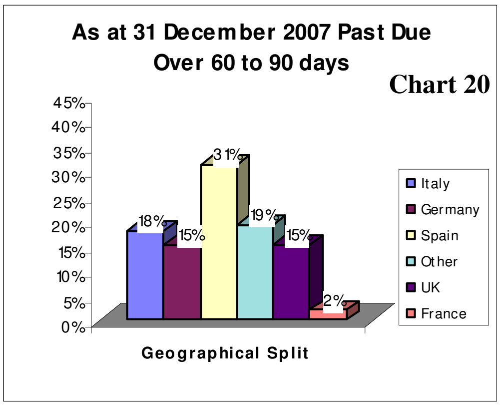
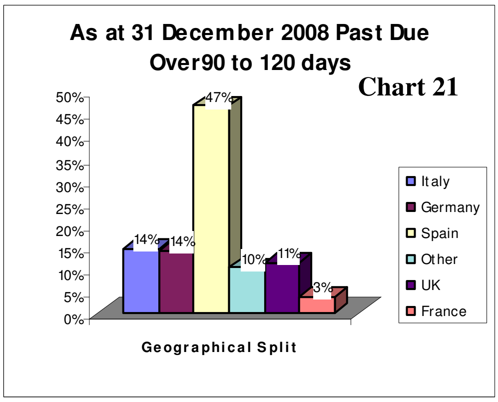


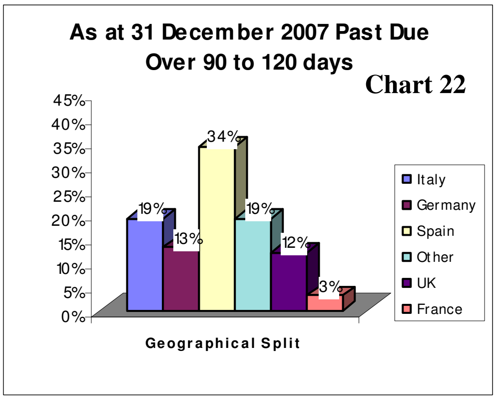
Table continues on next page

Quantitative Information	Analysis of past due exposures

TABLE 9 GEOGRAPHICAL ANALYSIS OF EXPOSURES PAST DUE

Retail Continued





Wholesale

FCE actively manages its relationship with the Ford dealer network and monitors all exposures to these dealers. Due to the relationship, FCE is often aware of potential credit risk issues ahead of the event. When such potential issues are found within the wholesale portfolio, it is FCE's policy that amounts past due are either resolved to FCE's satisfaction in accordance with established policies and procedures or the loan is classified as impaired. There are, therefore, no loans or advances in the wholesale portfolio classified as past due. FCE works closely with the counterparty concerned in order to minimise or avoid the event occurring. As a result losses reported for wholesale have consistently been less than those reported for retail (as disclosed within Table 7 'Provision for incurred losses').

Quantitative Information	Derivative Financial Instruments

TABLE 10 Derivative Financial Instruments

The following tables analyse the derivative financial instruments by type of contract, giving the underlying notional amount and estimated fair value.

	2008			2007		
	Notional	**Fair Value**		Notional	Fair Value	
GROUP	**Amount**	**Assets**	**Liabilities**	Amount	Assets	Liabilities
	£ mil	**£ mil**	**£ mil**	£ mil	£ mil	£ mil
Designated as fair value hedges						
Interest rate contracts:						
Interest rate swaps	**£ 754**	**£ 64**	**£ -**	£-	-	-
Total designated as fair value hedges	**754**	**64**	**-**	-	-	-
Non-designated derivatives						
Exchange contracts:						
Foreign exchange forwards	**£ 1,544**	**£ 60**	**£ 32**	£ 1,281	£ 9	£ 7
Interest rate contracts:						
Interest rate swaps	**15,479**	**299**	**236**	16,189	100	40
Cross currency interest rate swaps	**1,079**	**82**	**130**	1,132	26	57
Total non designated derivatives	**£ 18,102**	**£ 441**	**£ 398**	£ 18,602	£ 135	£ 104
Total derivatives	**£ 18,856**	**£ 505**	**£ 398**	£ 18,602	£ 135	£ 104

FCE's derivatives strategy is defensive; derivatives are not used for speculative purposes, therefore all of the derivative transactions in the numbers above are for use within FCE's own credit portfolio.

For further information in regard to derivative usage, policies and controls refer to the 'Financial market risk management section' which commences on page 22.

Other Information	Chart index

Chart index

Chart Number	Description of Chart/Type of chart	Pages
	Highlights	
1	Analysis of capital resources by requirement and actually held/Bar chart	2
2	Analysis of capital resources split by tiers/Bar chart	2
3	Analysis of credit risk exposures by year/Bar chart	2
	Introduction and Main Board and Committee Structure	
4	Analysis of net receivables by product segment/PIE chart	7
5	Analysis of net receivables by market/PIE chart	8
6	Analysis of net receivables by brand/PIE chart	8
7	Committees of the Board/Organisation chart	10
	Risk Exposures and Risk Assessment Processes	
8	Retail delinquency 5 Year Monthly Trend/Graph	19
9	Dealer risk ratings/Bar chart	20
10	Net Credit Losses as % of ANR/Bar Chart	21
11	Cumulative Contractual Maturities as of 31 December 2008/ Bar Chart	28
	Quantitative Information	
12	Retail net loans and advances to customers as at 31 December 2008 by major market/Pie chart	38
13	Wholesale net loans and advances to customers as at 31 December 2008 by major market/Pie chart	38
14	Retail net loans and advances to customers as at 31 December 2008 by currency/Pie chart	38
15	Retail exposures past due under 30 days as at End 2008/Bar chart	42
16	Retail exposures past due under 30 days as at End 2007/Bar chart	42
17	Retail exposures past due over 30 to 60 days as at End 2008/Bar chart	42
18	Retail exposures past due over 30 to 60 days as at End 2007/Bar chart	42
19	Retail exposures past due over 60 to 90 days as at End 2008/Bar chart	42
20	Retail exposures past due over 60 to 90 days as at End 2007/Bar chart	42
21	Retail exposures past due over 90 to 120 days as at End 2008/Bar chart	43
22	Retail exposures past due over 90 to 120 days as at End 2007/Bar chart	43

Other Information	Website addresses

Additional data and web resources, including those listed below can be obtained from the following web site addresses:

Additional data	Web site addresses
FCE Bank plc. • Annual Report and Accounts • Basel Pillar 3 Reports	http://www.fcebank.com or http://www.fordfinancialeurope.com To access click on 'Investor Relations'
Ford Motor Company (Ultimate Parent Company) including: • 'Financial Results' • 'Annual Reports' • 'US SEC EDGAR filings' Footnote 1 and 2	http://www.ford.com/en/company/investorInformation/ To access click on 'Investor Relations Financial Results' and then required item.
Ford Motor Credit Company including: • 'Company Reports' Footnote 2 • 'Press Releases' • 'Ford Credit public asset-backed securities transactions' Footnote 3	http://www.fordcredit.com/investorcenter To access click on 'Investor Reports' and then required item. Ford Motor Credit Company
Luxembourg's Stock Exchange which includes • Euro Medium Term Note Base Prospectus	www.bourse.lu To access search for 'FCE'

Additional information	
Footnote 1: Securities and Exchange Commission (SEC) Electronic Data Gathering and Retrieval (EDGAR) **Footnote 2:** SEC filings include both SEC Form 10K Annual report and SEC Form 10Q Quarterly reports.	
Footnote 3: 'Ford Credit public asset-backed securities transactions'. Incorporates European retail public securitisation data including the following report types: • Offering Circulars • Monthly Rating Agencies Report • Monthly Payments Notification • Monthly Note holders' Statement	To access click on: 'Asset-Backed Securitization', then 'Accept these terms and conditions', then 'Europe', then 'Globaldrive', then Select retail public transactions and report type by using the pull down menus.

GLOSSARY OF DEFINED TERMS

For the purpose of this report the following terms have the meaning prescribed against them. Certain defined terms may not always be capitalised in this report.

Term	Meaning
2008 Annual Report and Accounts	The FCE consolidated annual financial statements as at and for the year ended 31 December 2008
Basel II	An international business standard that banking regulators use when creating regulations and the supervisory environment for financial institutions in the European Union so that they maintain enough cash reserves to cover financial and operational risks incurred by their operations. Issued by the Basel Committee on Banking Supervision with the framework detailed in the EU Capital Requirements Directive and implemented by national legislation.
BIPRU	The Financial Services Authority Prudential Sourcebook for Banks, Building Societies and Investment Firms
Board or Board of Directors	The Board of Directors of FCE Bank plc.
Capital Requirement	The amount of capital a firm must hold as calculated in Pillar 1. For further details refer to Table 4 Analysis of Capital Resources
CAD	The Capital Adequacy Directive
CRD	The Capital Requirements Directive, commonly referred to as Basel II
Company	FCE Bank plc. including all its European branches
Dealer or Dealership	A wholesaler franchised directly by Ford, or one of its affiliates, to provide vehicle sales, service, repair and financing. See Wholesale below.
Derivatives	Financial instruments which take the form of contracts under which parties agree to payments between them based upon the value of an underlying asset or other data at a particular point in time
EMTN	1993 European Medium Term Note Programme launched by FCE for the issue of Notes, including retail securities, to both institutional and retail investors. Maximum programme size is now US$12 billion.
EU or European Union	Political and economic community, established in 1993 by the members of the European Economic Community, now comprising twenty seven European countries. The EU comprises a single economic market created by a system of laws which apply in all member states for the free movement of people, goods, services and capital. The EU has created a central European bank and a common currency, the Euro, has been adopted by sixteen of its members.
FCE	FCE Bank plc including all its branches and subsidiaries.
FCI	Ford Credit International, Inc., a company incorporated under the laws of Delaware USA, a subsidiary of Ford Credit and the Company's immediate shareholder
Finance lease	Also known as full payout leasing. A contract involving payment over a primary/basic period of specified sums sufficient in total to amortise the capital outlay of the lessor, and to provide for the lessor's borrowing costs and profit. The lessee normally is responsible for the maintenance of the asset.
FMCC	Ford Motor Credit Company LLC, a limited liability company incorporated under the laws of Delaware USA and an indirect wholly owned subsidiary of Ford
Ford	Ford Motor Company, a company incorporated under the laws of Delaware USA and the Company's ultimate parent company. In some cases, this term may mean Ford Motor Company and all or some of its affiliates
FORSO/the Forso JV	A joint venture finance company established with Sofinco, a consumer credit subsidiary of Credit Agricole S.A. in June 2008 that provides customer and dealer automotive financing in the Nordic markets.
FSA	UK Financial Services Authority. Established by the UK government and exercises statutory supervisory powers under the Financial Services and Markets Act
Full Service Leasing or FSL	Fixed monthly vehicle rental for customers, including ongoing maintenance and disposal of vehicle at the end of the hire period. Typically FCE retains responsibility for marketing and sales, for which it receives a fee income, and outsources finance, leasing, maintenance and repair services for current and future portfolios of commercial operating leases to a preferred third party business partner.
IAS	International Accounting Standards
ICAAP	Internal Capital Adequacy Assessment Process
ICG	Individual Capital Guidance is what the FSA considers to be an adequate level of capital to meet regulatory objectives.
IFRS	International Financial Reporting Standards
Institutions	A credit Institution or CAD Investment firm
Average Loss Emergence Period	The estimated time between when a receivables amount becomes impaired to the time the account is written off expressed in years.
Operating lease	Contracts where the assets are not wholly amortised during the primary period and where the lessor may not rely on rentals for his profit but may look for recovery of the balance of his costs and of his profits from the sale of the recovered asset at the lease end. Contract hire is a variation of operating lease.
Retail	The part of FCE's business that offers, introduced through a Dealer or Dealership that has an established relationship with FCE, vehicle financing and leasing products and services to individual consumers, sole traders and businesses.
Pillar 1	Capital framework which revises the 1988 Accord's guidelines by aligning the minimum capital requirements more closely to each bank's actual risk of economic loss.
Pillar 2	Supervisory Review Process of Basel II whereby regulators evaluate the activities and risk profiles of individual banks to determine whether such an organisation should hold higher levels of capital.
Pillar 3	Leverages the ability of market discipline to motivate prudent management by enhancing the degree of transparency in banks' public reporting to shareholders and customers.

GLOSSARY OF DEFINED TERMS continued

Term	Meaning
Risk Based Equity	The basis on which FCE measures the performance of its locations. RBE interest expense is adjusted from that reported under IFRS in order to allocate location equity costs that are based on the locations contribution to FCE total risk and enables the risk/return of individual locations to be evaluated from a total perspective. RBE profit before taxes includes an RBE interest expense adjustment and excludes gains and losses related to derivative fair value and foreign exchange adjustments. The impact to earnings of derivative fair value and foreign exchange adjustments is primarily related to movements in interest rates and is excluded from the performance measurement as FCE's risk management activities are administered on a centralised basis.
Securitisation or securitisation	A technique for raising finance from income-generating assets such as loans by redirecting their cash flow to support payments on securities backed by those underlying assets. Legally the securitised assets generally are transferred to and held by a bankruptcy-remote SPE. FCE normally would be engaged as a servicer to continue to collect and service the securitised assets. FCE also engages in other structural financing and factoring transactions that have similar features to securitisation and also are referred to as 'securitisation' in this report.
Solvency Ratio	Calculated by dividing the minimum capital requirements calculated under Pillar 1 plus other risk capital requirements by 'Capital Resources and expressing this as a percentage
Special Purpose Entity or SPE	A bankruptcy-remote entity whose operations are limited to the acquisition and financing of specific assets from FCE (which may include the issue of asset-backed securities and making payments on the securities) and in which FCE usually has no legal ownership or management control.
Tier 1 Capital	FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill (See Table 2 'Analysis of Capital Resources Held').
Tier 1 Capital Ratio	FCE's Tier 1 capital as reported in Table 2 'Analysis of Capital Resources Held' divided by end of period risk weighted exposures as defined in 'Key Financial Ratios and Terms' section below.
Tier 2 Capital	FCE's Tier 2 capital comprises of subordinated debt, collective impairment losses (See Table 2 'Analysis of Capital Resources Held').
Tier 2 Capital Ratio	FCE's Tier 2 capital as reported in Table 2 'Analysis of Capital Resources Held' divided by end of period risk weighted exposures as defined in 'Key Financial Ratios and Terms' section below.
Tier 3 Capital	FCE does not have a trading book and accordingly its capital structure does not include any Tier 3 capital (See Table 2 'Analysis of Capital Resources Held').
Total Capital Ratio	FCE's total regulatory capital as reported in Table 2 'Analysis of Capital Resources Held' divided by end of period risk weighted exposures as defined in 'Key Financial Ratios and Terms' section below.
Wholesale	The part of FCE's business that offers financing of a wholesaler's inventory stock of new and used vehicles, parts and accessories. May also be known as dealer floor-plan or stocking finance. May also include other forms of financing provided to a wholesaler by FCE such as capital or property loans, improvements in dealership facilities and working capital overdrafts. See Dealer or Dealership above

Financial terms	Meaning
Average net receivables	The balance of net receivables at the end of each month divided by the number of months within the reporting period.
End of period risk weighted exposures (Basel II basis)	Exposures multiplied by the appropriate percentage risk weighting required for Basel capital adequacy purposes plus operational and market risk capital requirements. Prior year figures have been restated to an equivalent basis to aid comparisons.