FCE Bank plc
BASEL II
PILLAR 3 DISCLOSURES
for the year ended 31 December 2009

Definitions

Definitions

For the purpose of this report (with exception of the 'Independent Auditors Report') the term

- **i.** '**2009 Annual Report and Accounts**' means FCE's consolidated annual financial statements as at and for the year ended 31 December 2009
- **ii.** '**Company**' means FCE Bank plc and its European branches
- **iii.** '**Group**' or **'FCE'** means the Company and its subsidiaries
- **iv.** '**FCI**' means Ford Credit International, Inc., a company incorporated under the laws of Delaware USA, a subsidiary of Ford Credit and the Company's immediate shareholder
- **v.** '**FMCC**' or '**Ford Credit'** means Ford Motor Credit Company LLC, a limited liability company incorporated under the laws of Delaware USA and an indirect wholly owned subsidiary of Ford
- **vi.** '**Ford**' means 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
- **vii.** '**Forso**' or '**the Forso JV**' means a joint venture finance company established with Sofinco, a consumer credit subsidiary of Credit Agricole S.A. in June 2008 which provides customer and dealer automotive financing in the Nordic markets
- **viii.** **'Special Purpose Entity'** or **'SPE'** means a bankruptcy-remote entity whose operations are limited to the acquisition and financing of specific assets (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
- **ix.** **'FSA'** is the UK Financial Services Authority - an independent non-governmental body, given statutory powers by the Financial Services and Markets Act 2000. The FSA is FCE's regulator in the UK.

For a comprehensive list of definitions refer to the 'Glossary of defined terms' which commences on page 43.

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www.fcebank.com

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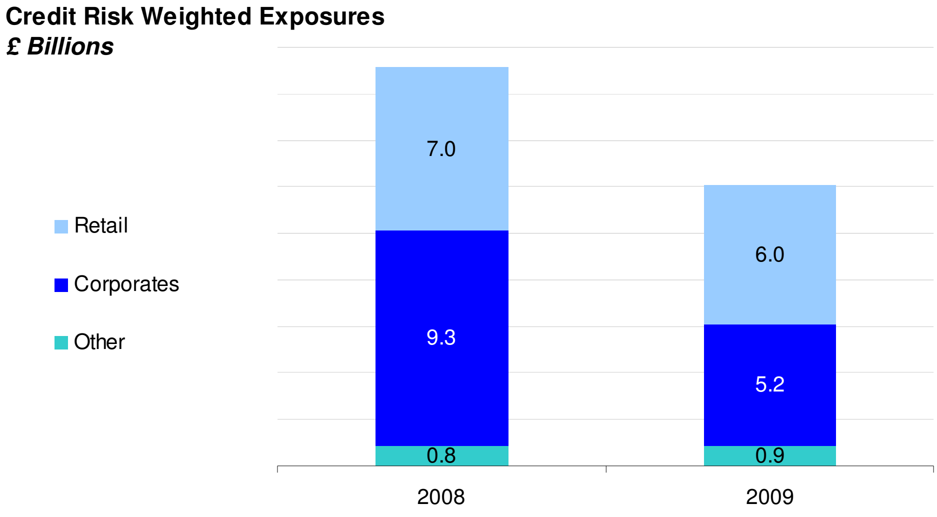
Registered in England and Wales no 772784

This Pillar 3 document sets out the 2009 Pillar 3 Disclosures for FCE Bank plc. These disclosures are based on the best available data at the time of issuance and have been prepared solely to give information on the basis of calculating Basel II capital requirements and on the management of risks faced by the Group in accordance with the rules laid out in BIPRU Chapter 11.

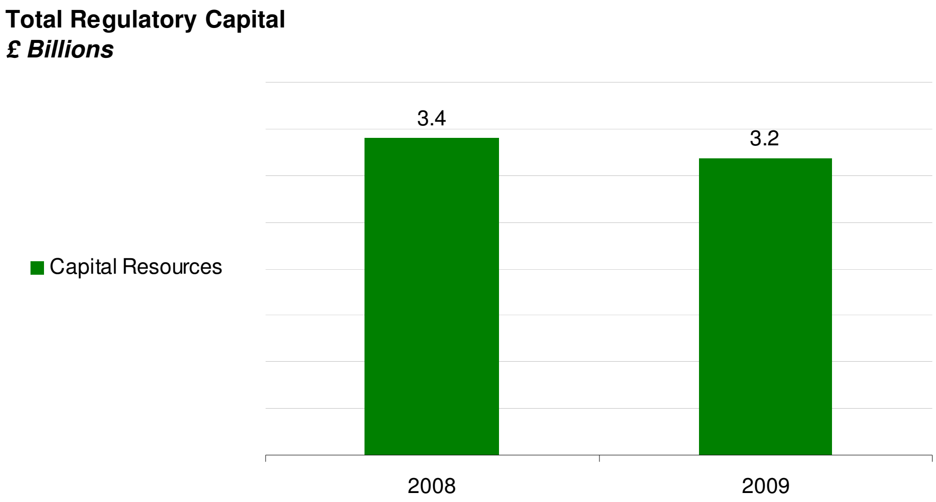
This document is not and does not replace the Company's statutory Annual Report and Accounts which are available elsewhere on the website. All figures disclosed in this document have been used as management information and have not been externally verified by independent auditors, although some of the information within it is also disclosed within FCE's audited 2009 Annual Report and Accounts.

This document will be issued at least on an annual basis in accordance with FSA requirements.

Highlights



FCE SUPPORTS FORD SALES BY PROVIDING FINANCING TO FORD RETAIL CUSTOMERS (RETAIL) AND FORD DEALERS (CORPORATES)



FCE CONTINUES TO BE WELL CAPITALISED

Key Regulatory Ratios	2008	2009
Tier 1 Capital Ratio	16.4%	21.9%
Total Capital Ratio	18.9%	24.7%
Solvency Ratio	231%	299%

Tier 1 Capital Ratio	=	Tier 1 capital / Total risk weighted exposures
Total Capital ratio	=	Total regulatory capital / Total risk weighted exposures
Solvency Ratio	=	Total regulatory capital / Total capital requirement

Introduction

Background

The Basel Committee on Banking Supervision has published a 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 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 **Minimum Capital Requirements**	**Pillar 2** **Internal Capital Adequacy Assessment (ICAAP) Process**	**Pillar 3** **Market Discipline**
Credit Risk Operational Risk Financial Market Risk	Independent validation Supervisory Review Process	Disclosure

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 2009 and prior year figures for comparative purposes. This Pillar 3 disclosure document has been prepared 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. This document only contains the disclosures required under Basel II Pillar 3 and is not a substitute for FCE Bank plc's Annual Report and Accounts.

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 42.

Frequency of reporting

FCE will publish Pillar 3 disclosures at least annually and the year end 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 Statements 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.

Introduction

Verification

This document has been reviewed and approved by both the Board and the Audit Committee of FCE. 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 Note 1 'Consolidated and solo consolidated reporting' on page 28). Capital adequacy, large exposure and liquidity positions are reported to the FSA on a quarterly basis at a minimum in line with BIPRU requirements.

The consolidated regulatory reports are presented in Sterling and prepared in accordance with International Financial Reporting Standards (IFRS) and International Financial Reporting Interpretations Committee (IFRIC) interpretations. Assets and liabilities of each entity of the Group 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

Entity	Country of Incorporation	Principle Activity	Accounting Reference Date	2009 % Interest	2008 % Interest
Automotive Finance Limited *	England and Wales	Non trading	30 June	100%	100%
FCE Leasing (Holdings) Limited	England and Wales	Holding Company	31 December	100%	100%
FCE Leasing Limited *	England and Wales	Non trading	31 December	100%	100%
Ford Automotive Leasing Limited *	England and Wales	Non trading	30 September	100%	100%
Jaguar Financial Services Limited *	England and Wales	Finance company	31 March	100%	100%
Meritpoint Limited	England and Wales	Non trading	30 June	100%	100%
Primus Automotive Financial Services Limited	England and Wales	Dormant	31 December	100%	100%
Volvo Car Finance Limited	England and Wales	Finance company	31 December	100%	100%
FCE Credit s.r.o.	Czech Republic	Finance company	31 December	100%	100%
FCE Credit Hungaria Zrt	Hungary	Finance company	31 December	100%	100%
FCE Services Kft *	Hungary	Finance company	31 December	100%	100%
FCE Bank Polska S.A.	Poland	Bank	31 December	100%	100%
FCE Credit Poland S.A.	Poland	Finance company	31 December	100%	100%
Saracen Holdco Ab	Sweden	Holding Company	31 December	100%	100%

*subsidiaries indirectly owned by the Company

In addition FCE, via its subsidiary Saracen Holdco Ab, has a 50% investment less one share 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, please refer to FCE's 2009 Annual Report and Accounts. FCE applies the equity method of accounting to its 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.

Consolidation basis continued

The quantitative disclosures in this document are reported on a consolidated basis unless specified otherwise, as the consolidated group is not considered materially different from that reported under solo consolidation. 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:

- For regulatory reporting and for this report derivative financial instruments are reported at nominal values. Derivative financial instrument asset balances as at December 2009 are £ 111 million (2008: £ 107 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'. Please refer to Note 10 'Derivative financial instruments' on page 41 for the breakdown of the £111 million (2008 : £107 million), which consists of £380 million fair value assets less £269m fair value liabilities, (2008 : £505 million assets less £398 million liabilities).

- The collective impairment allowance as part of FCE's Tier 2 capital resources for regulatory reporting, which appears in this report in Note 2 'Components of capital' on pages 29 and 30, is the collective impairment allowance as detailed in the 2009 Annual Report and Accounts, with the addition of incurred but not yet identified losses relating to Operating Leases. This therefore explains the difference between the collective impairment allowance of £ 114 million (2008: £ 123 million) referred to in Note 7 'Provision for incurred losses' on page 38 representing incurred but not yet identified losses in both the retail and wholesale portfolios, and the £ 115 million (2008: £ 125 million) in Table 2.

- The Company generally retains credit risk in securitisation transactions through its retained interests which provide various forms of credit enhancements. By providing these enhancements the Company has entered into transfers (as described in IAS 39 'Financial Instruments Recognition and Measurement') that do not qualify for de-recognition of the underlying assets. The Company therefore continues to recognise the carrying value of the securitised assets within its balance sheet and includes them in its exposure for the regulatory returns. At the end of the prior year (31 December 2008), loans and advances to customers of £ 71 million relating to securitisation transactions completed prior to April 2004 were partially deducted from credit risk exposures. However since March 2009 FCE ceased to claim regulatory capital relief for any securitisation transactions. Therefore the exposures and capital requirements as at 31 December 2009 reported within Note 4 'Analysis of capital resources and requirements' on pages 32 and 33 of this document, include all securitised receivables.

Description of the Business

Description of the Business

FCE Background

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). FCI 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 ten other European countries and is subject to consolidated supervision by the FSA. The FSA is FCE's home regulator for all of its branch operations.

What FCE does

FCE's aim is to support Ford sales and consistently add shareholder value. Its business is best described in the context of its three main customer groups – retail customers, dealers and Ford's automotive operations.

FCE helps Ford retail customers acquire its vehicles by providing

- finance for retail customers to purchase or lease vehicles;
- access to insurance products to protect customers when driving Ford vehicles;
- fleet/business customers with a wide range of financing options.

This area of business is referred to as 'Retail' within this document.

FCE helps Ford dealers sell Ford vehicles by providing

- finance to stock new and used Ford vehicles;
- finance for test drive and courtesy cars;
- finance to enable dealers to operate their business.

This area of business is referred to as 'Wholesale' within this document.

FCE helps Ford automotive operations by providing

- a pan-European, branded finance network dedicated to supporting the sale of Ford products;
- financial risk management support to ensure continuity of the Ford distribution network;
- specialist support for key business and customer segments, and new market expansion.

Where FCE operates

FCE operates directly in 15 European countries through a branch and subsidiary network, providing branded financial services for Ford (as well as support for Volvo whilst it transitions to alternative providers). FCE also continues to service liquidating retail portfolios for Jaguar, Land Rover and Mazda.

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

In addition FCE has a 50% less one share interest in Forso Nordic AB (Forso) which provides automotive financial services in Denmark, Finland, Sweden and Norway.

For further information in regard to FCE please refer to the 2009 Annual Report and Accounts.

Description of the Business

Strategy

FCE's principal objectives are to support the sale of Ford vehicles and return value to its shareholder. These objectives provide the overriding guidance for FCE's actions and decisions, and are implemented with a focus on its three main customer groups.

The Retail Customer

FCE's business model goes beyond simply providing access to finance for customers to purchase or lease a motor vehicle. FCE strives to enable the customer to replace his or her vehicle as often as they would like, while maintaining affordable monthly payments. The customer also benefits from the convenience of arranging finance and insurance in the dealership, and from the service provided by an organisation dedicated to treating customers with fairness and respect and supporting the customer right through the ownership experience.

The Dealer

FCE's delivery of a high quality customer service combined with the right finance product for the customer drives greater loyalty to the brand and the dealer. Market research over different countries and sectors consistently shows that FCE customers are significantly more likely to purchase their next vehicle from the same dealer and the same automotive brand. The dealer also benefits from FCE's support for its business across a range of financing needs, and is reassured in the knowledge that FCE has supported the dealer network consistently for nearly 50 years through the ups and downs of the economic cycle.

Ford Automotive

The combination of highly satisfied and loyal customers with consistent financial support for the entire dealer network provides Ford with the knowledge that their customers and their distribution networks are in safe hands. As FCE's automotive partner Ford also benefits from a finance company that understands their marketing and sales activities, and is able to support them with the right finance and insurance services throughout the vehicle life cycle.

Operational Effectiveness

FCE has continued to derive efficiencies by simplifying its business processes and through standardising core information technology (IT) platforms. This programme has enabled it to make significant reductions in the number of unique IT systems in core activities. FCE operates centralised service centres in the majority of locations and shares best practices across Europe and globally to drive continuous improvements.

People

A drive for high performing people and teams is a foundation of FCE's strategy. For further information please refer to the 2009 Annual Report and Accounts

Funding Efficiency

FCE’s funding strategy is to maintain a high level of liquidity and access to diverse funding sources that are cost effective. This is detailed further within the 'Capital and Funding' section of this document on pages 24 to 26.

Strategic Partnerships

FCE continues to review its operations to identify alternative business structures and strategic alliances to strengthen its customer value proposition and generate incremental fee-based income.

Governance and Control

FCE considers effective corporate governance as a key factor underlying the strategies and operations of the Group. This is detailed further within the 'Corporate Governance' section of this document on pages 10 to 12.

Risk Management

FCE has extensive risk management experience gathered over several economic cycles and its focus is on leveraging and strengthening global risk skills internally. Through these efforts, FCE will continue to optimise profitability as well as generate incremental vehicle sales for Ford's automotive brands. This is detailed further within the 'Risk' section of this document on pages 13 to 23.

Description of the Business

Corporate Governance

General

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.

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;
- operate within a framework of effective controls which enables the assessment and management of principal risks and;
- ensure customers are treated with fairness and respect.

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 reviews the Group’s commercial strategy, business, funding and liquidity 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.

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.

Throughout 2009, the Board and its Committees were supplied with information and papers to ensure that all aspects of the Company’s affairs are reviewed on a regular basis in accordance with a rolling agenda of work. Monthly information packs are sent to the Non-executive Directors which include a strategic update from the Chairman and financial and funding updates with relevant analysis and trend data. Supporting papers for Board meetings generally are distributed a week in advance of the meeting

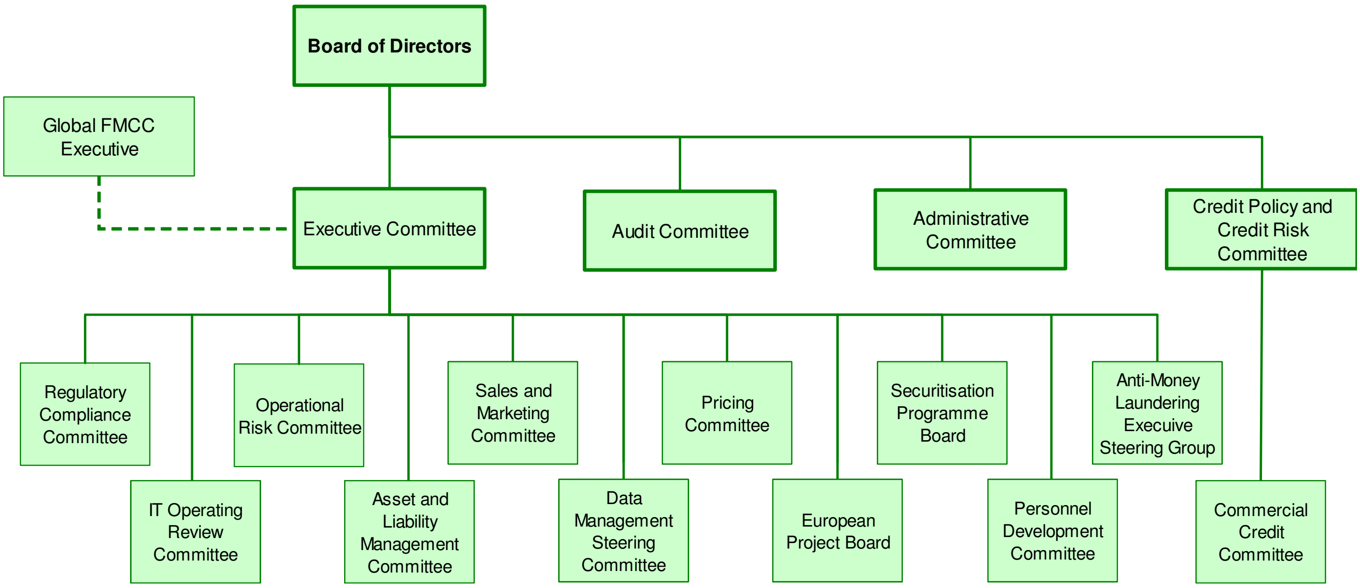
For more details on the Board of Directors, including its composition, Non-Executive Directors, Selection and Training, and Evaluation and Compensation of Directors, please refer to the 2009 Annual Report and Accounts.

Corporate Governance continued

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 2009 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:



The Audit Committee'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. For further information on the Audit Committee please refer to the 2009 Annual Report and Accounts.

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 Mr Noone, and the NEDs, with any two directors constituting a quorum. The Administrative Committee has no formal meeting schedule and meets as required.

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, and pan-European and cross-brand functions such as Risk Management and Finance.

Description of the Business

Corporate Governance continued

Committees of the Board continued

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 twelve times in 2009.

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, as well as pan-European central functions such as Risk Management, Information Technology, 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 2009

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 Asset and Liability Management Committee oversees the funding plan and liquidity management for FCE. This sub-committee meets on a monthly basis.

- The Sales and Marketing Committee facilitates regular and timely information exchanges between business units and functional areas covering sales, marketing and operational matters.

- 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 Pricing Committee reviews and approves pricing strategies and policies on a national, regional and European basis.

- 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 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 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 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

Risk Appetite

FCE's appetite for risk is generally low. FCE has comprehensive 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.

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 has nearly 50 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. In the case of customer default, the value of the re-possessed vehicle provides a source of protection.

Key Risks

In section 2.1 of their General Prudential sourcebook (GENPRU), the FSA defines three main risk categories which each require their own elements of capital within a BIPRU firm. (BIPRU is the specific FSA prudential sourcebook for Banks, Building Societies and Investment firms and is therefore the one which covers the specific requirements for FCE). The three elements then form a firm's variable capital requirement which, when added to a base capital resource figure, gives the capital resources requirement for that firm. The three elements are :

- Credit risk capital requirement. (For the specific risks contained within this area and how FCE manages them, please refer to pages 14 to 16);
- Financial market risk capital requirement. (For the specific risks contained within this area and how FCE manages them, please refer to pages 17 to 19); and
- Operational risk capital requirement. (For the specific risks contained within this area and how FCE manages them, please refer to page 20).

Credit Risk

The FSA defines the credit risk element for a BIPRU firm as containing the specific risks of credit risk, counterparty risk and concentration risk, and this section details each of these in turn.

For FCE, credit risk is the possibility of loss from a customer's or dealer's failure to make payments according to contract terms.

Credit Risk Management

Although 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

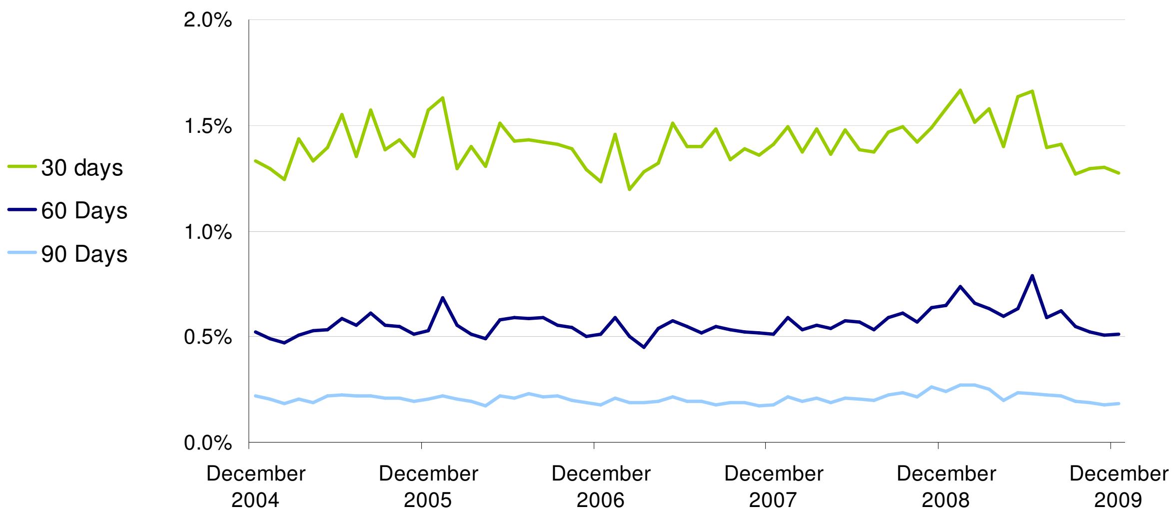
Retail products (vehicle instalment sale, hire purchase and conditional sale and lease contracts) are classified by term and whether the vehicle financed is new or used. This segmentation is used to assist with product pricing to ensure risk factors are appropriately considered. Retail credit underwriting 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 behavioral models that are used in contract servicing to ensure contracts receive appropriate collection attention.

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.

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 that the upward trend in delinquencies peaked in the first half of 2009; since that time the delinquency trend has gradually declined in line with both the slightly improving macro economic conditions and actions taken by FCE. FCE's responsive approach to underwriting and servicing practices has enabled its portfolio to perform well in an extremely difficult market. Targeted resources continue to be deployed to maintain this performance and every reasonable effort is made to follow-up on delinquent accounts and to keep accounts current.

Retail delinquency 5 year monthly trend



Source: internal information for all FCE markets

Credit Risk continued

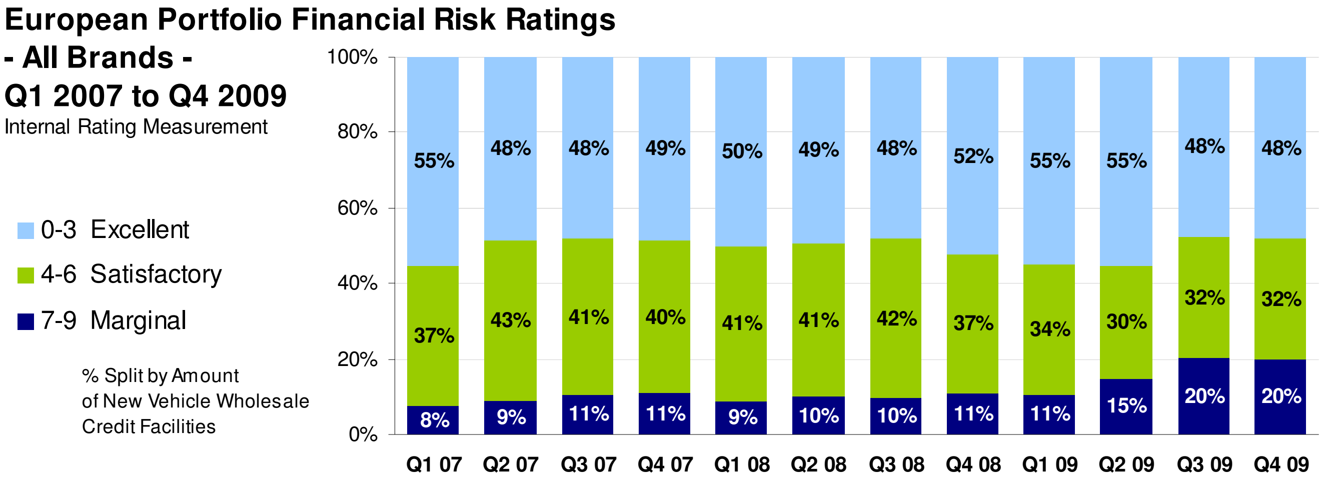
Wholesale

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, although the appetite for this business has reduced as a result of the prevailing economic conditions.

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.

The bar chart below provides a high-level summary of dealer risk ratings at the end of each quarter from 2007 onwards. Percentages displayed in the chart 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. Financial and judgmental internal risk evaluation ratings are assigned to each dealer from 0 (best) to 9 (worst).



Source: internal information for all FCE markets.

CONCENTRATION IN THE MARGINAL RATING CATEGORY HAS INCREASED DURING THE YEAR. THE INCREASE IN MARGINAL RISK RATINGS MAINLY REFLECTS WEAKER DEALER OPERATING RESULTS OF CERTAIN SPANISH AND UK DEALERS.

The Financial risk evaluation ratings are based upon the latest published annual audited accounting information which typically are received by FCE locations between 8 and 10 months following the end of the dealer financial year. As a consequence, the ratings reported above are based on 2008 audited accounting data and reflects the decline in European economy during third and fourth quarter 2008.

The chart indicates that the percentage of 'Excellent' risk category dealers continues to remain high and an increase in the 'Marginal' risk categories has been evidenced from the second quarter 2009 onwards primarily within UK and Spain. As the impacts of the 2008 market conditions continue to be reflected in risk ratings there has been pressure on the 'Excellent' mix from the third quarter.

In the UK there has been an increase, in the second and third quarters of 2009, of the 'Marginal' risk percentage. This increase reflects 2008 market conditions and a decline in vehicle sales which has had an adverse impact on certain dealers operating results. Appropriate action is being taken to respond to this change in risk. Additionally the UK vehicle scrappage programmes have increased 2009 vehicle sales and will positively impact dealer performance.

The economic downturn in Spain has impacted dealers' operating financial performance and has resulted in a number of Spanish dealers being transferred from "Satisfactory" to "Marginal" ratings.

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. (For further details please refer to Note 14 'Loans and advances to customers' in the 2009 Annual Report and Accounts).

Credit Risk 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.

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.

Concentration Credit Risk

The risk mitigation described above for counterparty credit risk will also serve to limit concentration credit risk.

Other Credit Risk Information

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 Note 4 'Analysis of capital resources and requirements' on pages 32 and 33).

Financial Market Risk

As defined in the FSA handbook (BIPRU 2.1.52), the calculation of the financial market risk capital requirement is made up of a number of risk elements, all of which require their Position Risk Requirement (PRR) to be calculated. The elements are:

- Interest rate PRR
- Equity PRR
- Commodity PRR
- Foreign currency PRR
- Option PRR
- Collective investment undertaking PRR

As FCE has no trading book, it's financial market risk capital requirement is only calculated from its foreign currency PRR, as detailed in BIPRU section 7. Although the calculation of the PRR for interest rate risk is not required, FCE actively monitors and manages interest rate risk as detailed in the relevant section below. The remaining risks detailed above are not relevant to FCE's business model.

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. (This is detailed in Note 10 'Derivative financial instruments' on page 41 of this document).

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 Note 6 'Geographical distribution of exposures' on pages 36 and 37 of this document, for the analysis of net loans and advances to customers and total assets by geographical segment, and Note 38 'Currency risk' in the 2009 Annual Report and Accounts for currency risk exposure).

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 30 days. Funding sources consist primarily of securitisation and unsecured term debt.

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 rate 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 been significantly reduced due to the financial crisis and deterioration of FCE's credit ratings. FCE has prioritised the use of limited derivative capacity for funding transactions and currency exposure and has reduced derivative use to manage interest rate risk. Where possible, FCE matches the interest rate characteristics of its assets and debt in order to limit exposure. The sensitivity of interest income to changes in interest rates is shown in the 'Interest rate risk sensitivity analysis' shown below. The interest rate sensitivity of FCE's assets and liabilities, including derivatives, is evaluated each month.

While FCE has experienced some improvement in derivative capacity to manage interest rate risk, it will continue to prioritise 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 derivative capacity remains constrained, FCE will seek to implement alternate hedging arrangements to manage currency exchange as well as interest rate risk exposure.

Financial Market Risk continued

Interest Rate Risk sensitivity analysis

As a result of FCE's interest rate risk management processes, (utilising hedging derivatives), and as a proportion 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.

To provide a quantitative measure of the sensitivity of pre-tax net interest income to changes in interest rates, FCE uses interest rate scenarios. These scenarios assume a hypothetical, instantaneous increase or decrease in interest rates of one hundred basis points across all maturities (a 'parallel shift'), as well as a base case that assumes that interest rates remain constant at existing levels. These interest rate scenarios do 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 2009, FCE prioritised the use of limited derivative capacity for funding transactions and currency exposure, and did not enter into new derivatives to manage interest rate risk. The sensitivity of interest income to changes in interest rates in the next 12 months following the year ended 31 December 2008 and 2009 is detailed below.

	Group	
Pre-tax Net interest income impact give a one percentage point instantaneous change in interest rates	**2009 £ mil**	**2008 £ mil**
Increase	£ 6.8	£ 14.4
Decrease	(6.8)	(14.4)

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 below.

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 instalment 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.

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
Investments 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.

Financial Market Risk continued

Use of Derivatives continued

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 derivative related activities are transacted with financial institutions.

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.

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.

The group has adopted the standardised approach for calculating the Pillar 1 capital requirements for 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). (For further details please refer to the 'Audit Committee Report' in the 2009 Annual Report and Accounts).

Other Risks

In addition to the three main risk elements defined by the FSA under capital adequacy requirements and outlined in the sections above, FCE considers a number of other risk areas significant to its business which it takes into account when establishing its risk governance and integrated risk management practices.

Liquidity Risks

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 protect funding availability throughout the economic and business cycle FCE relies on diverse forms of financing, primarily securitisation and unsecured debt, and issues debt that on average matures later than assets liquidate. In addition, the Company maintains liquidity in the form of cash and highly liquid investments, committed securitisation capacity, and committed credit lines. For more information on this please see the Liquidity section on pages 25 and 26 within the 'Capital and Funding' section of this document.

FCE operates a robust liquidity risk management framework which is integrated into the firm's risk management process in order to ensure that it can continue to meet its liabilities as they fall due, both in normal and stressed times. FCE's liquidity framework includes sound, effective and complete processes and systems which enable FCE to identify, measure, monitor and control liquidity risk. Through the Asset and Liability Management Committee (ALCO) FCE's governing body is responsible for establishing and monitoring the company's liquidity risk tolerance. In order to do this FCE has established a set of limits which control the firm's liquidity risk exposure in line with this tolerance and it has identified early warning indicators in order to identify the emergence of increased liquidity risk or vulnerabilities. FCE has the ability to use committed lines of credit from major banks, providing additional levels of liquidity. (For further details please see the Liquidity section in the 'Capital and Funding' section on pages 25 and 26 of this document, and also Note 5 'Maturity analysis of exposures' on pages 34 and 35). 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 monitored and reported daily for both regulatory and management information purposes using an automated liquidity reporting system.

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;
- Failure of financial institutions to fulfil commitments under various credit facilities;
- The Company's ability to maintain credit facilities; and
- FCE's ability to obtain derivatives to manage risk.

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 and liquidity 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.

Other Risks continued

Sales of Automotive Brand Vehicles

FCE's business is substantially dependent upon the sale of Ford 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 geopolitical 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.

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. This impact has been somewhat mitigated by the favourable impact of Government scrappage schemes, but has resulted in lower business volumes and higher credit losses, 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% below the future market value and is increased to 8% 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 6% (2008: less than 4%) 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.

The residual values of FCE's retail and operating lease portfolio where FCE is subject to vehicle residual value risk as at 31 December 2009 were: Retail £ 1,273 million (2008: £ 1,626 million) and operating leases £ 86 million (2008: £ 147 million). The residual value figures reported for retail assumes that all vehicles will be returned to FCE.

Other Risks continued

Business Risk

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, (please refer to Note 30 'Ordinary shares and share premium' in the 2009 Annual Report and Accounts).

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 has required FCE to accelerate cost efficiency actions to adjust for the loss of scale. The potential sale of the Volvo automotive brand by Ford will require additional cost reduction actions.

Capital and Funding

Capital

Capital Adequacy

FCE has a robust and risk-sensitive framework for determining capital requirements which follows the guidelines set out under Basel II. Key elements of the framework include operational risk management, internal capital adequacy assessment and 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 2009.

FCE's consolidated regulatory capital is managed by its Asset and Liability Management Committee. A sub-committee meets and reports into the Asset and Liability Management Committee on a monthly basis and is responsible for monitoring actual and projected capital adequacy positions against capital resource requirements as determined by internal assessment (ICAAP) and minimum regulatory levels (Pillar 1).

FCE's solvency ratio was 299% at 31 December 2009 (2008: 231%). The solvency ratio demonstrates that FCE is holding significantly more capital than its Basel II minimum capital requirements as assessed under both Pillar 2 ICAAP and Pillar 1 minimum capital requirements. The additional capital held supplements the funding program.

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 2009 or 2008. 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 subordinated debt and collective impairment losses. As FCE does not have a trading book, its capital structure does not include any Tier 3 capital. (For further details of FCE's regulatory capital see Note 2 'Components of capital' on pages 29 and 30).

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.

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.

Since November 2007, FCE has submitted three Internal Capital Adequacy Assessment Process (ICAAP) declarations to the FSA.

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 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.

Capital Strategy (including Dividend policy)

FCE is presently well capitalised with 21.9% Tier 1 capital ratio at 31 December 2009 (2008 : 16.4%) given its continued role as a secured lender in the specialist automotive finance sector.

The Board of Directors declared a dividend for the year ended 31 December 2009 of £85 million, equating to approximately 14 pence per ordinary share and paid the dividend to its sole shareholder FCI on 17 November 2009. This dividend payment primarily relates to the return of parental investment resulting from divestitures and alternative business arrangements in the Swiss and Nordic markets.

Funding

FCE's funding strategy is to maintain a high level of liquidity and access to diverse funding sources that are cost effective.

Liquidity

FCE has implemented a daily automated liquidity management information systems which provides its governing body, senior managers and other appropriate personnel with timely and forward-looking information on the firm's liquidity position. This information is used to project, over an appropriate set of time horizons, cash flows arising from its assets, liabilities and off-balance sheet items. It is also used to support enhanced regulatory liquidity reporting requirements.

In the medium term, liquidity is managed by the regular completion of a funding plan for FCE. The funding plan forecasts funding requirements and the associated planned actions for the current year and the subsequent year. The funding plan is reviewed and approved each month by the Executive Committee.

Liquidity also forms a key part of FCE's long term business planning process. A funding plan is produced for the business plan period to document the funding assumptions underlying the 5 year plan.

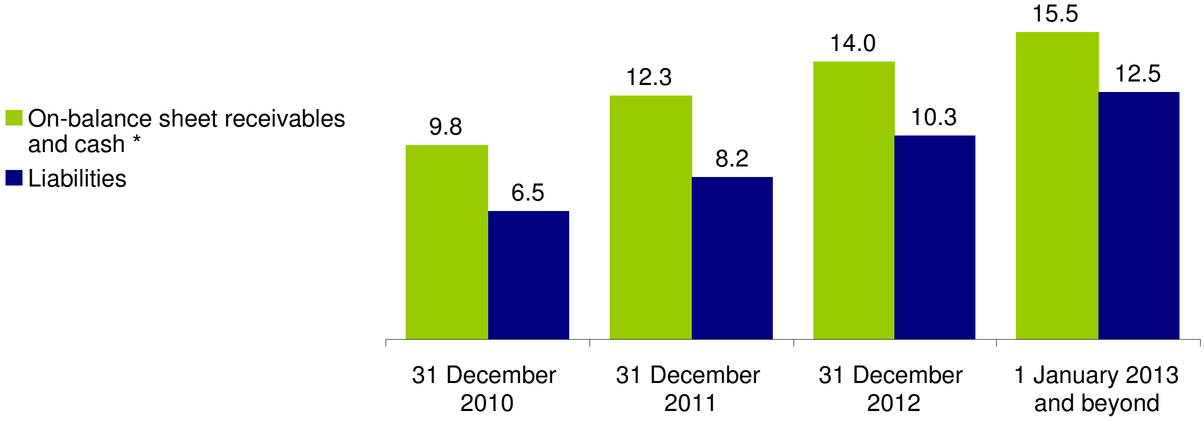
FCE also maintains a comprehensive contingency funding plan (CFP) which takes into account certain assumptions and possible outcomes such as the impact of stressed market conditions on its ability to sell or securitise assets, the extensive or complete loss of typically available market funding options as well as the business and reputational consequences arising from the execution of the CFP itself. The CFP is tested and updated regularly so as to ensure that these assumptions remain operationally robust and relevant.

In addition, FCE conducts regular comprehensive stress tests in order to identify sources of potential liquidity strain and to ensure that current liquidity exposures continue to conform to the liquidity risk tolerance established by that company's governing body. The results of these stresses and scenarios are reviewed regularly by the governing body in order to ensure that their nature and severity remain appropriate and relevant to FCE and the current business and economic environment.

Under the ILAS regime FCE is also required to carry out an individual liquidity adequacy assessment (ILAA) of the type and quality of liquidity resources it thinks it should hold against the sources of liquidity risk that could occur under the relevant stress scenarios identified as part of the wider process risk management process. FCE's ILAA is reviewed and approved annually by its governing body.

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, see Note 5 'Maturity analysis of exposures' on pages 34 and 35.

Cumulative contractual maturities as at 31 December 2009
£ Billions



*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'.

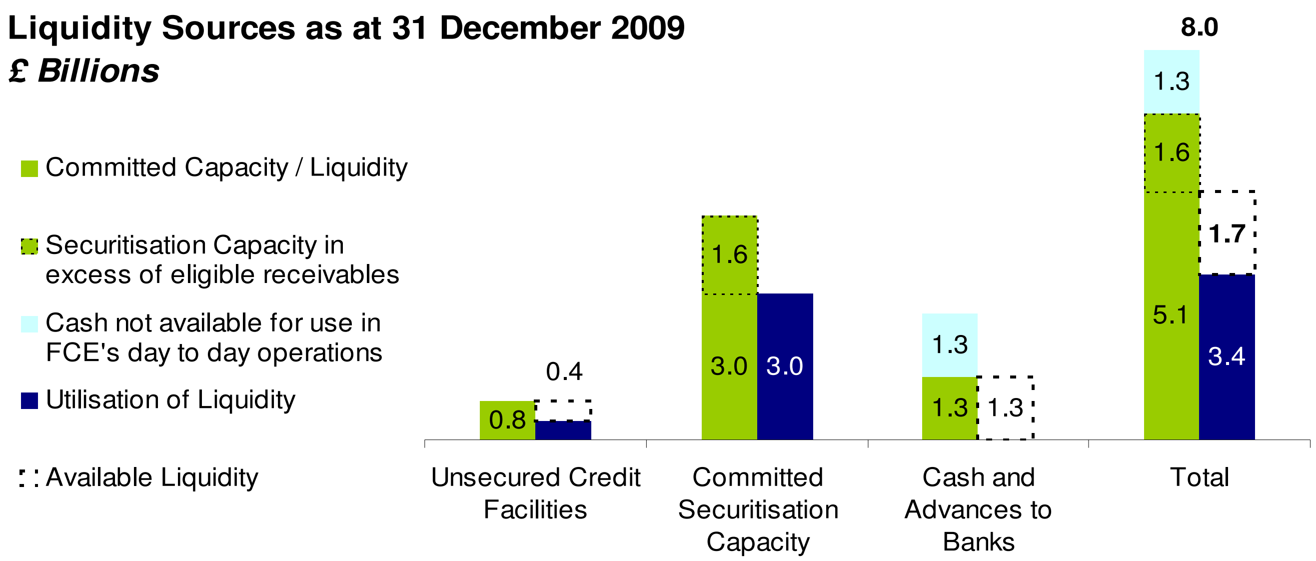
Capital and Funding

Funding continued

Liquidity Sources

In addition, FCE maintains liquidity through a variety of sources:

- Cash and highly liquid investments. (For further details please refer to Note 11 'Cash and advances to banks' in the 2009 Annual Report and Accounts);
- Committed capacity in securitisation transactions which allows the company to continue to sell newly originated receivables for a specified period of time;
- Unsecured contractual committed credit facilities with a diverse group of banks.



OF FCE's £8.0 BILLION OF TOTAL LIQUIDITY SOURCES, £1.7 BILLION IS AVAILABLE FOR USE

Funding Sources

FCE's funding sources consist mainly of securitisation and unsecured debt. Net cash inflow from external funding raised for the year ending 31 December 2009 is as detailed below:

Net cash Inflow from external funding raised for the year ending 31 December 2009		**2009 £ bil**
New issuance in 2009 :		**Net cash inflow**
- Securitisation of retail and lease automotive receivables	£	1.5
- Secondary sale of retained securitisation notes		0.2
- Unsecured debt		0.5
Total new issuance	**£**	**2.2**
Existing facilities within 2009 :		**Net cash inflow**
- Securitisation of retail and lease automotive receivables	£	1.4
- Securitisation of wholesale automotive receivables		1.5
Total existing facilities	**£**	**2.9**
Total	**£**	**5.1**

Quantitative Information

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

Quantitative Information Index

Capital composition and requirements

Components of capital

Risk weighted exposures and operational risk capital

Provision for incurred losses

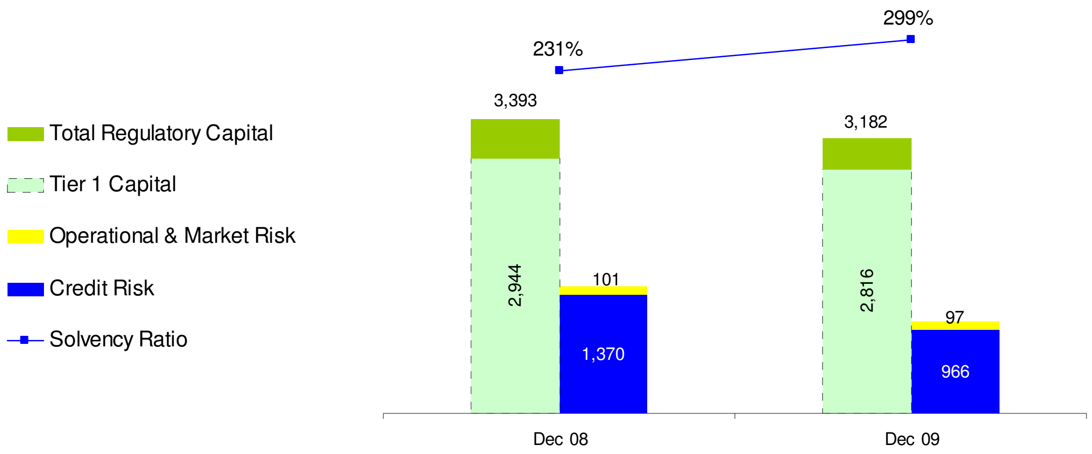
Analysis of past due exposures

Derivative financial instruments

Quantitative Information

Capital composition and requirements

The graph below shows FCE's regulatory capital alongside its capital requirements in £ Millions:



1 Consolidated and solo consolidated reporting

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 2009 and 31 December 2008
- Capital resources held as at 31 December 2009 and 31 December 2008 on a consolidated basis

	Country of incorporation	Note	Capital resources 2009 £ mil	Capital resources 2008 £ mil
SOLO CONSOLIDATED BASIS	Various		**£ 3,111**	**£ 3,204**
FCE Credit s.r.o	Czech Republic		14	59
FCE Credit Hungaria Zrt	Hungary		13	13
FCE Services Kft	Hungary		1	1
FCE Bank Polska S.A	Poland		26	25
FCE Credit Poland S.A	Poland		16	15
Saracen Holdco Ab	Sweden		1	76
Subsidiaries excluded from solo consolidated reporting			**£ 71**	**£ 189**
CONSOLIDATED BASIS		**4**	**£ 3,182**	**£ 3,393**

The above-mentioned Eastern European subsidiaries are not included in 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 less one share in a jointly controlled entity, Forso Nordic AB (Forso). Forso provides automotive financial services to Ford brands in Denmark, Finland, Sweden and Norway.

Components of capital

2 Analysis of capital resources held

The components of FCE's capital resources as at 31 December are detailed below:

		Group	
For the year ended 31 December		**2009**	**2008**
	Note	**£ mil**	**£ mil**
Tier 1			
Share capital		£ 614	£ 614
Share premium		352	352
Retained earnings		1,701	1,794
Profit after tax		166	204
Goodwill and intangible assets		(17)	(20)
Total Tier 1		**£ 2,816**	**£ 2,944**
Tier 2			
Collective impairment allowance		£ 115	£ 125
Qualifying subordinated loans	**3**	292	369
Total tier 2		**£ 407**	**£ 494**
Total tier 3		**£ -**	**£ -**
Deductions			
Investment in a jointly controlled entity		£ (41)	£ (45)
Total deductions		**£ (41)**	**£ (45)**
Total regulatory capital		**£ 3,182**	**£ 3,393**
Capital ratios			
Tier 1 ratio (%)		21.9%	16.4%
Tier 2 ratio (%)		3.2%	2.8%
Total capital ratio (%)		**24.7%**	**18.9%**
Capital ratios excluding current year profit after tax			
Tier 1 ratio (%)		20.6%	15.3%
Tier 2 ratio (%)		3.2%	2.8%
Total capital ratio (%)		**23.5%**	**17.8%**

Regulatory capital is divided into Tiers 1 and 2 that cover primarily 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 relating to loans and advances to customers and operating leases.
- 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 of investment in the Forso JV. (Please refer to Note 22 'Investment in a jointly controlled entity' in the 2009 Annual Report and Accounts).

Retained earnings included within regulatory capital are net of tax, dividends and other appropriations and exclude unrealised fair value adjustments to financial instruments.

Capital ratios are calculated against risk weighted exposures as defined in the 'Glossary of defined terms' on pages 43 to 44. Prior to the audit of the Annual Report and Accounts, FCE excludes the profit for the financial year from regulatory submissions. For information, ratios are provided both including and excluding 'Profit after tax'.

For the purposes of calculating the amount of subordinated debt which may be included in capital resources, the principal amount must be amortised on a straight line basis during the final five years to maturity. (For further details please refer to Note 3 'Subordinated loans qualifying as Tier 2 Capital' on page 31).

Quantitative Information

Components of capital continued

2 Analysis of capital resources held continued

Tier 1 capital has decreased in 2009 to £ 2,816 million (2008: £ 2,944 million) primarily resulting from the reduction in the Translation reserve over the period of £ 157 million (2008: increase £ 515 million) and the payment of a dividend of £ 85 million (2008: £ 190 million), partially offset by the profit for the period of £ 166 million (2008: £ 204 million). For further details please refer to the 'Statements of Changes in Equity' in the 2009 Annual Report and Accounts).

Tier 2 capital has also decreased in 2009 to £ 407 million (2008: £ 494 million) primarily resulting from subordinated debt amortisation.

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 please refer to the 'Capital and Funding' section in this document on pages 24 to 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.

Components of capital continued

3 Subordinated loans qualifying as Tier 2 Capital

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

		Group			
	Currency Amount (Mil)	Loan amount 2009 £ mil	Tier 2 value 2009 £ mil	Loan amount 2008 £ mil	Tier 2 value 2008 £ mil
Perpetual Loans:					
Undated	US$ 218.6	£ 135	£ 135	£ 150	£ 150
Undated	EUR€ 46.0	41	41	44	44
Undated	EUR€ 35.8	32	32	34	34
Undated	EUR€ 12.8	11	11	12	12
Undated	EUR€ 5.6	5	5	5	5
Undated	EUR€ 5.6	5	5	5	5
Undated	EUR€ 0.8	1	1	1	1
Total perpetual loans		**£ 230**	**£ 230**	**£ 251**	**£ 251**
Dated qualifying loans:					
Loan 2010	US$ 250	£ 154	£ 31	£ 172	69
Loan 2011	US$ 45	28	11	31	19
Loan 2012	US$ 55	34	20	38	30
Total dated qualifying loans		**£ 216**	**£ 62**	**£ 241**	**£ 118**
Total Loan Amounts		**£ 446**		**£ 492**	
Total Tier 2 Value			**£ 292**		**£ 369**
Current		£ 154		£ -	
Non current		292		492	
Total subordinated loans		**£ 446**		**£ 492**	
Analysis of subordinated loans					
Due to FCI (US$ denominated loans)		£ 351		£ 391	
Due to FMCC (EUR€ denominated loans)		95		101	
Total subordinated loans		**£ 446**		**£ 492**	

The loans listed above satisfy the conditions for eligibility as tier two capital instruments as defined by the FSA and are included in the calculation of capital resources for regulatory reporting purposes. In the case of an instrument with a fixed maturity date, the principal amounts are amortised in the final five years to maturity on a straight line basis.

The loans are all due to fellow Ford subsidiaries as described below and under the terms of the loan agreements, early repayment requires the prior written consent of the FSA.

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.

The US dollar loans are drawn under a US$1 billion subordinated loan facility with FCI, the Company's immediate parent undertaking. This facility enables the Company to respond quickly if additional capital support is required. Under the agreed terms, the Company is able to take draw downs up to the maximum principal amount and any undrawn amount of the facility will be available until it is cancelled either by the Company or FCI. The Company may repay by giving one month's written notice and FCI may request repayment of the drawn US dollar loans by giving five years and one day's prior written notice. At the end of 2009, the amount drawn under the facility totalled US$ 568.6 million (2008: US$ 568.6 million), and comprised the US$ 218.6 million (2008: US$ 218.6 million) perpetual loans and three dated loans totalling US$ 350 million (2008: US$ 350 million) shown as 'Due to FCI' in the above table. Cross currency swaps are used to minimise currency risks on US dollar denominated funding.

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.

Quantitative Information

Risk weighted exposures and operational risk capital

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 shown in the tables 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 document.

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

The first table shows the exposure, capital requirement and average capital requirement relating to credit risk, which is the largest component within FCE's total capital requirement.

		2009			2008	
Credit risk exposure classes	**Risk weighting**	**Exposure £ mil**	**Capital requirement £ mil**	**Average Capital requirement £ mil**	**Exposure £ mil**	**Capital requirement £ mil**
Wholesale	100%	£ 5,225	£ 418	£ 519	£ 9,306	£ 745
Wholesale	20%	-	£ -	-	130	2
Wholesale	0%	289	-	-	434	-
Retail	75%	7,976	479	509	9,264	556
Institutions	50%	453	18	10	336	13
Institutions	20%	2,447	39	40	2,397	38
Multilateral development banks	0%	129	-	-	213	-
Central governments and central banks	0%	228	-	-	168	-
Administrative bodies and non-commercial undertakings	100%	-	-	-	7	1
Loans and advances over 90 days past due	150%	86	10	13	119	14
Other items	100%	22	£ 2	2	6	1
Other items	20%	2	-	-	20	-
Total Credit risk		**£ 16,857**	**£ 966**	**£ 1,093**	**£ 22,400**	**£ 1,370**

Capital requirement relating to Credit Risk = Exposure *x* Risk weighting *x* minimum capital requirement (8%)

Average capital requirement is 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 only large exposure, defined by the FSA as representing over 10% of its capital base and reported as such in the FSA008 Large Exposure Return, is to Ford Motor Company at 15.5%, (2008: 13.2%). A deposit received from FCI of £ 75 million as at 31 December 2009 (2008 : £385 million) is used to mitigate this exposure. In addition, 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 £ 31 million at 31 December 2009 (2008: £ 1 million).

FCE's ten largest counterparty exposures including both amounts reported in loans and advances to customers and undrawn commercial credit facilities, totalled £ 865 million as at 31 December 2009 (2008: £ 1,279 million). Deposits received from FCI of £ 150 million as at 31 December 2009 (2008: £ 200 million) and from an independent third party of £ 22 million (2008: £ 30 million) are utilised to mitigate exposure concentrations.

FCE's five largest counterparty exposures included within Cash and Advances to Banks, (please refer to Note 11 in the 2009 Annual Report and Accounts), total £ 834 million and have long-term credit ratings of single-A or better.

Risk weighted exposures and operational risk capital continued

4 Analysis of capital resources and requirements continued

The remaining elements of FCE's total capital requirement are detailed below:

	Note	2009 Capital requirement £ mil	2009 Average Capital requirement £ mil	2008 Capital requirement £ mil
Capital requirement				
Credit risk	**4**	£ 966	£ 1,093	£ 1,370
Market risk		5	4	6
Operational risk		92	93	95
Total capital requirement		**£ 1,063**	**£ 1,190**	**£ 1,471**

The method for calculating the capital requirement associated with credit risk is described under the table on the preceding page.

The capital requirement associated with market risk is calculated by taking the foreign exchange open currency position and multiplying it by the minimum capital requirement of 8%. The foreign exchange open currency position as at 31 December 2009 totalled £ 66 million (2008: £ 69 million).

To calculate the element of capital requirement relating to operational risk, FCE has adopted the standardised approach, where a firm divides its activities into a number of business lines and applies the relevant minimum capital requirement percentage to each. FCE divides its business into Retail and Commercial business and has applied 12% to the 'income indicator' relating to Retail of £ 516 million as at 31 December 2009, (2008: £ 527 million), and 15% to the Commercial 'income indicator' of £ 201 million as at 31 December 2009, (2008: £ 214 million). (For more detail on the calculation of the 'income indicator' value and the minimum capital requirement percentages for different business types as prescribed by the FSA, please refer to BIPRU 6.4).

The final table summarises the main capital metrics:

	Note	2009	2008
Capital metrics			
Total capital requirements		£ 1,063	£ 1,471
Total capital resources held	**2**	£ 3,182	£ 3,393
Solvency ratio		299%	231%
Capital metrics excluding current year profit after tax			
Total capital resources held		£ 3,016	£ 3,189
Solvency ratio		284%	217%

The increase in the solvency ratio in 2009 to 299% (2008: 231%) is primarily attributable to a lower level of risk weighted assets. The solvency ratio demonstrates that FCE is holding significantly more capital than is required by either the regulatory minimum or FCE's internal risk-based capital policy. (For further details please refer to the 'Capital Strategy (including Dividend policy)' section in this document on page 24).

Quantitative Information

Risk weighted exposures and operational risk capital continued

5 Maturity analysis of exposures

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

Group **As at 31 December 2009**		0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets	**Note**					
Cash and advances to banks	A	£ 1,730	£ 198	£ 606	£ 52	£ 2,586
Derivatives settled on a gross basis	E	575	214	423	-	1,212
Derivatives settled on a net basis	E	200	108	561	2	871
Loans and advances to customers	B	1,425	6,844	5,255	8	13,532
Operating leases	B	4	33	71	-	108
Other assets	D	359	-	-	-	359
Total asset inflows		**£ 4,293**	**£ 7,397**	**£ 6,916**	**£ 62**	**£ 18,668**
Liabilities						
Due to banks and other financial institutions	C	£ 1,837	£ 3,151	£ 1,564	£ -	£ 6,552
Corporate deposits	C	22	-	-	-	22
Due to parent and related undertakings	C	400	320	-	-	720
Debt securities in issue	C	446	558	4,887	-	5,891
Derivatives settled on a gross basis	E	576	204	501	-	1,281
Derivatives settled on a net basis	E	100	187	404	2	693
Other liabilities	D	129	19	-	-	148
Subordinated loans	D	5	178	159	230	572
Total liability outflows		**£ 3,515**	**£ 4,617**	**£ 7,515**	**£ 232**	**£ 15,879**
Net liquidity gap excluding off balance sheet items		**£ 778**	**£ 2,780**	**£ (599)**	**£ (170)**	**£ 2,789**
Cumulative net liquidity gap excluding off balance sheet items		**£ 778**	**£ 3,558**	**£ 2,959**	**£ 2,789**	
Available for use credit facilities:						
Granted by financial institutions to the company		£ 400				
Granted by FMCC to the company		2,221				
Granted by the company (Note 29)		-				
Total available for use credit facilities		**£ 2,621**				
Guarantees callable		**£ (281)**	**£ -**	**£ -**	**£ -**	**£ (281)**
Cumulative net liquidity gap including off balance sheet items		**£ 3,118**	**£ 5,898**	**£ 5,299**	**£ 5,129**	

Risk weighted exposures and operational risk capital continued

5 Maturity analysis of exposures continued

Group As at 31 December 2008	Note	0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
Assets						
Cash and advances to banks	A	£ 1,797	£ 299	£ 439	£ 160	£ 2,695
Derivatives settled on a gross basis	E	1,599	400	688	-	2,687
Derivatives settled on a net basis	E	332	293	982	13	1,620
Loans and advances to customers	B	3,473	9,403	5,757	29	18,662
Operating leases	B	3	17	70	-	90
Other assets	D	469	9	-	-	478
Total asset inflows		**£ 7,673**	**£ 10,421**	**£ 7,936**	**£ 202**	**£ 26,232**
Liabilities						
Due to banks and other financial institutions	C	£ 2,612	£ 5,399	£ 1,884	£ -	£ 9,895
Corporate deposits	C	30	-	-	-	30
Due to parent and related undertakings	C	1,563	637	-	-	2,200
Debt securities in issue	C	399	1,319	4,801	-	6,519
Derivatives settled on a gross basis	E	1,563	381	761	-	2,705
Derivatives settled on a net basis	E	238	391	830	13	1,472
Other liabilities	D	112	19	24	-	155
Subordinated loans	D	5	11	287	252	555
Total liability outflows		**£ 6,522**	**£ 8,157**	**£ 8,587**	**£ 265**	**£ 23,531**
Net liquidity gap excluding off balance sheet items		**£ 1,151**	**£ 2,264**	**£ (651)**	**£ (63)**	**£ 2,701**
Cumulative net liquidity gap excluding off balance sheet items		**£ 1,151**	**£ 3,415**	**£ 2,764**	**£ 2,701**	
Available for use credit facilities:						
Granted by financial institutions to the company		£ 818				
Granted by FMCC to the company		2,869				
Granted by the company (Note 29)		(130)				
Total available for use credit facilities		**£ 3,557**				
Guarantees callable		**£ (323)**	**£ -**	**£ -**	**£ -**	**£ (323)**
Cumulative net liquidity gap including off balance sheet items		**£ 4,385**	**£ 6,649**	**£ 5,998**	**£ 5,935**	

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 (Please refer to Note 11 in the 2009 Annual Report and Accounts) • '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
E	Forward foreign exchange contracts and cross currency interest rate swaps settled on a gross basis are recorded on a contractual cash flow basis.

Quantitative Information

Risk weighted exposures and operational risk capital continued

6 Geographical distribution of exposures

In line with the focus of management review and the requirements of IFRS 8 'Operating Segments', the performance of the five major geographical markets, (UK, France, Germany, Italy and Spain), is separately reported here and in the 2009 Annual Report and Accounts.

Analysis of exposures as at 31 December:

	UK 2009 £ mil	Germany 2009 £ mil	Italy 2009 £ mil	Spain 2009 £ mil	France 2009 £ mil	Central / Other 2009 £ mil	Total 2009 £ mil
ASSETS (as at 31 December 2009)							
Net loans and advances to customers	£ 3,206	£ 3,879	£ 1,819	£ 995	£ 894	£ 1,679	£ **12,472**
Total assets	£ 3,482	£ 4,690	£ 2,220	£ 1,181	£ 1,054	£ 3,581	£ **16,208**

	UK 2009 £ mil	Germany 2009 £ mil	Italy 2009 £ mil	Spain 2009 £ mil	France 2009 £ mil	Central / Other 2009 £ mil	Total 2009 £ mil
CREDIT RISK (as at 31 December 2009)							
Impairment losses charged / (credited)	£ 11	£ 26	£ 16	£ 91	£ (1)	£ 10	£ **153**
Past due exposures	£ 36	£ 94	£ 81	£ 76	£ 7	£ 174	£ **468**

	UK 2008 £ mil	Germany 2008 £ mil	Italy 2008 £ mil	Spain 2008 £ mil	France 2008 £ mil	Central / Other 2008 £ mil	Total 2008 £ mil
ASSETS (as at 31 December 2008)							
Net loans and advances to customers	£ 4,000	£ 4,650	£ 2,394	£ 2,124	£ 1,329	£ 2,849	£ **17,346**
Total assets	£ 4,241	£ 5,720	£ 2,803	£ 2,346	£ 1,474	£ 5,056	£ **21,640**

	UK 2008 £ mil	Germany 2008 £ mil	Italy 2008 £ mil	Spain 2008 £ mil	France 2008 £ mil	Central / Other 2008 £ mil	Total 2008 £ mil
CREDIT RISK (as at 31 December 2008)							
Impairment losses charged / (credited)	£ 14	£ (3)	£ 13	£ 48	£ 2	£ 2	£ **76**
Past due exposures	£ 51	£ 94	£ 87	£ 108	£ 10	£ 100	£ **450**

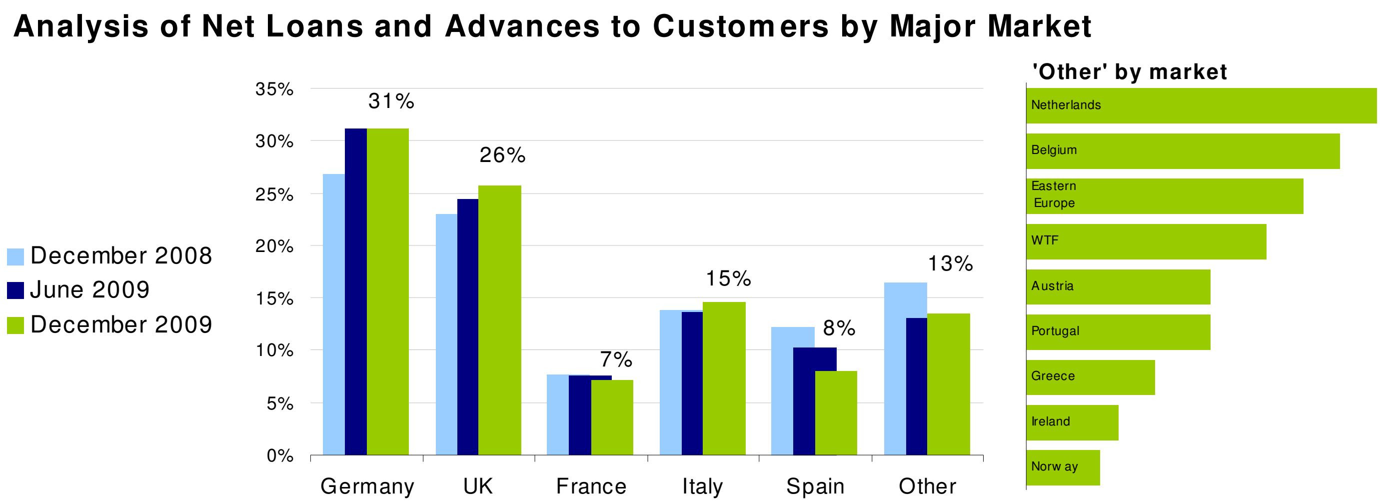
For further details of FCE's operating segments refer to the table below :

Reportable Segment	Description
France	The Company's branch in France.
Germany	The Company's branches in Germany.
Italy	The Company's branch in Italy.
Spain	The Company's branch in Spain.
United Kingdom	UK operations excluding Worldwide Trade Financing (WTF) a UK division and Central Office Operations (which are included within 'Central/Other').
Central / Other	This heading represents operations contributing less than 10% of external revenue and include the Company's branches in Austria, Belgium, Greece, Ireland, Netherlands and Portugal and FCE's subsidiaries located in the Czech Republic, Hungary and Poland. In addition 'Central/Other' includes Central Office operations, WTF a UK division, eliminations of intra and inter-company transactions and an amortising receivable portfolio in Norway.

Reportable segments include Special Purpose Entities supporting securitisation transactions in those markets.

Risk weighted exposures and operational risk capital continued

6 Geographical distribution of exposures continued



THE MARKET BAR CHART HIGHLIGHTS THE GROWING IMPORTANCE OF THE GERMAN MARKET AND THE REDUCTION IN FINANCING UNDERTAKEN IN THE SPANISH MARKET

Quantitative Information

Provision for incurred losses

7 Provision for incurred losses

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

	Company			Group		
	Retail £ mil	Wholesale £ mil	Total £ mil	Retail £ mil	Wholesale £ mil	Total £ mil
Balance at 1 January 2008	£ 86	£ 19	£ 105	£ 86	£ 20	£ 106
Impairment losses charged to income statement	£ 73	£ 3	£ 76	£ 73	£ 3	£ 76
Deductions						
- Losses written-off	(106)	(4)	(110)	(108)	(4)	(112)
- Recoveries	33	3	36	35	2	37
Net losses	**£ (73)**	**£ (1)**	**£ (74)**	**£ (73)**	**£ (2)**	**£ (75)**
Other:						
- Exchange adjustments	21	5	26	21	5	26
- Provision transfer relating to a sale of interests in a jointly controlled entity	(2)	-	(2)	(2)	-	(2)
- Provision transfer relating to a sale of interests to another Ford entity	(1)	-	(1)	(1)	-	(1)
Balance at 31 December 2008 / 1 January 2009	**£ 104**	**£ 26**	**£ 130**	**£ 104**	**£ 26**	**£ 130**
Impairment losses charged to income statement	£ 127	£ 26	£ 153	£ 127	£ 26	£ 153
Deductions						
- Losses written-off	(137)	(43)	(180)	(138)	(43)	(181)
- Exceptional loss written-off	(31)	-	(31)	(31)	-	(31)
- Recoveries	47	6	53	48	6	54
Net losses	**£ (121)**	**£ (37)**	**£ (158)**	**£ (121)**	**£ (37)**	**£ (158)**
Other:						
- Exchange adjustments	**(7)**	**(2)**	**(9)**	**(7)**	**(2)**	**(9)**
Balance at 31 December 2009 / 1 January 2010	**£ 103**	**£ 13**	**£ 116**	**£ 103**	**£ 13**	**£ 116**
Analysis of provision for incurred losses:						
- Collective impairment allowance	£ 104	£ 19	£ 123	£ 104	£ 19	£ 123
- Specific impairment allowance	-	7	7	-	7	7
Balance at 31 December 2008 / 1 January 2009	**£ 104**	**£ 26**	**£ 130**	**£ 104**	**£ 26**	**£ 130**
- Collective impairment allowance	£ 103	£ 11	£ **114**	£ 103	£ 11	£ **114**
- Specific impairment allowance	-	2	2		2	2
Balance at 31 December 2009 / 1 January 2010	**£ 103**	**£ 13**	**£ 116**	**£ 103**	**£ 13**	**£ 116**

The collective impairment allowance as detailed forms part of FCE's Tier 2 regulatory capital as disclosed in Note 2 'Analysis of capital resources held' on pages 29 and 30. Incurred but not yet identified losses relating to operating leases are also included in the regulatory capital figure but are excluded from the value above.

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.

Analysis of past due exposures

8 Exposures analysed by payment due status

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

As at 31 December	Group 2009 £ mil	Group 2008 £ mil
Total net retail loans and advances to customers	**£ 7,586**	**£ 8,783**
Of which, past due but not impaired retail contracts		
Past due under 30 days	£ 310	£ 283
Past due over 30 < 60 days	98	102
Past due over 60 < 90 days	41	44
Past due over 90 < 120 days	19	21
Total past due but not impaired retail contracts	**£ 468**	**£ 450**
Past due but not impaired retail contracts as a percentage of net loans and advances to customers	**6.2%**	**5.1%**

The table below provides information about the fair value of collateral held for impaired loans and advances to customers.

As at 31 December	Retail 2009 £ mil	Retail 2008 £ mil	Wholesale 2009 £ mil	Wholesale 2008 £ mil
Fair value of collateral held for loans past due but not impaired	£ 465	£ 444	£ -	£ -
Impaired loans and advances to customers	£ 161	£ 119	£ 228	£ 286
Amounts written off	(117)	(76)	(84)	(78)
Fair value of collateral held for impaired loans	**£ 44**	**£ 43**	**£ 144**	**£ 208**
Total fair value of collateral held	**£ 509**	**£ 487**	**£ 144**	**£ 208**

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'. Retail financing contracts are impaired as soon as it is apparent and reasonable to conclude that a credit loss will arise and at no later than 120 days past due. For further details in regard to the percentage of past due but not impaired contracts in relation to the total portfolio see page 14. The value of renegotiated loans being previously past due or impaired at 31 December 2009 was £ 0.5 million (2008: £ 1.6 million).

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. 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 Note 7 'Provision for incurred losses' on page 38).

For further details of how past due and impaired exposures are treated for accounting purposes, please refer to Note 14 'Loans and advances to customers' in the 2009 Annual Report and Accounts.

Quantitative Information

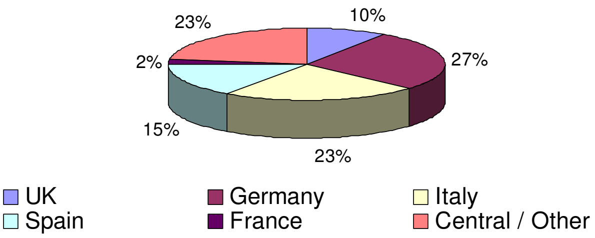
Analysis of past due exposures continued

9 Geographical analysis of retail exposures past due

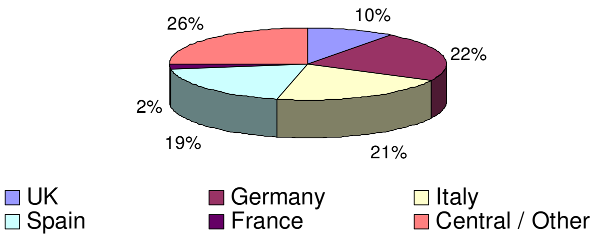
Retail

The charts below 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 'Central / Other'. The retail past due contracts are analysed by payment due status and are expressed as a percentage of total FCE past due receivables.

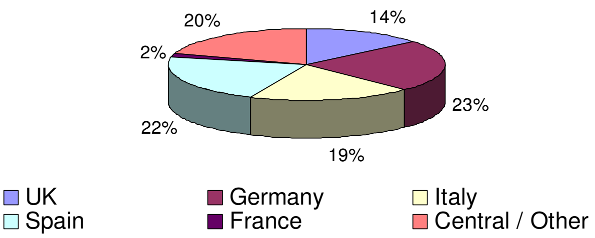
As at 31 December 2009 Past Due Under 30 Days



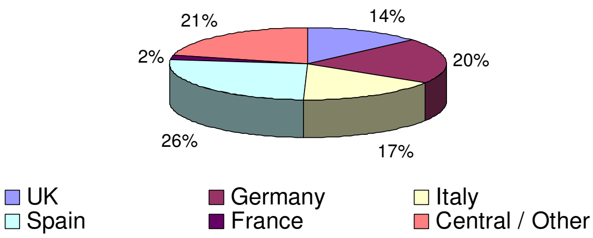
As at 31 December 2008 Past Due Under 30 Days



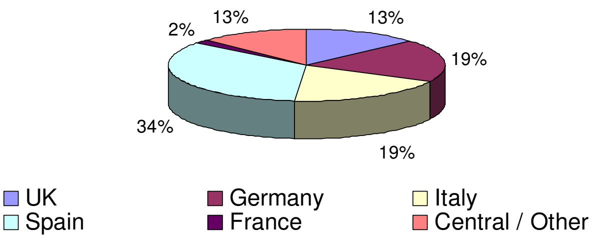
As at 31 December 2009 Past Due Over 30 to 60 Days



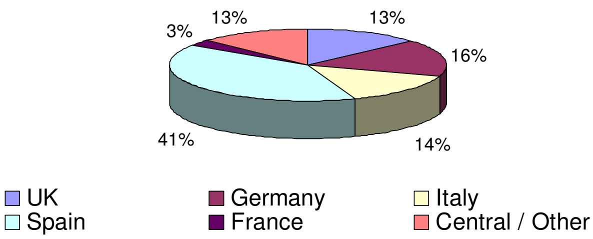
As at 31 December 2008 Past Due Over 30 to 60 Days



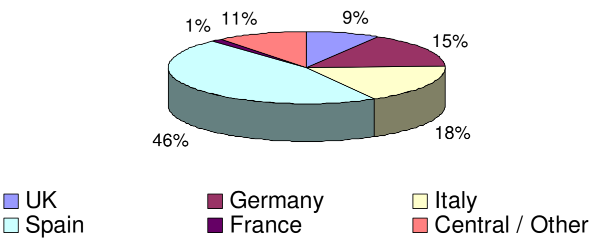
As at 31 December 2009 Past Due Over 60 to 90 Days



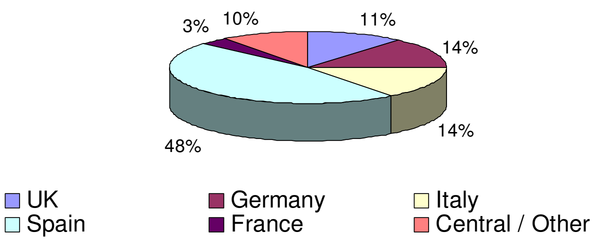
As at 31 December 2008 Past Due Over 60 to 90 Days



As at 31 December 2009 Past Due Over 90 to 120 Days



As at 31 December 2008 Past Due Over 90 to 120 Days



Derivative financial instruments

10 Derivative financial instruments

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

As at 31 December **Group**	2009 Notional Amount £ mil	2009 Fair Values Assets £ mil	2009 Fair Values Liabilities £ mil	2008 Notional Amount £ mil	2008 Fair Value Assets £ mil	2008 Fair Value Liabilities £ mil
Designated as fair value hedges						
Interest rate swaps	£ 700	£ 77	£ -	£ 754	£ 64	£ -
Total designated as fair value hedges	**£ 700**	**£ 77**	**£ -**	**£ 754**	**£ 64**	**£ -**
Non-designated derivatives						
Interest rate swaps	£ 10,368	£ 274	£ 175	£ 15,479	£ 299	£ 236
Cross currency interest rate swaps	686	28	89	1,079	82	130
Foreign exchange forwards	568	1	5	1,544	60	32
Total non-designated derivatives	**£ 11,622**	**£ 303**	**£ 269**	**£ 18,102**	**£ 441**	**£ 398**
Total derivatives	**£ 12,322**	**£ 380**	**£ 269**	**£ 18,856**	**£ 505**	**£ 398**
Current		£ 19	£ 56		£ 102	£ 59
Non current		361	213		403	339
Total		**£ 380**	**£ 269**		**£ 505**	**£ 398**

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 therefore 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.

Use of derivatives exposes FCE to the risk that a counterparty may default on a derivative contract. FCE establishes exposure limits for each counterparty to minimise this risk and provide counterparty diversification. Substantially all derivative exposures are with counterparties that have long-term credit ratings of single-A or better. The Company also undertakes transactions with certain Ford subsidiaries that are non-rated entities.

The aggregate fair value of derivative instruments in asset positions on December 31, 2009 is £380 million, representing the maximum potential loss at that date if all counterparties failed to perform as contracted. Master agreements in place with counterparties generally allow for netting of certain exposures; therefore, the actual loss recognised if all counterparties failed to perform as contracted would be significantly lower.

For further information in regard to derivative usage, policies and controls please refer to the 'Financial Market Risk' paragraph in the 'Risk' section on pages 17 to 19 of this document.

Other Information

Website Addresses

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

Additional data	Web site addresses
FCE Bank plc. • 'Annual Report' • 'Interim Report' • Basel Pillar 3 Report'	http://www.fcebank.com or http://www.fordfinancialeurope.com To access from the above links click on 'Investor Information'
Ford Motor Company (Ultimate Parent Company) including: • 'Financial Results' • 'Annual Reports' • 'US SEC EDGAR filings' Footnote 1 and 2	http://www.ford.com/about-ford/investor-relations To access from the above select and click on 'Company Reports'.
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 from the above link click on 'Company Reports' and then required item. FordCredit
Luxembourg's Stock Exchange which includes • Euro Medium Term Note Base Prospectus (refer to Note 27 'Debt securities in issue').	www.bourse.lu To access search for 'FCE'
Financial Reporting Council • The Combined Code on Corporate Governance	http://www.frc.org.uk
Financial Services Authority • Prudential Sourcebooks (GENPRU, BIPRU)	http://www.fsa.gov.uk

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

Other Information

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.

Financial Terms	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.
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards
Net receivables	Loans and advances to customers as reported in the balance sheet representing 'Gross receivables' including any deferred costs/fees and less provisions and unearned finance income and unearned interest supplements from related parties (refer to Note 14 'Loans and advances to customers' in the 2009 Annual Report and Accounts)

Regulatory Terms	Regulatory terms meaning
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
CAD	The Capital Adequacy Directive
CRD	The Capital Requirements Directive, commonly referred to as Basel II
CRR	Capital Resource Requirement as defined by the FSA
GENPRU	The Financial Services Authority General Prudential Sourcebook
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.
ILAA	An Individual Liquidity Adequacy Assessment, required by the FSA under the ILAS regime
ILAS	Individual Liquidity Adequacy Standards as set by the FSA
Institutions	A credit institution or CAD investment firm
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.
PRR	Position Risk Requirement as defined by the FSA
Risk Weighted exposures	Exposures multiplied by the appropriate percentage risk weighting required for Basel capital adequacy purposes including a notional asset value for market and operational risk. Figures from 2008 have been revised as the notional asset value for operational risk was previously excluded from this calculation.
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.
Tier 1 Capital	FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill (See Table 2 'Components of capital').
Tier 1 Capital Ratio	FCE's Tier 1 capital as reported in Table 2 'Components of capital' divided by end of period risk weighted exposures as defined above and calculated in Table 4 'Analysis of capital resources and requirements'.
Tier 2 Capital	FCE's Tier 2 capital comprises of subordinated debt, collective impairment losses (See Table 2 'Components of capital').
Tier 2 Capital Ratio	FCE's Tier 2 capital as reported in Table 2 'Components of capital' divided by end of period risk weighted exposures as defined above and calculated in Table 4 'Analysis of capital resources and requirements'.
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 'Components of capital').
Total Capital Ratio	FCE's total regulatory capital as reported in Table 2 'Components of capital' divided by end of period risk weighted exposures as defined above and calculated in Table 4 'Analysis of capital resources and requirements'.

Other Information

Glossary of Defined Terms continued

Other terms	Other terms meaning
2009 Annual Report and Accounts	The FCE consolidated annual financial statements as at and for the year ended 31 December 2009
Board or Board of Directors	The Board of Directors of FCE Bank plc.
2009 Interim Report	FCE's consolidated interim financial statements as at and for the half year ended 30 June 2009
CFP	FCE's Contingency Funding Plan
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 or Group	Company and all its subsidiaries (See Note 23 'Investments in group undertakings' in the 2009 Annual Report & Accounts.
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 which 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
GMFV	Guaranteed Minimum Future Values
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.
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.
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 (Please refer to the 2009 Annual Report and Accounts for a list of the Company's SPEs).
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