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FCE Bank plc

**BASEL II**

**PILLAR 3 DISCLOSURES**

for the year ended 31 December 2011

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## Definitions

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### Definitions

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

- i. **'2011 Annual Report and Accounts'** means FCE's consolidated annual financial statements as at and for the year ended 31 December 2011.
- ii. **'Q1 Management Statement'** means FCE's consolidated management statement as at and for the quarter ending 31<sup>st</sup> March 2012.
- iii. **'Interim Report'** means FCE's consolidated interim report and financial statements as at and for the half year ended 30 June 2012.
- iv. **'Company'** means FCE Bank plc including all its European branches, but excluding its subsidiaries and SPE's.
- v. **'Group'** or **'FCE'** means the Company and its subsidiaries and SPE's.
- vi. **'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.
- vii. **'Ford Credit'**, or 'FMCC', 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.
- viii. **'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.
- ix. **'Forso'** or **'the Forso JV'** means a joint venture finance company established with CA Consumer Finance, a consumer credit subsidiary of Credit Agricole S.A. in June 2008 which provides customer and dealer automotive financing in the Nordic markets.
- x. **'SPE'** means a bankruptcy-remote special purpose 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.
- xi. **'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 38

# Contents

## Introduction

Contents .....	3
Highlights .....	4
Introduction .....	5-7
Further developments .....	8

## Description of the business

FCE background .....	9
Corporate governance .....	9

## Risk

Risk appetite .....	10
Key risks .....	10
Credit risk .....	11
Financial market risk .....	12-14
Operational risk .....	15
Liquidity risk .....	16
Other risks .....	17-18

## Capital and funding

Capital adequacy .....	19
Internal Capital Adequacy Assessment Process .....	19
Capital strategy (including dividend policy) .....	19
Liquidity Monitoring .....	20
Liquidity Sources .....	21
Funding Sources .....	21

## Quantitative information

Quantitative information Index .....	22
Capital composition and requirements .....	23
Components of capital .....	24-25
Risk weighted exposures and operational risk capital .....	26-31
Provision for incurred losses .....	32-33
Analysis of past due exposures .....	34-35
Derivative financial instruments .....	36

## Other information

Website addresses .....	37
Glossary of defined terms .....	38-39

[www.fcebank.com](http://www.fcebank.com)

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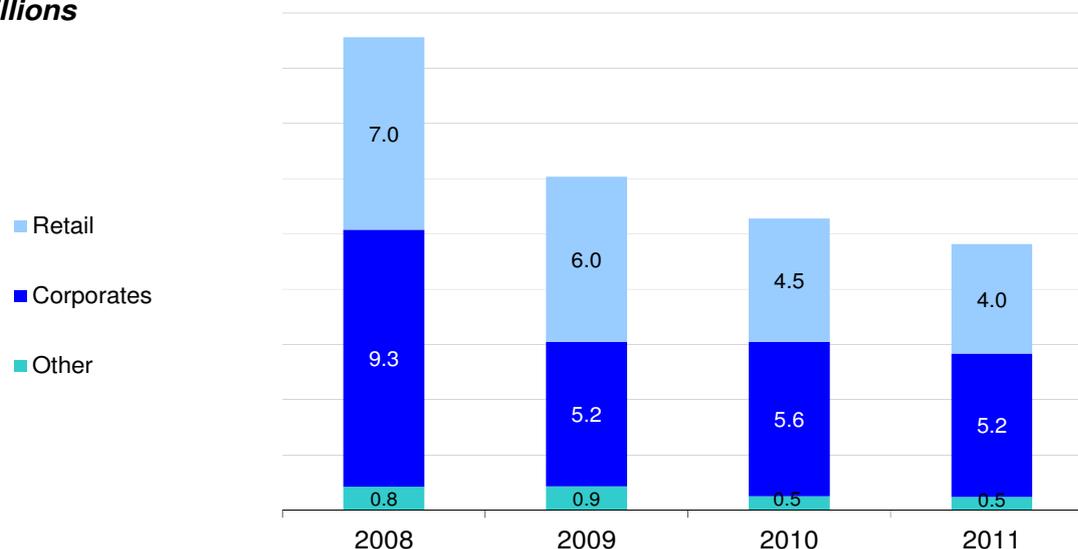
This Pillar 3 document sets out the 2011 Pillar 3 Disclosures for FCE Bank plc. These disclosures are based on the best available data at the time of issuance and have been prepared solely to give information on the basis of calculating Basel II capital requirements and on the management of risks faced 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. Certain 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 2011 Annual Report and Accounts.

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

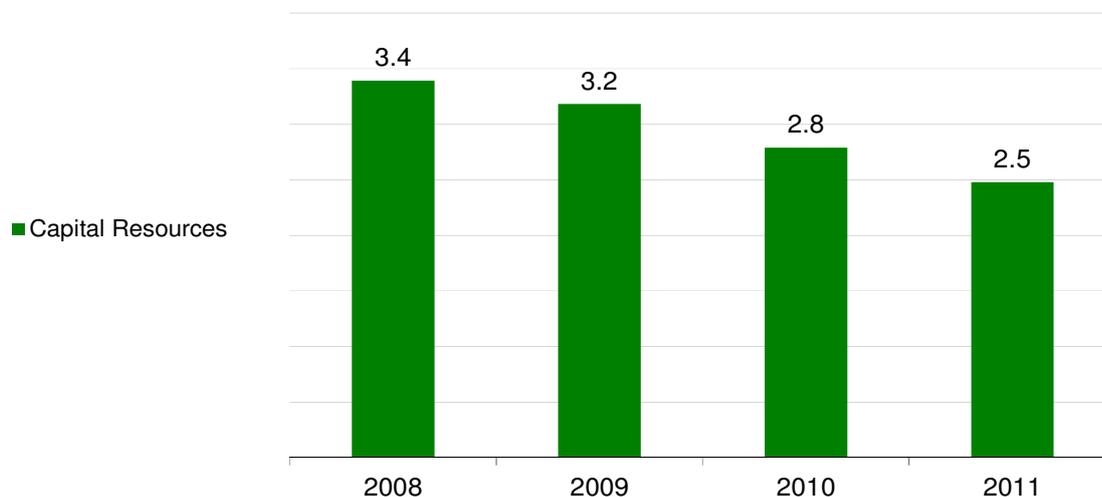
## Highlights

### Credit risk weighted exposures £ Billions



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

### Total regulatory capital £ Billions



FCE REMAINS WELL CAPITALISED

#### Key Regulatory Ratios

	2008	2009	2010	2011
Tier 1 Capital Ratio	16.4%	21.9%	21.2%	21.1%
Total Capital Ratio	18.9%	24.7%	23.6%	23.4%
Solvency Ratio	231%	299%	295%	292%

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

## 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.

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 complement the other two Pillars and assist market transparency.

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.

### 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 2011 and prior year figures for comparative purposes. This Pillar 3 disclosure document has been prepared in accordance with the rules as laid out in chapter 11 of BIPRU. BIPRU is the specific Financial Services Authority (FSA) prudential sourcebook for Banks, Building Societies and Investment firms and therefore covers the specific requirements for FCE. This document contains the disclosures required under Basel II Pillar 3 and is not a substitute for FCE's Annual Report and Accounts.

FCE continues 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 37.

### 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 next report will be the 2012 Q1 Management Statement followed by the Interim Report and Financial Statements which will disclose any material changes or items required under IFRS7, 'Financial Instruments: Disclosures'. The Management Statement and Interim Report and Financial Statements will 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, (as per Note 1 'Consolidated and solo consolidation' on page 23). Capital adequacy and Large Exposures 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	Principal activity	Accounting reference date	Ownership
FCE Leasing (Holdings) Limited	England and Wales	Holding company	31 December	100%
FCE Leasing Limited *	England and Wales	Non trading	31 December	100%
Ford Automotive Leasing Limited *	England and Wales	Non trading	30 September	100%
Meritpoint Limited	England and Wales	Non trading	30 June	100%
Primus Automotive Financial Services Limited	England and Wales	Dormant	31 December	100%
Volvo Car Finance Limited	England and Wales	Finance company	31 December	100%
FCE Credit s.r.o.	Czech Republic	Finance company	31 December	100%
FCE Credit Hungary Zrt	Hungary	Finance company	31 December	100%
FCE Services Kft *	Hungary	Finance company	31 December	100%
FCE Bank Polska S.A.	Poland	Bank	31 December	100%
FCE Credit Polska S.A.	Poland	Finance company	31 December	100%
Saracen Holdco Ab	Sweden	Holding company	31 December	100%

\*subsidiaries indirectly owned by the Company

In addition FCE, via its subsidiary Saracen Holdco Ab, has a 50% interest less one share in a jointly controlled entity, Forso Nordic AB (Forso) which provides automotive financial services in Denmark, Finland, Sweden and Norway. For further information in regard to Forso, please refer to Note 23 'Investment in a jointly controlled entity' in FCE's 2011 Annual Report and Accounts. FCE applies the equity method of accounting to its investment in Forso. Forso is a regulated institution in Sweden and is required to comply with all three pillars of Basel II.

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

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

## Introduction

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### 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 of FCE's capital, adjustments are made to the retained earnings figure reported in the 2011 Annual Report and Accounts to exclude the historical impact of unrealised fair value adjustments to financial instruments. Please see Table 2 'Analysis of capital resources held' on pages 24 and 25 which shows the effect of this adjustment on FCE's capital figure. In the Annual Report and Accounts, derivative financial instrument asset balances 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 36 for these amounts.
- 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 24 and 25, is the collective impairment allowance as detailed in the 2011 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 £62 million (2010: £81 million) referred to in Note 7 'Provision for incurred losses' on pages 32 and 33 representing incurred but not yet identified losses in both the retail and wholesale portfolios, and the £63 million (2010: £82 million) in Note 2.

The Special Purpose Entities (SPE's) utilised by the Company and which are listed in Note 24 'Investments in group undertakings' of FCE's 2011 Annual Report and Accounts, conduct their activities solely to meet securitisation requirements of the Company. In accordance with the scope of Interpretation SIC-12 'Consolidation – Special Purpose Entities' and IAS 27 'Consolidated financial statements and accounting for investments in subsidiaries' such entities are consolidated as a subsidiary within the Group balance sheet.

Neither the Company nor its officers, Directors or employees holds any equity interests in the SPEs utilised or receive any direct or indirect remuneration from the SPEs. Also such SPEs do not own shares in the Company or shares in any FCE subsidiary or other Ford affiliates.

# Introduction

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## Further developments

### UK regulation

In 2011, the UK government clarified its plans to move regulatory authority from the Financial Services Authority (FSA) to the Bank of England, under which the Prudential Regulatory Authority (PRA) will provide prudential oversight of banks and insurers and the Financial Conduct Authority (FCA – successor body to the FSA) will provide oversight of conduct and markets, along with the prudential regulation of other financial firms. The change is scheduled to take effect in 2013. FCE will become regulated by both bodies.

### Recovery and Resolution Plan

FCE recognises the FSA's new requirement in 2012 to develop a Recovery and Resolution Plan.

### Basel III

The Basel Committee on Banking Supervision has developed a comprehensive set of reform measures to strengthen the regulation, supervision, and risk management of the banking sector. Basel III outlines a number of approaches to regulatory capital, risk alignment, liquidity and charges. FCE is in the process of aligning the business to the proposed changes.

### Independent Commission on Banking (Vickers Report)

The UK government announced in 2011 its reforms to improve the stability and competition within UK banking. Known locally as the Vickers Report, it sets out recommendations for the ring-fencing of retail operations within UK banks from "riskier" activities such as investment banking activities. FCE will undertake a watching brief throughout 2012 and align business planning processes as necessary.

## Description of the business

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### Description of the business

#### FCE background

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 eleven 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.

#### Corporate governance

The Directors consider that effective corporate governance is a key factor underlying the strategies and operations of FCE. 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 principles of the UK Corporate Governance Code (the "Code") except for those provisions that are not appropriate for a wholly-owned subsidiary.

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

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

For further information in regard to FCE and its Corporate governance please refer to the 2011 Annual Report and Accounts.

# Risk

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## Risk appetite

FCE's risk appetite is set by its Board of Directors and is clearly defined, monitored and managed through its Risk Appetite Framework. FCE has established dynamic and formalised processes for the identification of the risks that it faces. FCE manages each form of risk uniquely in the context of its contribution to overall risk. Business decisions are evaluated on a risk aware and risk adjusted basis and are priced consistent with these risks.

FCE is exposed to several types of risk. FCE considers credit, vehicle residual value, financial market (including interest rate, currency, counterparty and liquidity risks) and operational risk to be amongst the key risks that it faces..

FCE's Risk Appetite Framework is integrated within the Governance structure of FCE and informs the day-to-day risk management processes/policies which minimise the risk of unexpected losses. FCE conducts close monitoring of the risks in line with its defined risk appetite, and applies strong, proactive risk mitigating actions and controls which have been developed based on nearly 50 years of experience in the specialist field of automotive sector related lending.

FCE takes a primarily secured asset lending approach in order to minimise the risk of unexpected losses. FCE continuously reviews and seeks to improve its risk management practices in line with industry best practices.

## Key risks

In section 2.1 of their General Prudential sourcebook (GENPRU), the FSA defines credit risk, financial market and operational risk as the three main risk categories which each require their own elements of capital within a BIPRU firm. 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 nature of the key risks facing FCE is discussed in more detail in the remainder of this section.

## 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.

As a provider of automotive financial products, FCE's primary source of credit risk is the possibility of loss from a retail customer's or dealer's failure to make payments according to contract terms.

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 repossessed 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 (Consumer and commercial) credit risk management

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. 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 extensive historical experience.

### Wholesale credit risk management

FCE extends commercial credit to franchised dealers selling Ford vehicles primarily in the form of approved credit facilities to purchase stocks of new and used vehicles and financing for dealer vehicles (eg. demonstrator or courtesy vehicles) and to a much lesser extent, loans for working capital and property acquisitions. 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.

### Concentration risk

Concentration risk is the risk resulting from concentrated exposures to counterparties, specific country markets, particular products or business segments as well as the automotive sector as a whole. It is the company's opinion that there are significant mitigating factors to the concentration risks that it faces. FCE is internationally active and seeks to maximise geographical diversity whilst ensuring that its lending is predominantly in countries with an investment grade credit rating. FCE's largest markets are Germany (Europe's largest automotive market) and the UK (FCE's home market).

On a monthly basis FCE monitors the distribution, by country and product, of its total financing to dynamically enable adjustments to be made in line with its risk appetite. Within each country where it operates FCE's lending is geographically dispersed consistent with the nationwide nature of representation of the Ford vehicle sales and service network.

FCE's consumer financing portfolio is inherently granular in nature and this combined with its detailed knowledge of the respective markets and its long and comprehensive experience within automotive financing provides strong mitigation to concentration risks that may otherwise arise. Counterparty exposures are closely monitored and managed through a series of processes depending on counterparty type and associated 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. Under IFRS reporting where there is both a current enforceable legal right to set off the recognised amounts and an intention to settle on a net basis, financial liabilities can be offset against financial assets. For regulatory reporting, as per BIPRU 5.3, only the current enforceable legal right needs to be present for this to occur (See Note 4 'Analysis of capital resources and requirements' on pages 26 and 27).

## Risk

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### Financial market risk

As defined in the FSA handbook (GENPRU 2.1.52 and BIPRU 11.5.4), 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, its 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

FCE operates in a variety of currencies and lends and borrows using financial instruments with differing re-pricing characteristics. Volatility in interest rates and foreign exchange rates exposes FCE to the risk of losses should market rates increase the value of liabilities in relation to assets. 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 designed to mitigate risk; derivatives are not used for speculative purposes. Further details on FCE's use of derivatives are given on page 14 and in Note 10 'Derivative financial instruments' on page 36 of this document).

### Currency risk

FCE faces exposure to currency exchange rates if a mismatch exists between the currency of the receivables and the currency of the debt funding those receivables. Wherever possible, FCE funds receivables with debt in the same currency, minimising exposure to exchange rate movements. When a different currency is used, it is the Company's policy that foreign currency derivatives are executed to convert substantially all of the foreign currency debt obligations to the local country currency of the receivables.

(Refer to Note 6 'Geographical distribution of exposures' on page 31 of this document, for the analysis of net loans and advances to customers and total assets by geographical segment, and Note 40a) 'Currency risk' in the 2011 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 2.2 years, and floating rate wholesale financing receivables with an average life of about 69 days. Funding sources consist primarily of securitisation and unsecured term debt.

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.

## 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'), impacting both assets and liabilities, 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.

The sensitivity of interest income to changes in interest rates in the 12 months following the year ended 31 December 2011 and 2010 is detailed below:

	2011		2010	
	£ mil		£ mil	
<b>Net interest income impact of 100 basis point rate change</b>				
Increase	£	14	£	15
Decrease		(14)		(15)

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 and impacts the re-pricing of assets and liabilities. In reality, interest rate changes are rarely instantaneous or parallel and rates could move more or less than the one percentage point assumed. In addition, management has discretion over the pricing of its new assets, and may re-price assets to a greater or lesser degree than its liabilities re-price. As a result, the actual impact to pre-tax net interest income could be higher or lower than the results detailed above.

While the sensitivity analysis presented is FCE's best estimate of the impacts of the specified assumed interest rate scenarios, actual results could differ from those projected. The model used to conduct this analysis is heavily dependent on assumptions. Embedded in the model are assumptions regarding the reinvestment of maturing asset principal, refinancing of maturing debt, and predicted repayment of retail 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.

The interest rate sensitivity of FCE's assets and liabilities, including derivatives, is evaluated each month.

# Risk

## Financial market risk continued

### 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 currency exchange rates	<ul style="list-style-type: none"> <li>- Cross currency interest rate swaps</li> <li>- Foreign currency forward contracts</li> </ul>
Funding of shorter dated or floating rate assets with longer dated fixed rate debt	Sensitivity to changes in interest rates arising from the repricing characteristics of assets not matching repricing of liabilities	<ul style="list-style-type: none"> <li>- Pay floating rate and receive fixed rate interest rate swaps</li> </ul>
Funding of longer dated, fixed rate assets with shorter dated or floating rate debt	Sensitivity to changes in interest rates arising from the repricing characteristics of assets not matching repricing of liabilities	<ul style="list-style-type: none"> <li>- Pay fixed rate and receive floating rate interest rate swaps</li> </ul>

Exposure to financial market risk is reduced through the use of interest rate and foreign currency exchange derivatives. FCE's derivatives strategy is designed to mitigate risk; derivatives are not used for speculative purposes.

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 remuneration not being linked to individuals trading performance

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

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## 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 and continues to seek enhancement opportunities within its Operational Risk Framework. FCE follows the principles of the “Three Lines of Defence” model for the management of operational risk. Business line management form the first line. Compliance, Operational Risk and Internal Controls Office are the second line. General Audit Office comprise the third line.

FCE is indemnified under insurance policies for certain operating risks including health and safety. 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 Executive 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.

A 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 Modular Control 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 2011 Annual Report and Accounts).

## Risk

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### Liquidity risk

Liquidity risk is the possibility of being unable to meet present and future financial obligations as they become due. FCE's funding strategy is to focus on diversification of funding sources, and investors, to manage liquidity risk in all market conditions. FCE is funded primarily through securitisation, unsecured debt and equity, with debt that, on average, matures later than assets liquidate. FCE holds liquidity in the form of cash, marketable securities and committed capacity. FCE's committed capacity is in the form of committed securitisation capacity, and contractually committed unsecured credit facilities. For more information on this please see the Liquidity section on pages 20 and 21 within the 'Capital and funding' section of this document.

FCE's liquidity risk management framework supports FCE to identify measure, monitor and control liquidity risk and ensure that it can continue to meet its liabilities as they fall due, both in normal and stressed times. Through the Asset and Liability Management Committee (ALCO), FCE's governing body is responsible for establishing and monitoring the company's liquidity risk appetite, which is managed and escalated through a set of tolerances and early warning indicators, which identify the emergence of increased liquidity risk or vulnerabilities. (For further details please see the Liquidity section in the 'Capital and funding' section on pages 20 and 21 of this document, and also Note 5 'Maturity analysis of exposures' on pages 28 to 30).

### Available for use credit facilities

#### Available committed securitisation capacity

FCE maintains committed securitisation capacity consisting of agreements with banks and asset backed commercial paper conduits under which these parties are contractually obligated, at FCE's option, to purchase eligible receivables, or make advances under asset backed securities. For further details please see the 'Capital and funding' section on pages 20 and 21 of this document.

#### Unsecured credit facilities granted by financial institutions to the company

At 31 December 2011 the Company had a £440 million (2010: £689 million) contractually committed unsecured credit facility with financial institutions, of which £129 million (2010: £343 million) was utilised, as part of FCE's plans for periodic usage of the facility. The remaining £311 million (2010: £346 million) was available for use and reported within the Liquidity Risk tables in Note 5 'Maturity analysis of exposures' on pages 28 to 30 as 'Available for use credit facilities – Granted by financial institutions to the company'. This credit facility, which expires in 2014, contains certain covenants including an obligation for FCE to maintain its ratio of regulatory capital risk-weighted assets at no less than the applicable regulatory minimum, and for the support agreement between FCE and FMCC to remain in full force and effect (and enforced by FCE to ensure that its net worth is maintained at no less than \$500 million). In addition to customary payment, representation, bankruptcy and judgement defaults, the credit facility contains cross-payment and cross-acceleration defaults with respect to other debt.

#### Unsecured credit facilities granted by FMCC to the Company

A EUR 2.0 billion (2010: EUR 2.0 billion) short term revolving facility has been provided by FMCC to the Company which matures on 14 December 2012 or earlier upon 45 days' notice from FMCC. As at 31 December 2011 no amounts had been drawn under this facility (2010: nil)

FCE's Board of Directors recognise that 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;
- Global capital market volatility;
- Market capacity for Ford, Ford Credit 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;
- FCE's ability to maintain credit facilities and renew committed liquidity programmes; and
- FCE's ability to obtain derivatives to manage risk.

## Other risks

In addition to the four key risk elements 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.

### 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.

Residual values represent the estimated value of the vehicle at the end of the retail or leasing financing plan. FCE calculates expected residual values after analysing published residual values and FCE's own historical experience in the used vehicle market. Vehicle residual value provisions are reviewed at least quarterly and are accounted for as an adjustment to the carrying value of the assets on the balance sheet.

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's normal 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 1.2% (2010: 3.0%) 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 2011 were: Retail £796 million (2010: £930 million) and operating leases £208 million (2010: £132 million). The retail residual value figures reported assume that all retail vehicles where FCE is subject to vehicle residual value risk will be returned.

### Group risk

This is the risk of loss due to FCE's association with its parent company. As a captive Automotive Finance Company, FCE has an inherent exposure to Ford Motor Company, however this is carefully monitored through FCE's Large Exposure monitoring process and minimised through strong adherence to internal policies which ensure an arms-length approach to all transactions/services with the parent. FCE leverages some services provided by other areas of the wider Ford Credit and Ford corporate organisation; however, these services are governed and regulated by robust, documented, internal service level agreements and typically provide for ring fenced capabilities.

### Pension risk

This is the risk that arises from FCE's obligations as a result of supporting Pension schemes for its employees in particular the defined benefit scheme operated in the UK. The company operates, in conjunction with Ford, a UK defined benefit plan and it recognises there is inherent volatility in the investment markets that will affect the liabilities of the scheme at any point in time and that the pension liabilities increase over time as longevity assumptions extend and active workforce / pensioner balance matures.

FCE uses internal and external auditors to provide independent views of the pension liabilities and transparent communication of this and regulation oversight ensures corporate awareness is maintained at Board and Executive Management level.

FCE, in conjunction with Ford, leverage in house US based pensions management expertise to assist with recommendations to the Pension Fund Trustee on investment strategy and liability management. Contributions by FCE to reduce any deficit are made over a time frame agreed with the Pension Fund Trustee.

# Risk

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## Further risks

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 such risks.

The credit ratings of FCE and Ford Credit have been closely associated with the rating agencies' opinions of Ford. 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 Ford Credit, (please refer to Note 31 'Ordinary shares and share premium' in the 2011 Annual Report and Accounts).

In addition, FCE has the benefit of:

- access to on-lent debt from Ford, Ford Credit and Ford Credit International (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 Ford Credit 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 transitioned from a multi-brand organisation to a focus on supporting the Ford brand as the Jaguar, Land Rover, Mazda and Volvo brands have been transferred to alternative finance providers over the last three years. This has required FCE to focus on and implement cost reduction actions to adjust for the change in scale.

# Capital and funding

## Capital

### Capital adequacy

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's consolidated regulatory capital is managed through its monthly Asset and Liability Management Committee (ALCO) in which actual and projected capital adequacy positions are monitored against capital resource requirements as determined by internal assessment (ICAAP) and minimum regulatory levels.

FCE's solvency ratio was 292% at 31 December 2011 (2010: 295%). The solvency ratio indicates that FCE is holding capital in excess of its Basel II minimum capital requirements as assessed under both Pillar 2 ICAAP and Pillar 1 minimum capital requirements.

FCE remains well capitalised given its continued role as a secured lender in the specialist automotive financial sector. There was no change to the Company's issued share capital during 2011. 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 'Analysis of capital resources held' on pages 24 and 25).

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 they are subject to.

### Internal Capital Adequacy Assessment Process (ICAAP)

The Internal Capital Adequacy Assessment Process (ICAAP) evaluates:

- FCE Bank Plc's Governance processes
- FCE's Risk Appetite Framework (including risk inventory, risk monitoring and control)
- Capital Requirements and Capital Resources, including an assessment of the minimum capital that should be held

The Governance processes, Risk Appetite Framework and Capital assessment are reviewed and documented annually (at a minimum) and approved by the Board of Directors.

FCE has submitted five Internal Capital Adequacy Assessment Process (ICAAP) declarations to the FSA.

Each assessment is completed after careful analysis of FCE's primary risks, risk mitigation, risk appetite. The capital assessment process includes an internal assessment of regulatory capital (Pillar 1 and Pillar 2a capital) via stress testing of extreme events over a twelve month time frame, and further analysis to determine the amount of the 'capital planning buffer' (Pillar 2b) through modelling of severe but plausible scenarios over the business planning period.

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 rating agency guidelines) and provide a reasonable return to the shareholder.

### Capital strategy (including dividend policy)

FCE's plan is to gradually align its capital base with the reduced scale of its business while taking account of the funding and liquidity environment. In May 2011 FCE paid a dividend of £370 million, (2010: £390 million). Based on present assumptions and subject to meeting its regulatory requirements, FCE has declared and plans to pay a dividend of £315 million during 2012.

# Capital and funding

## Funding

FCE's funding strategy is to have sufficient liquidity to profitably support Ford, its dealers and customers in all economic environments.

### Liquidity Monitoring

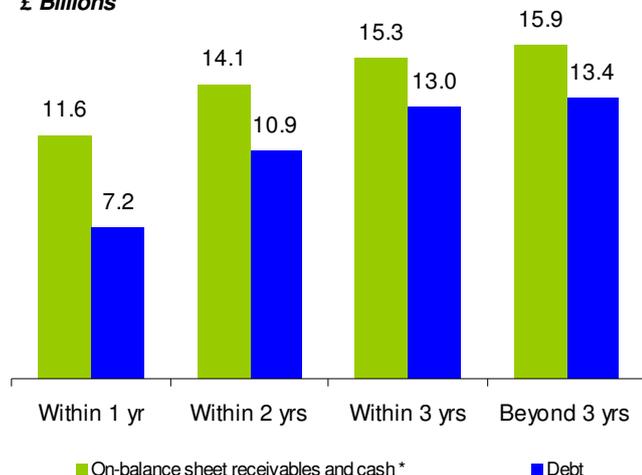
FCE operates a daily automated liquidity management information system which provides forward-looking information on the firm's liquidity position. This information is used to project, over various time horizons, cash flows arising from its assets, liabilities and off-balance sheet items. It is also used to support regulatory liquidity reporting requirements.

FCE conducts regular stress testing and scenario analysis to assess its liquidity exposure in relation to its established liquidity risk appetite. The results of these stresses and scenarios are reviewed regularly by its ALCO and governing body to ensure that their nature and severity remain appropriate and relevant to FCE and the current business and economic environment.

Integral to FCE's liquidity risk management is its contingency funding plan (CFP), which provides a framework of flexible guidelines and procedures to support evaluation, decision making and escalation in the event of liquidity stress. The CFP is regularly reviewed to ensure its assumptions remain operationally robust and relevant.

Annually, since 2010, FCE has completed a Board approved Individual Liquidity Adequacy Assessment (ILAA), which documents FCE's approach to the management of liquidity risk, including governance, reporting, stress testing, contingency planning and liquidity requirements.

**Cumulative Contractual Maturities as at  
31 December 2011**  
£ Billions



FCE's balance sheet is inherently liquid because of the short-term nature of FCE's loans and advances to customers and cash, compared to debt. For additional information in regard to contractual maturities of receivables and debt, see Note 41 'Liquidity risk' in the 2011 Annual Report and Accounts.

\* Includes the cash flows arising from cash and advances, marketable securities, gross loans and advances to customers, other assets and gross cash flows relating to operating leases reported on the balance sheet under property and equipment. Excludes off balance sheet available for use credit facilities.

## Capital and funding

### Liquidity sources

FCE maintains liquidity through a variety of sources including:

- Cash and marketable securities as included in Note 11 'Cash and advances' and Note 12 'Marketable securities' in the 2011 Annual Report and Accounts
- Committed securitisation capacity consisting of agreements with banks and asset-backed commercial paper conduits under which these parties are contractually obligated, at FCE's option, to purchase eligible receivables, or make advances under asset-backed securities; and
- Unsecured contractually committed credit facilities.

<b>Liquidity Sources</b>	<b>2011</b>	<b>2010</b>
	<b>£ bil</b>	<b>£ bil</b>
Cash and advances and marketable securities	£ 2.8	£ 2.3
Committed securitisation capacity	£ 4.5	£ 4.9
Unsecured credit facilities	0.4	0.7
<b>Committed capacity</b>	<b>£ 4.9</b>	<b>£ 5.6</b>
<b>Committed capacity and cash</b>	<b>£ 7.7</b>	<b>£ 7.9</b>
Securitisation capacity in excess of eligible receivables	(1.1)	(1.0)
Cash not available for use in FCE's day to day operations	(0.7)	(1.0)
<b>Liquidity</b>	<b>£ 5.9</b>	<b>£ 5.9</b>
Utilisation	<b>(3.1)</b>	<b>(3.1)</b>
<b>Liquidity available for use</b>	<b>£ 2.8</b>	<b>£ 2.8</b>

The decrease in cash not available for use in FCE's day to day operations is primarily due to the lower level of cash reserves held in respect of securitisation. In anticipation of a scheduled unsecured debt maturity in January 2012 of £1.1 billion and the expected seasonal increase in assets during the first quarter, FCE held a high level of liquidity at year-end. As at 31 December 2011, committed capacity and cash and advances shown above totalled £7.7 billion, of which £5.9 billion could be utilised (after adjusting for capacity in excess of eligible receivables of £1.1 billion and cash not available for use in day-to-day operations of £0.7 billion). Of this amount, £3.1 billion was utilised, leaving £2.8 billion available for use. In addition to this, the £1.1 billion of securitisation capacity in excess of eligible receivables provides flexibility in funding future originations, or shifting capacity to different markets and asset classes.

### Funding sources

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

Net cash inflow from funding raised for the year ending 31 December 2011\* is as detailed below:

<b>Net Cash Inflow from funding raised for the year ending</b>	<b>31 Dec 2011</b>
	<b>£ bil</b>
	<b>Net Cash Inflow</b>
<b>New issuance</b>	
- Securitisation of retail and lease automotive receivables	£ 1.1
- Securitisation of wholesale automotive receivables	-
- Unsecured debt	1.0
<b>Total new issuance</b>	<b>£ 2.1</b>
<b>Existing facilities</b>	
- Securitisation of retail and lease automotive receivables	£ 1.0
- Securitisation of wholesale automotive receivables	3.6
<b>Total existing facilities</b>	<b>£ 4.6</b>
<b>Total</b>	<b>£ 6.7</b>

\*Cash inflow from funding activity net of movements in revolving securitisation transactions.

# Quantitative information

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## 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

1	Consolidated and solo consolidation .....	23
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#### Components of capital

2	Analysis of capital resources held .....	24-25
3	Subordinated loans qualifying as Tier 2 capital.....	25

#### Risk weighted exposures and operational risk capital

4	Analysis of capital resources and requirements.....	26-27
5	Maturity analysis of exposures.....	28-30
6	Geographical distribution of exposures.....	31

#### Provision for incurred losses

7	Provision for incurred losses.....	32-33
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#### Analysis of past due exposures

8	Exposures analysed by payment due status .....	34
9	Geographical analysis of retail exposures past due.....	35

#### Derivative financial instruments

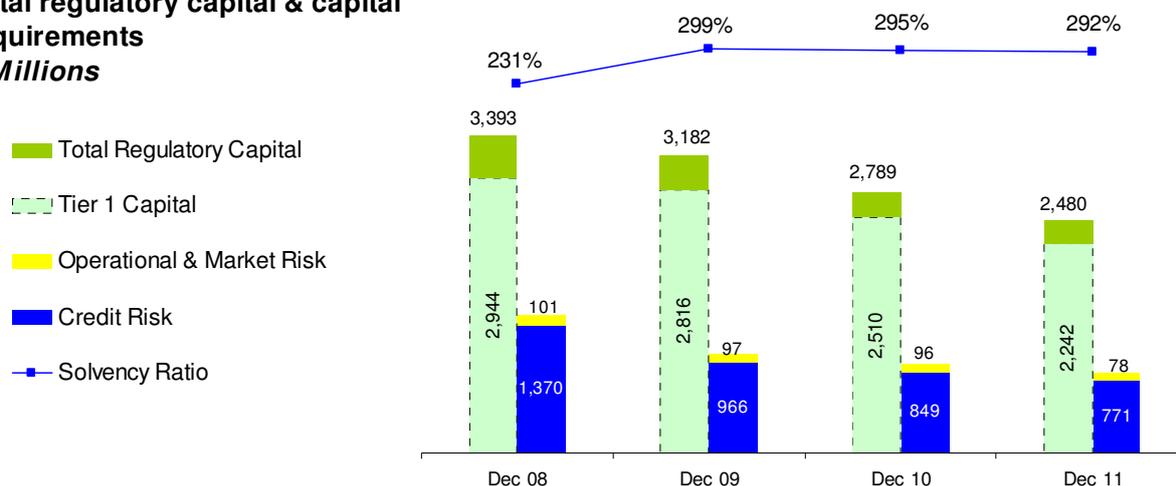
10	Derivative financial instruments .....	36
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## Quantitative information

### Capital composition and requirements

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

#### Total regulatory capital & capital requirements £ Millions



### 1 Consolidated and solo consolidation

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 consolidation
- Capital resource requirements on a solo consolidated and consolidated basis as at 31 December 2011 and 31 December 2010
- Capital resources held as at 31 December 2011 and 31 December 2010 on a consolidated basis

	Country of incorporation	Note	Capital resources	
			2011 £ mil	2010 £ mil
<b>SOLO CONSOLIDATED BASIS</b>	Various		£ 2,410	£ 2,718
FCE Credit s.r.o	Czech Republic		18	16
FCE Credit Hungaria Zrt	Hungary		13	13
FCE Services Kft	Hungary		1	1
FCE Bank Polska S.A	Poland		23	25
FCE Credit Poland S.A	Poland		14	13
Saracen Holdco Ab	Sweden		1	3
<b>Subsidiaries excluded from solo consolidation</b>			£ 70	£ 71
<b>CONSOLIDATED BASIS</b>		4	£ 2,480	£ 2,789

The above-mentioned Eastern European subsidiaries are not included in solo consolidation reporting as these subsidiaries obtain funding from local sources rather than from FCE. Saracen Holdco Ab is a holding company that has a 50% interest less one share in a jointly controlled entity, Forso Nordic AB (Forso). Forso provides automotive financial services in Denmark, Finland, Sweden and Norway.

## Quantitative information

### Components of capital

#### 2 Analysis of capital resources held

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

For the year ended 31 December	Group	
	2011 £ mil	2010 £ mil
<b>Tier 1</b>		
Share capital	£ 614	£ 614
Share premium	352	352
Retained earnings	1,212	1,471
Valuation adjustments to retained earnings	(45)	(75)
Profit after tax	123	161
Goodwill and intangible assets	(13)	(13)
<b>Total Tier 1</b>	<b>£ 2,243</b>	<b>£ 2,510</b>
<b>Tier 2</b>		
Collective impairment allowance	£ 63	£ 82
Qualifying subordinated loans	220	242
<b>Total tier 2</b>	<b>£ 283</b>	<b>£ 324</b>
<b>Total tier 3</b>	<b>£ -</b>	<b>£ -</b>
<b>Deductions</b>		
Investment in a jointly controlled entity	£ (46)	£ (45)
<b>Total deductions</b>	<b>£ (46)</b>	<b>£ (45)</b>
<b>Total regulatory capital</b>	<b>£ 2,480</b>	<b>£ 2,789</b>
<b>Capital ratios</b>		
Tier 1 ratio (%)	21.1%	21.2%
Total capital ratio (%)	23.4%	23.6%

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.
- FCE holds no Tier 3 capital. As FCE does not operate a trading book, the application of Tier 3 capital would be limited to supporting market risk requirements outside of trading book activities.
- Deductions comprising of investment in the Forso JV.

Retained earnings included within regulatory capital are net of tax, dividends and other appropriations. Further valuation adjustments to retained earnings are made to exclude the historical impact of 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 38 and 39. Prior to the audit of the Annual Report and Accounts, FCE excludes the unaudited profit for the financial year from regulatory submissions.

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 25).

## Quantitative information

### Components of capital continued

#### 2 Analysis of capital resources held continued

Tier 1 capital has decreased in 2011 to £2,243 million (2010: £2,510 million) primarily resulting from the payment of a dividend of £370 million (2010: £390 million), partially offset by the inclusion of profit after tax for the period of £123 million (2010: £161 million), net of foreign currency translation differences. (For further details please refer to the 'Consolidated statements of changes in equity' in the 2011 Annual Report and Accounts).

Tier 2 capital has also decreased in 2011 to £283 million (2010: £324 million) resulting from the repayment of £65 million of subordinated loans, with a Tier 2 value of £20 million, and also lower collective impairment allowances in 2011 of £63 million (2010: £82 million).

FCE is holding 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 19 to 21.

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 they are subject to.

#### 3 Subordinated loans qualifying as Tier 2 capital

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

As at 31 December	Company/Group	
	2011 £ mil	2010 £ mil
Perpetual Loans	£ 220	£ 222
Dated qualifying	-	65
<b>Total loan amounts</b>	<b>£ 220</b>	<b>£ 287</b>
Tier 2 Value of perpetual loans	£ 220	£ 222
Tier 2 Value of dated qualifying loans	-	20
<b>Total tier 2 value</b>	<b>£ 220</b>	<b>£ 242</b>
<b>Analysis of subordinated loans</b>		
Due to FCI	£ 141	£ 205
Due to Ford Credit	79	82
<b>Total subordinated loans</b>	<b>£ 220</b>	<b>£ 287</b>

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 for regulatory capital purposes.

The loans from Ford Credit are denominated in Euro. The loans from FCI are denominated in US dollars and are drawn under a US\$1 billion subordinated loan facility. This facility enables the Company to respond quickly if additional capital support is required. Under the agreed terms, the Company is able to take drawdowns 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. Foreign currency derivatives are used to minimise currency risks on US dollar denominated funding.

The rights of FCI and Ford Credit 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 and risk weighted exposures 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.

	Risk weighting	2011			2010	
		Exposure £ mil	Capital requirement £ mil	Average Capital requirement £ mil	Exposure £ mil	Capital requirement £ mil
<b>Credit risk exposure classes</b>						
Wholesale (Corporates)	100%	£ 5,177	£ 414	£ 452	£ 5,595	£ 448
Corporates (Risk mitigated)	0%	541	-	-	326	-
Retail	75%	5,303	318	344	5,949	357
Institutions	50%	196	8	9	309	12
Institutions	20%	1,610	26	23	1,627	26
Multilateral development banks	0%	-	-	-	87	-
Central governments and central banks	0%	1,260	-	-	782	-
Loans and advances over 90 days past due	150%	30	4	4	35	4
Other items	100%	18	1	1	18	1
Other items	20%	3	0	-	5	-
<b>Total Credit risk</b>		<b>£ 14,138</b>	<b>£ 771</b>	<b>£ 833</b>	<b>£ 14,733</b>	<b>£ 849</b>

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

The average capital requirements, and the average risk weighted exposures shown in a later table, are calculated by adding the capital requirements or risk weighted exposures at the beginning of the year and the end of each six month period, and dividing by three.

At 31 December 2011 FCE had 4 large exposures, (2010: 1), defined by the FSA as representing over 10% of its capital base and reported as such in the FSA008 Large Exposure Return. Three of these were to banks (two of which were central government institutions and are therefore a nil net exposure), and are included in the '5 largest exposures within cash and advances' mentioned below. The remaining exposure is to Ford Motor Company (FMC) at 15.93%, (2010: 17.65%). Deposits received from companies within the Group are used to mitigate the gross exposure to FMC. 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 £12 million at 31 December 2011 (2010: £14 million).

FCE's ten largest counterparty exposures including both amounts reported in loans and advances to customers and undrawn commercial credit facilities, (please refer to Note 36 'Commitments' in the 2011 Annual Report and Accounts), totalled £866 million as at 31 December 2011 (2010: £812 million). Deposits received from FCI and other deposits are utilised to mitigate exposure concentrations.

FCE's five largest counterparty exposures included within Cash and advances, (please refer to Note 11 'Cash and advances' in the 2011 Annual Report and Accounts), total £1,687 million (2010: £975 million) and have long-term credit ratings of single-A or better.

## Quantitative information

### 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	2011		2010
		Capital requirement £ mil	Average Capital requirement £ mil	
<b>Capital requirement</b>				
Credit risk	4	£ 771	£ 833	£ 849
Market risk		7	5	8
Operational risk		71	77	88
<b>Total capital requirement</b>		<b>£ 849</b>	<b>£ 915</b>	<b>£ 945</b>

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 2011 totalled £82 million (2010: £97 million), and represents the notional value of the risk weighted exposures (shown in the table below).

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 £362 million as at 31 December 2011, (2010: £514 million), and 15% to the Commercial 'income indicator' of £184 million as at 31 December 2011, (2010: £179 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 table below details the risk weighted exposures:

	Note	2011		2010
		Risk weighted exposures £ mil	Average Risk weighted exposures £ mil	
<b>Risk weighted assets</b>				
Credit risk	4	£ 9,637	£ 10,414	£ 10,607
Market risk		82	68	97
Operational risk		889	961	1,106
<b>Total risk weighted assets</b>		<b>£ 10,608</b>	<b>£ 11,443</b>	<b>£ 11,810</b>

The final table summarises the main capital metrics:

Capital metrics	Note	2011		2010
		£	£	
Total capital requirements		£ 849	£ 945	
Total capital resources held	2	£ 2,480	£ 2,789	
Solvency ratio		292%	295%	

The decrease in the solvency ratio in 2011 to 292% (2010: 295%) is primarily attributable to the lower level of Tier 1 capital in 2011 compared to 2010 as detailed in Table 2 'Analysis of capital resources held' on pages 24 and 25. Despite this, the solvency ratio indicates that FCE is holding 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 19).

# 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 buckets as detailed below:

Group As at 31 December 2011		0-3 Months	4-12 Months	1-5 Years	5+ Years	Total
<b>Assets</b>	<b>Note</b>					
Cash and advances to banks	A	£ 2,698	£ -	£ -	£ 69	£ 2,767
Marketable securities	F	-	-	-	-	-
Derivatives settled on a gross basis	E	1,056	123	-	-	1,179
Derivatives settled on a net basis	E	108	164	750	-	1,022
- Retail/Lease	B	598	1,718	3,438	25	5,779
- Wholesale	B	593	4,118	53	-	4,764
Loans and advances to customers	B	1,191	5,836	3,491	25	10,543
Operating leases	B	85	144	-	-	229
Other assets	D	169	-	-	-	169
<b>Total asset inflows</b>		<b>£ 5,307</b>	<b>£ 6,267</b>	<b>£ 4,241</b>	<b>£ 94</b>	<b>£ 15,909</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	C	£ 599	£ 2,416	£ 1,394	£ -	£ 4,409
Corporate deposits	C	45	5	-	-	50
Due to parent and related undertakings	C	280	554	-	-	834
Debt securities in issue	C	1,310	470	3,874	1	5,655
Derivatives settled on a gross basis (Out)	E	1,071	127	-	-	1,198
Derivatives settled on a net basis (Out)	E	76	144	699	-	919
Other liabilities	D	85	22	-	-	107
Subordinated loans	D	1	8	43	220	272
<b>Total liability outflows</b>		<b>£ 3,467</b>	<b>£ 3,746</b>	<b>£ 6,010</b>	<b>£ 221</b>	<b>£ 13,444</b>
<b>Net liquidity gap excluding off balance sheet items</b>		<b>£ 1,840</b>	<b>£ 2,521</b>	<b>£ (1,769)</b>	<b>£ (127)</b>	<b>£ 2,465</b>
<b>Cumulative net liquidity gap excluding off balance sheet items</b>		<b>£ 1,840</b>	<b>£ 4,361</b>	<b>£ 2,592</b>	<b>£ 2,465</b>	
Available for use credit facilities:						
Granted by financial institutions to the company		£ 311				
Granted by FMCC to the company		1,670				
Granted by the company						
<b>Total available for use credit facilities</b>		<b>£ 1,981</b>				
<b>Guarantees callable</b>		<b>£ (512)</b>				
<b>Cumulative net liquidity gap including off balance sheet items</b>		<b>£ 3,309</b>	<b>£ 5,830</b>	<b>£ 4,061</b>	<b>£ 3,934</b>	

## Quantitative information

### Risk weighted exposures and operational risk capital continued

#### 5 Maturity analysis of exposures continued

Group As at 31 December 2010	Note	0-3 Months £ mil	4-12 Months £ mil	1-5 Years £ mil	5+ Years £ mil	Total £ mil
<b>Assets</b>						
Cash and advances	A	£ 1,927	£ 25	£ 64	£ 78	£ 2,094
Marketable securities	F	223	-	-	-	223
Derivatives settled on a gross basis	E	1,164	10	-	-	1,174
Derivatives settled on a net basis	E	579	139	441	-	1,159
- Retail/Lease	B	796	2,043	3,899	4	6,742
- Wholesale	B	498	4,270	-	-	4,768
Loans and advances to customers	B	1,294	6,313	3,899	4	11,510
Operating leases	B	61	87	-	-	148
Other assets	D	232	-	-	-	232
<b>Total asset inflows</b>		<b>£ 5,480</b>	<b>£ 6,574</b>	<b>£ 4,404</b>	<b>£ 82</b>	<b>£ 16,540</b>
<b>Liabilities</b>						
Due to banks and other financial institutions	C	£ 308	£ 2,110	£ 1,355	£ -	£ 3,773
Corporate deposits	C	49	-	-	-	49
Due to parent and related undertakings	C	154	386	-	-	540
Debt securities in issue	C	849	517	4,679	-	6,045
Derivatives settled on a gross basis	E	1,157	10	-	-	1,167
Derivatives settled on a net basis	E	67	128	254	-	449
Other liabilities	D	121	12	-	-	133
Subordinated loans	D	2	50	118	955	1,125
<b>Total liability outflows</b>		<b>£ 2,707</b>	<b>£ 3,213</b>	<b>£ 6,406</b>	<b>£ 955</b>	<b>£ 13,281</b>
<b>Net liquidity gap excluding off balance sheet items</b>		<b>£ 2,773</b>	<b>£ 3,361</b>	<b>£ (2,002)</b>	<b>£ (873)</b>	<b>£ 3,259</b>
<b>Cumulative net liquidity gap excluding off balance sheet items</b>		<b>£ 2,773</b>	<b>£ 6,134</b>	<b>£ 4,132</b>	<b>£ 3,259</b>	
<b>Available for use credit facilities:</b>						
Granted by financial institutions to the company		£ 346				
Granted by FMCC to the company		1,723				
Granted by the company		-				
<b>Total available for use credit facilities</b>		<b>£ 2,069</b>				
<b>Guarantees callable</b>		<b>£ (396)</b>				
<b>Cumulative net liquidity gap including off balance sheet items</b>		<b>£ 4,446</b>	<b>£ 7,807</b>	<b>£ 5,805</b>	<b>£ 4,932</b>	

## Quantitative information

### Risk weighted exposures and operational risk capital continued

#### 5 Maturity analysis of exposures continued

##### Basis of liquidity risk analysis

The tables within this note analyse gross undiscounted contractual cash flows from assets and liabilities into relevant maturity groupings based on the criteria detailed in the following table.

The 'Net liquidity gap excluding off balance sheet items' is reported excluding behavioural adjustments for customer early settlements. The 'Net liquidity gap including off balance sheet items' includes available for use credit facilities.

Both of the above gap figures assume that the inflows related to retail, leasing and wholesale financing plans occur on the latest contractual date and that the repayment of debt occurs at the earliest possible repayment date. Accordingly FCE's expected liquidity position based on cash inflows and outflows is more favourable than as presented within this note.

Note	Cash flows from assets and liabilities are allocated to the appropriate time bands as follows:
A	Based on availability of 'Cash and advances' as follows (Please refer to Note 11 in the 2011 Annual Report and Accounts). <ul style="list-style-type: none"> <li>'Cash and cash equivalents' classified by contractual maturity date.</li> <li>'Other deposits' which are typically not available for use in day to day operations classified based on the latest possible repayment date.</li> </ul>
B	Customer payments are assumed to occur on the latest contractual date and no behavioural adjustments are made for customer early settlements: <ul style="list-style-type: none"> <li>Retail finance and lease contracts and operating lease vehicles generally require customers to pay equal monthly instalments over the life of the contract.</li> <li>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.</li> </ul>
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 are recorded on a contractual cash flow basis.
F	Marketable securities are considered as available liquidity on demand.

# Quantitative information

## Risk weighted exposures and operational risk capital continued

### 6 Geographical distribution of exposures

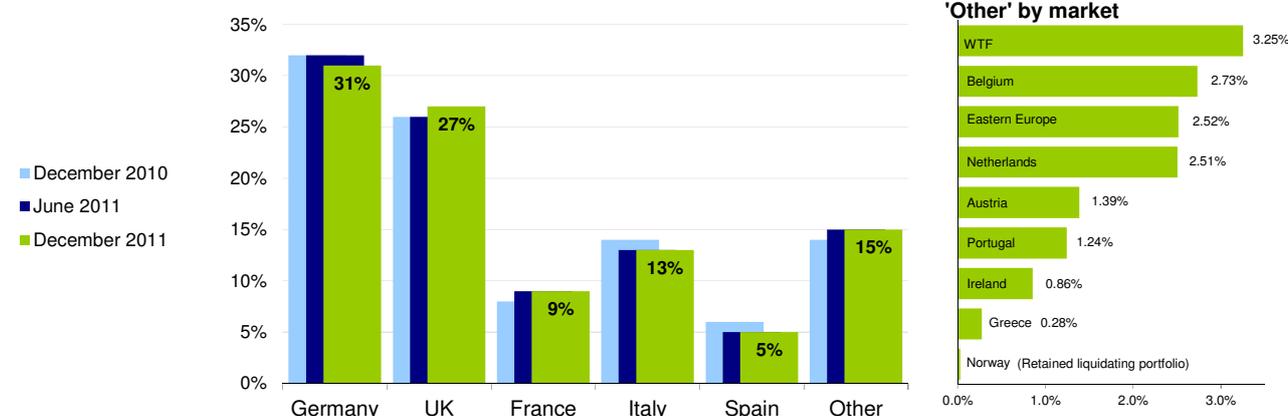
In line with the focus of management review and the requirements of IFRS 8 'Operating Segments', the performance of the five major geographical markets, (UK, France, Germany, Italy and Spain), is separately reported in Notes 6, 7, 8 and 9, and in the 2011 Annual Report and Accounts.

Analysis of exposures as at 31 December:

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2011	2011	2011	2011	2011	2011	2011
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>ASSETS (as at 31 December 2011)</b>							
Net loans and advances to customers	£ 2,618	£ 3,146	£ 1,282	£ 459	£ 854	£ 1,452	£ 9,811
Total assets	£ 2,624	£ 4,401	£ 1,470	£ 537	£ 954	£ 3,446	£ 13,432

	UK	Germany	Italy	Spain	France	Central / Other	Total
	2010	2010	2010	2010	2010	2010	2010
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>ASSETS (as at 31 December 2010)</b>							
Net loans and advances to customers	£ 2,793	£ 3,588	£ 1,466	£ 596	£ 835	£ 1,540	£ 10,818
Total assets	£ 2,835	£ 4,246	£ 1,847	£ 698	£ 1,013	£ 3,373	£ 14,012

### Analysis of net loans and advances to customers by market



The chart highlights the continued importance of the German and UK markets and reduction in financing in the Spanish and Italian markets

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 individually contributing less than 10% of external revenue and includes 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.

## 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 2010	£ 103	£ 13	£ 116	£ 103	£ 13	£ 116
Impairment losses charged/ (credited) to income statement	£ 11	£ (2)	£ 9	£ 11	£ (2)	£ 9
Deductions						
- Losses written-off	(80)	(2)	(82)	(80)	(2)	(82)
- Exceptional items	(4)	1	(3)	(4)	1	(3)
- Recoveries	43	2	45	43	2	45
<b>Net losses</b>	<b>£ (41)</b>	<b>1</b>	<b>(40)</b>	<b>(41)</b>	<b>1</b>	<b>(40)</b>
Other:						
- Exchange adjustments	(2)	(1)	(3)	(2)	(1)	(3)
<b>Balance at 31 December 2010 / 1 January 2011</b>	<b>£ 71</b>	<b>£ 11</b>	<b>£ 82</b>	<b>£ 71</b>	<b>£ 11</b>	<b>£ 82</b>
Impairment losses charged/ (credited) to income statement	£ 3	(1)	2	4	(1)	3
Deductions						
- Losses written-off	(58)	(1)	(59)	(58)	(1)	(59)
- Recoveries	37	2	39	37	2	39
<b>Net losses</b>	<b>£ (21)</b>	<b>1</b>	<b>(20)</b>	<b>(21)</b>	<b>1</b>	<b>(20)</b>
Other:						
- Exchange adjustments	(1)	-	(1)	(1)	-	(1)
<b>Balance at 31 December 2011 / 1 January 2012</b>	<b>£ 52</b>	<b>11</b>	<b>63</b>	<b>53</b>	<b>11</b>	<b>64</b>
<b>Analysis of provision for incurred losses:</b>						
- Collective impairment allowance	£ 71	£ 10	£ 81	£ 71	£ 10	£ 81
- Specific impairment allowance	-	1	1	-	1	1
<b>Balance at 31 December 2010 / 1 January 2011</b>	<b>£ 71</b>	<b>£ 11</b>	<b>£ 82</b>	<b>£ 71</b>	<b>£ 11</b>	<b>£ 82</b>
- Collective impairment allowance	£ 52	9	61	53	9	62
- Specific impairment allowance	-	2	2	-	2	2
<b>Balance at 31 December 2011 / 1 January 2012</b>	<b>£ 52</b>	<b>11</b>	<b>63</b>	<b>53</b>	<b>11</b>	<b>64</b>

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 24 and 25. 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.

A provision for impairment losses is made against loans and advances to cover bad and doubtful debts which have been incurred and not separately identified, but which are known from experience to be present in portfolios of loans and advances. The provision is determined based on a number of factors including historical loss trends, the credit quality of the present portfolio and general economic factors.

Retail financing contracts are individually 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. Once impaired, the carrying value of a retail financing contract is reduced to reflect the average vehicle recovery value. If a wholesale loan is considered doubtful for an extended period, (and at no later than 120 days), the specific impairment allowance is released and the carrying value of the loan is reduced to reflect the estimated collectible amount including the effect of partial or full guarantees or other forms of security (including physical stock).

The majority of FCE's retail, leasing and wholesale financing plans have the benefit of a title retention plan or a similar security interest in the financed vehicle. Over 90% of FCE's net loans and advances benefit from this security. In the case of customer default the value of the re-possessed collateral provides a source of protection.

## Quantitative information

### Provision for incurred losses continued

#### 7 Provision for incurred losses continued

The total of 'Impairment losses charged / (credited) to income statement' shown in the above tables as at 31 December 2011 of £3 million (2010: £9 million) are analysed by location in the tables below. They are shown alongside the equivalent 'Past due exposures' for each of the locations as disclosed in Note 9 'Geographical exposures of past due' on page 35 of this document.

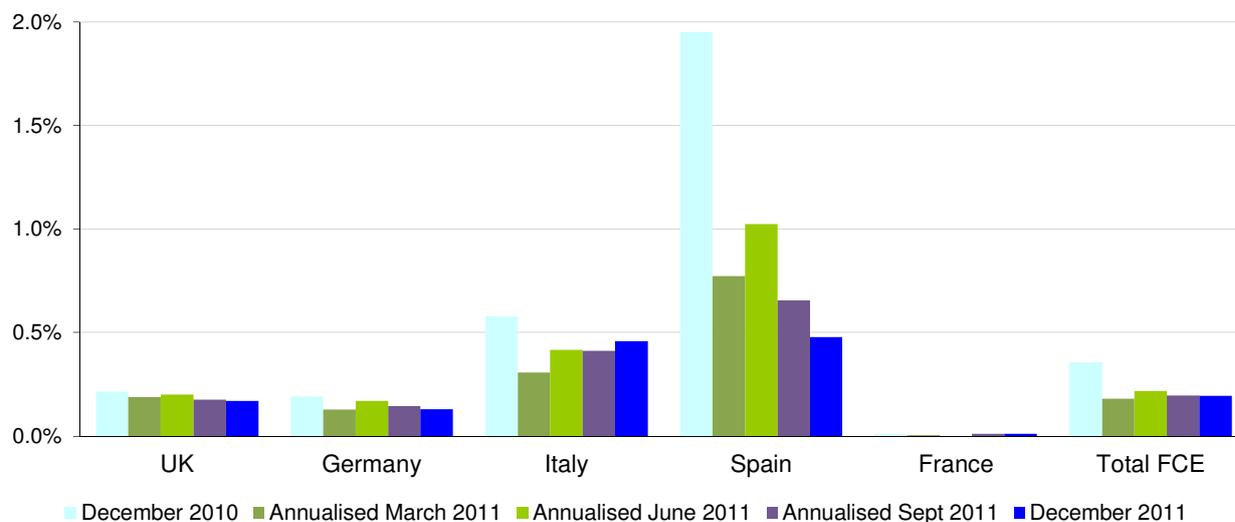
	UK	Germany	Italy	Spain	France	Other	Total
	2011	2011	2011	2011	2011	2011	2011
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>CREDIT RISK (as at 31 December 2011)</b>							
Impairment losses charged / (credited)	£ 5	£ (5)	£ 6	£ (7)	£ -	£ 4	£ 3
Past due exposures	£ 22	£ 50	£ 38	£ 13	£ 4	£ 41	£ 168

	UK	Germany	Italy	Spain	France	Other	Total
	2010	2010	2010	2010	2010	2010	2010
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>CREDIT RISK (as at 31 December 2010)</b>							
Impairment losses charged / (credited)	£ 7	£ (3)	£ 6	£ (2)	£ (1)	£ 2	£ 9
Past due exposures	£ 28	£ 64	£ 45	£ 35	£ 5	£ 47	£ 224

The 'Net losses' shown in the table on page 32 which totalled £20 million as at 31 December 2011 (2010: £40 million), can be measured as a percentage of loans and advances to customers and referred to as the 'credit loss ratio'.

The credit loss ratio for FCE's top 5 markets is shown at each quarter end point from December 2010 to December 2011 in the graph below. Note that the ratio for total FCE has decreased markedly from 0.36% at 31 December 2010 to 0.19% at 31 December 2011.

### Net credit losses as percentage of average net loans and advances to customers



## Quantitative information

### Analysis of past due exposures

#### 8 Exposures analysed by payment due status

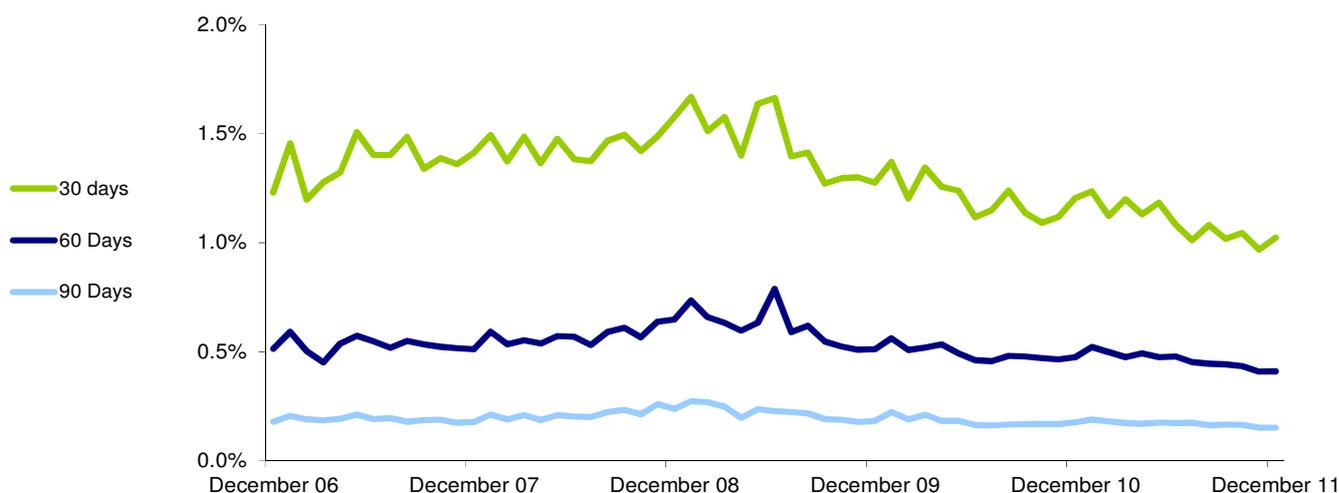
A financial asset is defined as 'past due' when a counterparty fails to make a payment when it is contractually due. In the event of a 'past due' instalment, the classification of 'past due' applies to the full value of the loan outstanding. A description of how these assets are monitored and managed within FCE is given in the section below, split into the main credit risk exposure classes of 'Retail' and 'Wholesale'.

#### Retail

When originating retail loans and advances, FCE uses a proprietary scoring system that measures the credit quality of the related receivables using several factors such as credit bureau information, consumer credit risk scores, customer characteristics, and contract characteristics.

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 steadily improved. FCE's management considers that this improvement is a consequence of FCE's responsive approach to underwriting and servicing practices that has enabled the portfolio to perform well despite varying economic pressures.

#### Retail delinquency 5 year monthly trend



Source: internal information for all FCE markets – audited as at 31 December points.

#### Wholesale

FCE uses proprietary models to assign each dealer a risk rating. The Financial model considers financial information including profitability, capital and liquidity at a point in time. This is supplemented by the Judgmental model which provides a structured framework within which additional financial information along with other qualitative and non-financial key factors are assessed. These other factors, that are considered significant in predicting a dealer's ability to meet its current and future obligations, include such elements as financial trends, management quality, vehicle inventory audit and payment experience. The models are subject to review to confirm the continued business significance and statistical predictability of the factors and updated to incorporate new factors or other information that improves their statistical predictability.

In addition, FCE verifies the existence of the assets collateralising the receivables by physical and approved non-physical audits of vehicle inventories, which are performed with increased frequency for higher risk dealers. Credit reviews are performed on each dealer at least annually and the dealer's risk rating adjusted if necessary.

It is FCE's policy that wholesale amounts past due are either resolved to FCE's satisfaction in accordance with established policies and procedures or the loan is classified as impaired.

For further details please refer to Note 38 'Credit risk' in the 2011 Annual Report and Accounts.

## Quantitative information

### Analysis of past due exposures continued

#### 9 Geographical analysis of retail exposures past due

##### Retail

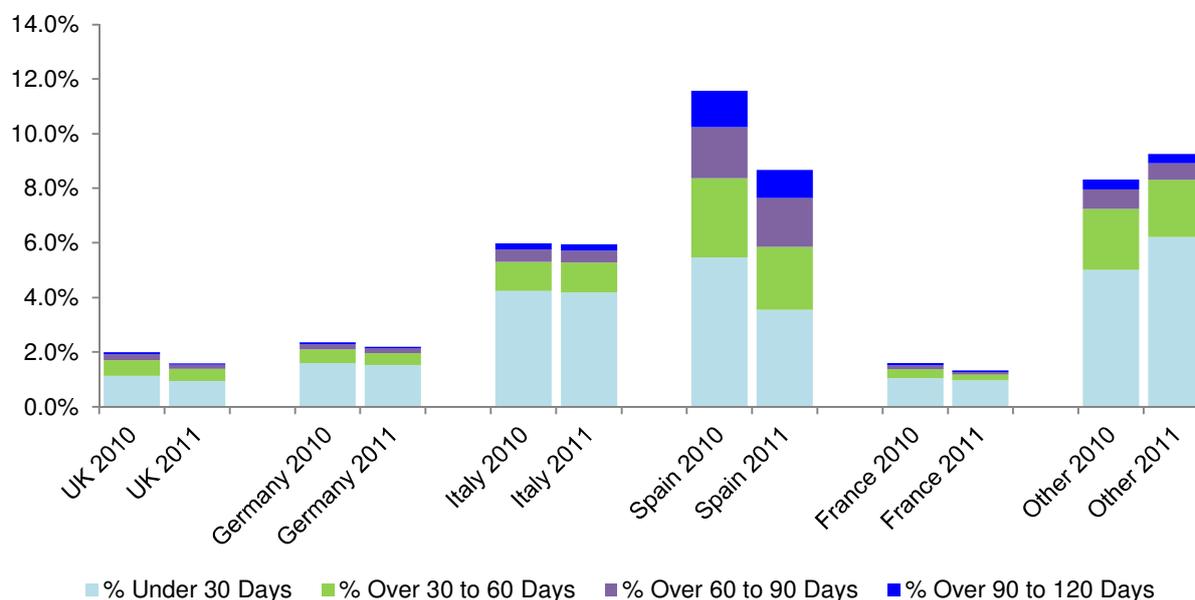
The tables below provide a geographical analysis of retail contracts which are past due but not impaired for the largest five locations plus all other locations which are reported under the caption 'Other'. The retail past due contracts are analysed by payment due status and are shown against the net loans and advances in each location as at 31 December.

	UK	Germany	Italy	Spain	France	Other	Total
	2011	2011	2011	2011	2011	2011	2011
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>Past due exposures (as at 31 December 2011)</b>							
Past due under 30 days	£ 13	£ 35	£ 26	£ 5	£ 3	£ 28	£ 111
Past due over 30 < 60 days	6	10	7	3	1	9	36
Past due over 60 < 90 days	2	4	3	3	0	3	15
Past due over 90 < 120 days	1	1	2	2	0	2	7
<b>Total past due</b>	<b>£ 22</b>	<b>£ 50</b>	<b>£ 38</b>	<b>£ 13</b>	<b>£ 4</b>	<b>£ 41</b>	<b>£ 168</b>
<b>Retail net loans and advances</b>	<b>£ 1,413</b>	<b>£ 2,278</b>	<b>£ 631</b>	<b>£ 149</b>	<b>£ 303</b>	<b>£ 448</b>	<b>£ 5,222</b>

	UK	Germany	Italy	Spain	France	Other	Total
	2010	2010	2010	2010	2010	2010	2010
	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil	£ mil
<b>Past due exposures (as at 31 December 2010)</b>							
Past due under 30 days	£ 16	£ 44	£ 32	£ 17	£ 3	£ 28	£ 139
Past due over 30 < 60 days	8	14	8	9	1	13	52
Past due over 60 < 90 days	3	5	3	6	0	4	22
Past due over 90 < 120 days	1	2	2	4	0	2	11
<b>Total past due</b>	<b>£ 28</b>	<b>£ 64</b>	<b>£ 45</b>	<b>£ 35</b>	<b>£ 5</b>	<b>£ 47</b>	<b>£ 224</b>
<b>Retail net loans and advances</b>	<b>£ 1,420</b>	<b>£ 2,735</b>	<b>£ 751</b>	<b>£ 306</b>	<b>£ 292</b>	<b>£ 559</b>	<b>£ 6,063</b>

The graph below shows past due retail contracts as a percentage of net loans and advances analysed by location.

**Past due contracts as a % of retail loans and advances by location and year**



## Quantitative information

### 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	2011			2010		
	Notional Amount £ mil	Fair Values Assets    Liabilities £ mil    £ mil		Notional Amount £ mil	Fair Value Assets    Liabilities £ mil    £ mil	
<b>Designated as fair value hedges</b>						
Interest rate swaps	£ 951	£ 32	£ -	£ 1,224	£ 62	£ 4
<b>Total designated as fair value hedges</b>	<b>£ 951</b>	<b>£ 32</b>	<b>£ -</b>	<b>£ 1,224</b>	<b>£ 62</b>	<b>£ 4</b>
<b>Non-designated derivatives</b>						
Interest rate swaps	£ 9,765	£ 116	£ 61	£ 8,598	£ 187	£ 78
Cross currency interest rate swaps	475	8	-	481	16	76
Foreign exchange forwards	1,173	7	24	1,179	11	-
<b>Total non-designated derivatives</b>	<b>£ 11,413</b>	<b>£ 131</b>	<b>£ 85</b>	<b>£ 10,258</b>	<b>£ 214</b>	<b>£ 154</b>
<b>Total derivatives</b>	<b>£ 12,364</b>	<b>£ 163</b>	<b>£ 85</b>	<b>£ 11,482</b>	<b>£ 276</b>	<b>£ 158</b>
Current		£ 46	£ 25		£ 56	£ 85
Non current		117	60		220	73
<b>Total</b>		<b>£ 163</b>	<b>£ 85</b>		<b>£ 276</b>	<b>£ 158</b>

The notional amounts of the derivative financial instruments do not necessarily represent amounts exchanged by the parties and, therefore, are not a direct measure of the exposure to financial risks. The amounts exchanged are calculated by reference to the notional amounts and by other terms of the derivatives, such as interest rates or foreign currency exchange rates.

All derivatives entered into by FCE are for the purpose of matching or minimising risk from potential movements in foreign exchange rates and/or interest rates inherent in FCE's financial assets and liabilities. When a derivative contract is entered into, FCE may designate certain derivatives as a hedge of the fair value of a recognised asset or liability ('fair value' hedge). All designated hedges are utilised to manage interest rate risk.

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. FCE transacts with certain Ford related parties, which are non-rated entities. Substantially all of FCE's derivative related activities are transacted with financial institutions that have an investment grade rating.

The aggregate fair value of derivative instruments in asset positions on 31 December 2011 is £163 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 10 to 18 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
<p><b>FCE Bank plc.</b></p> <ul style="list-style-type: none"> <li>'Annual Report'</li> <li>'Interim Report'</li> <li>'Management Statement'</li> </ul>	<p><a href="http://www.fcebank.com">http://www.fcebank.com</a> or <a href="http://www.fordfinancialeurope.com">http://www.fordfinancialeurope.com</a></p> <p>To access from the above links click on 'Investor Information'</p>
<p><b>Ford Motor Company</b> (Ultimate Parent Company) including:</p> <ul style="list-style-type: none"> <li>'Financial Results'</li> <li>'Annual Reports'</li> <li>'US SEC EDGAR filings' Footnote 1 and 2</li> </ul>	<p><a href="http://www.ford.com/about-ford/investor-relations">http://www.ford.com/about-ford/investor-relations</a></p> <p>To access from the above click on 'Company Reports'.</p>
<p><b>Ford Motor Credit Company</b> including:</p> <ul style="list-style-type: none"> <li>'Company Reports' Footnote 2</li> <li>'Press Releases'</li> <li>'Ford Credit public asset-backed securities transactions' Footnote 3</li> </ul>	<p><a href="http://www.fordcredit.com/investorcenter">http://www.fordcredit.com/investorcenter</a></p> <p>To access from the above link click on 'Company Reports' and then required item.</p>
<p><b>Luxembourg's Stock Exchange</b> which includes</p> <ul style="list-style-type: none"> <li>Euro Medium Term Note Base Prospectus (refer to Note 28 'Debt securities in issue' in FCE's 2011 Annual Report and Accounts).</li> </ul>	<p><a href="http://www.bourse.lu">www.bourse.lu</a></p> <p>To access search for 'FCE'</p>
<p><b>Financial Reporting Council</b></p> <ul style="list-style-type: none"> <li>The Combined Code on Corporate Governance</li> </ul>	<p><a href="http://www.frc.org.uk">http://www.frc.org.uk</a></p>
<p><b>Financial Services Authority</b></p> <ul style="list-style-type: none"> <li>Prudential Sourcebooks (GENPRU, BIPRU)</li> </ul>	<p><a href="http://www.fsa.gov.uk">http://www.fsa.gov.uk</a></p>



### 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.

## 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
IAS	International Accounting Standards
IFRIC	International Financial Reporting Interpretations Committee
IFRS	International Financial Reporting Standards

Regulatory Terms	Regulatory terms meaning
ARROW	Advanced Risk Response Operating Framework
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. These are reported in Note 4 'Analysis of capital resources and requirements'.
Solvency Ratio	Calculated by dividing total regulatory capital by the minimum capital requirements calculated under Pillar 1 plus other risk capital requirements and expressing this as a percentage.
Tier 1 Capital	FCE's Tier 1 capital comprises shareholder funds, net of intangible assets and goodwill (See Note 2 'Components of capital').
Tier 1 Capital Ratio	FCE's Tier 1 capital as reported in Note 2 'Components of capital' divided by end of period risk weighted exposures as defined above.
Tier 2 Capital	FCE's Tier 2 capital comprises of subordinated debt, collective impairment losses (See Note 2 'Components of capital').
Tier 2 Capital Ratio	FCE's Tier 2 capital as reported in Note 2 'Components of capital' divided by end of period risk weighted exposures as defined above.
Tier 3 Capital	FCE does not have a trading book and accordingly its capital structure does not include any Tier 3 capital (See Note 2 'Components of capital').
Total Capital Ratio	FCE's total regulatory capital as reported in Note 2 'Components of capital' divided by end of period risk weighted exposures as defined above.

## Other Information

### Glossary of defined terms continued

Other terms	Other terms meaning
2011 Annual Report and Accounts	The FCE consolidated annual financial statements as at and for the year ended 31 December 2011
ALCO	FCE's Asset and Liability Management Committee
Board or Board of Directors	The Board of Directors of FCE Bank plc.
CFP	FCE's Contingency Funding Plan
Company	FCE Bank plc. including all its European branches, but excluding its subsidiaries and SPEs.
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.
FCE or Group	Company and all its subsidiaries (See Note 24 'Investments in group undertakings' in the 2011 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.
Ford Credit or 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 CA Consumer Finance, a consumer credit subsidiary of Credit Agricole S.A. in June 2008 which provides customer and dealer automotive financing in the Nordic markets.
FSA	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.
Full Service Leasing or FSL	Fixed monthly vehicle rental for customers, including ongoing maintenance and disposal of vehicle at the end of the hire period. Typically FCE retains responsibility for marketing and sales, for which it receives a fee income, and outsources finance, leasing, maintenance and repair services for current and future portfolios of commercial operating leases to a preferred third party under the 'Business Partner' brand.
GMFV	Guaranteed Minimum Future Values
Governing Body	FCE's governing body is the Board of Directors of FCE Bank plc.
Interims	FCE's consolidated interim financial statements as at and for the half year ended 30 June 2012
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 vehicle financing and leasing products and services to individual consumers, sole traders and businesses, introduced through a Dealer or Dealership that has an established relationship with FCE.
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 (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 2011 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